

Day	Topic to be Covered
1st	Class 9, Chapter 1 & Chapter 2
2nd	Class 9, Chapter 3
3rd	Class 9, Chapter 4
4th	Class 10, Chapter 1
5th	Class 10, Chapter 2
6th	Class 10, Chapter 3, 4 & 5
7th	Class 11, Chapter 1
8th	Class 11 - Chapter 2 & 3
9th	Class 11 - Chapter 3 & 4
10th	Class 11 - Chapter 4 & 5
11th	Class - Chapter 5 & 6
12th	Class 11 - Chapter 6 & 7
13th	Class 11 - Chapter 7 & 8
14th	Class 11 - Chapter 8, 9 & 10
15th	Class 12th - Macroeconomics - Chapter 2 & 3
16th	Class 12th - Macroeconomics - Chapter 2 & 3
17th	Class 12th Macroeconomics - Chapter 3 & 4
18th	Class 12th Macroeconomics - Chapter 3 & 4

AchieveIAS

# ECONOMY NCERTs, DAY-1

**Q1: Yield is measured as:**

- A. Crop produced on a given piece of land during a single year
- B. Crop produced on a given piece of land during a single season
- C. Crop produced and wasted on a given piece of land during a single season
- D. Crop produced on a given piece of land during a single decade

**Explanation - Answer is B.**

**Value Addition - Multiple Cropping** - to grow more than one crop on a piece of land during the year. It is the most common way of increasing production on a given piece of land. You have seen that one way of increasing production from the same land is by multiple cropping. The other way is to use modern farming methods for higher yield.

**Q2: Till the mid-1960s, the seeds used in cultivation were traditional ones with relatively low yields. In context of this, consider the following statements.**

- 1. Traditional seeds needed more irrigation
- 2. HYV seeds needed less water and also chemical fertilizers than traditional seeds
- 3. Farmers used cow-dung and other natural manure as fertilizers for traditional seeds
- 4. Compared to the traditional seeds, the HYV seeds promised to produce much greater amounts of grain on a single plant

Which of these statements are correct?

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1, 3 and 4 only
- D. 3 and 4 only

**Explanation - Answer is D.**

Till the mid-1960s, the seeds used in cultivation were traditional ones with relatively low yields. Traditional seeds needed less irrigation. Farmers used cow-dung and other natural manure as fertilizers. All these were readily available with the farmers who did not have to buy them. The Green Revolution in the late 1960s introduced the Indian farmer to cultivation of wheat and rice using high yielding varieties (HYVs) of seeds. Compared to the traditional seeds, the HYV seeds promised to produce much greater amounts of grain on a single plant. As a result, the same piece of land would now produce far larger quantities of foodgrains than was possible earlier. HYV seeds, however, needed plenty of water and also chemical fertilizers and pesticides to produce best results. Higher yields were possible only from a combination of HYV seeds, irrigation, chemical fertilisers, pesticides, etc.

**Q3: Assertion: Some time after the use of chemical fertilizers, the soil will be more fertile than ever before**

**Reason: Chemical fertilizers can kill the bacteria**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.

(d) A is false but R is true.

### **Explanation - Answer is D.**

Chemical fertilisers provide minerals which dissolve in water and are immediately available to plants. But these may not be retained in the soil for long. They may escape from the soil and pollute groundwater, rivers and lakes. Chemical fertilizers can also kill bacteria and other microorganisms in the soil. This means some time after their use, the soil will be less fertile than ever before. The consumption of chemical fertilizers in Punjab is highest in the country. The continuous use of chemical fertilizers has led to degradation of soil health. Punjab farmers are now forced to use more and more chemical fertilizers and other inputs to achieve the same production level. This means cost of cultivation is rising very fast.

### **Q4: Consider the following statements.**

1. Market activities involve remuneration to anyone who performs for pay or profit
2. Non-market activities are the production for self-consumption.
3. Market activities include production of goods or services, including government service
4. Non market activities include consumption and processing of primary product and own account production of fixed assets

Which of these statements are correct?

- A. 1 and 2 only      B. 1, 2, 3 and 4 only      C. 1, 3 and 4 only      D. 3 and 4 only

### **Explanation - Answer is B.**

**Economic activities have two parts** — market activities and non-market activities. **Market activities** involve remuneration to anyone who performs i.e., activity performed for pay or profit. These include production of goods or services, including government service. **Non-market activities** are the production for self-consumption. These can consumption and processing of primary product and own account production of fixed assets.

### **Q5: Which of the following sectors are categorised as Tertiary sector?**

1. Fishing
2. Mining and quarrying
3. Tourism
4. Manufacturing
5. Transport

Choose from the following options.

- A. 1, 2, 3 and 4 only  
B. 3, 4 and 5 only  
C. 3 only  
D. 3 and 5 only

### **Explanation - Answer is D.**

The various activities have been classified into three main sectors i.e., primary, secondary and tertiary. Primary sector includes agriculture, forestry, animal husbandry, fishing, poultry farming, mining and quarrying. Manufacturing is included in the secondary sector. Trade, transport, communication, banking, education, health, tourism, services, insurance, etc. are included in the

tertiary sector. The activities in this sector result in the production of goods and services. These activities add value to the national income. These activities are called economic activities.

**Q6: Consider the following statements.**

1. Sarva Siksha Abhiyan has been implemented to encourage attendance and retention of children and improve their nutritional status
2. Mid-day meal scheme is a significant step towards providing elementary education to all children in the age group of 6–14 years

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is D.**

“Sarva Siksha Abhiyan is a significant step towards providing elementary education to all children in the age group of 6–14 years by 2010. It is a time-bound initiative of the Central government, in partnership with the States, the local government and the community for achieving the goal of universalisation of elementary education.” Along with it, bridge courses and back-to-school camps have been initiated to increase the enrolment in elementary education. Mid-day meal scheme has been implemented to encourage attendance and retention of children and improve their nutritional status. These policies could add to the literate population of India. The 12th plan endeavoured to raise the country's Gross Enrolment Ratio (GER) in higher education in the age group of 18 to 23 years to 25.2% by 2017–18 and to reach the target of 30% by 2020–21, which would be broadly in line with world average. The strategy focuses on increasing access, quality, adoption of state-specific curriculum modification, vocationalisation and networking on the use of information technology. The plan also focuses on distance education, convergence of formal, non-formal, distance and IT education institutions. Over the past 50 years, there has been a significant growth in the number of university and institutions of higher learning in specialised areas.

**Q7: Consider the following statements.**

1. Seasonal unemployment happens when people are not able to find jobs during some months of the year
2. People dependant upon agriculture usually face seasonal unemployment
3. In case of disguised unemployment people appear to be employed
4. Rural areas have mostly educated unemployment

Which of these statements are not correct?

- A. 1 only      B. 2 only      C. 3 only      D. 4 only

**Explanation - Answer is D.**

In case of India we have unemployment in rural and urban areas. However, the nature of unemployment differs in rural and urban areas. In case of rural areas, there is seasonal and disguised unemployment. Urban areas have mostly educated unemployment. Seasonal unemployment happens when people are not able to find jobs during some months of the year. People dependant upon agriculture usually face such kind of problem. There are certain busy seasons when sowing, harvesting, weeding and threshing is done. Certain months do not provide much work to the people dependant on agriculture. In case of disguised unemployment people appear to be employed. They have agricultural plot where they find work. This usually happens

among family members engaged in agricultural activity. The work requires the service of five people but engages eight people. Three people are extra. These three people also work in the same plot as the others. The contribution made by the three extra people does not add to the contribution made by the five people. If three people are removed the productivity of the field will not decline. The field requires the service of five people and the three extra people are disguised unemployed.

**Q8: Consider the following statements regarding the unemployment.**

1. Unemployment tends to increase economic overload.
2. Increase in unemployment is an indicator of a depressed economy
3. In case of India, a large number of people represented with low income and productivity are counted as unemployed

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 2 and 3 only      D. All of them

**Explanation - Answer is A.**

Unemployment leads to wastage of manpower resource. People who are an asset for the economy turn into a liability. There is a feeling of hopelessness and despair among the youth. People do not have enough money to support their family. Inability of educated people who are willing to work to find gainful employment implies a great social waste. Unemployment tends to increase economic overload. The dependence of the unemployed on the working population increases. The quality of life of an individual as well as of society is adversely affected. When a family has to live on a bare subsistence level there is a general decline in its health status and rising withdrawal from the school system. Hence, unemployment has detrimental impact on the overall growth of an economy. Increase in unemployment is an indicator of a depressed economy. It also wastes the resource, which could have been gainfully employed. If people cannot be used as a resource they naturally appear as a liability to the economy. In case of India, statistically, the unemployment rate is low. A large number of people represented with low income and productivity are counted as employed. They appear to work throughout the year but in terms of their potential and income, it is not adequate for them.

**Q9: Assertion: In recent years, there has been a decline in the dependence of population on agriculture partly**

**Reason: Agriculture faces disguised unemployment**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

Agriculture, is the most labour absorbing sector of the economy. In recent years, there has been a decline in the dependence of population on agriculture partly because of disguised unemployment discussed earlier. Some of the surplus labour in agriculture has moved to either the secondary or the tertiary sector. In the secondary sector, small scale manufacturing is the most labour-absorbing.

In case of the tertiary sector, various new services are now appearing like biotechnology, information technology and so on.

**Q10: Consider the following statements regarding the consequences of disguised unemployment in agriculture.**

1. The concept of sharing of work in the field and the produce raised reduces the hardship of unemployment in the rural sector
2. This does not reduce the poverty of the family, gradually surplus labour from every household tends to migrate from the village in search of jobs

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

The employment structure is characterised by self-employment in the primary sector. The whole family contributes in the field even though not everybody is really needed. So there is disguised unemployment in the agriculture sector. But the entire family shares what has been produced. This concept of sharing of work in the field and the produce raised reduces the hardship of unemployment in the rural sector. But this does not reduce the poverty of the family, gradually surplus labour from every household tends to migrate from the village in search of jobs.

# ECONOMY NCERTs, DAY 2

## **Q1: Consider the following statements regarding the concept of social exclusion.**

1. Poverty must be seen in terms of the poor having to live only in a poor surrounding with other poor people
2. It is a process through which individuals or groups are excluded from facilities, benefits and opportunities that others enjoy
3. Untouchability is the example of this concept

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

## **Explanation - Answer is D.**

According to this concept, poverty must be seen in terms of the poor having to live only in a poor surrounding with other poor people, excluded from enjoying social equality of better-off people in better surroundings. Social exclusion can be both a cause as well as a consequence of poverty in the usual sense. Broadly, it is a process through which individuals or groups are excluded from facilities, benefits and opportunities that others (their “bettters”) enjoy. A typical example is the working of the caste system in India in which people belonging to certain castes are excluded from equal opportunities. Social exclusion thus may lead to, but can cause more damage than, having a very low income.

## **Q2: Vulnerability is determined by/on the:**

1. Options available to different communities for finding an alternative living
2. Basis of the greater risks these groups face at the time of natural disasters
3. The social and economic ability to handle the risks

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

## **Explanation - Answer is D.**

Vulnerability: Vulnerability to poverty is a measure, which describes the greater probability of certain communities (say, members of a backward caste) or individuals (such as a widow or a physically handicapped person) of becoming, or remaining, poor in the coming years. Vulnerability is determined by the options available to different communities for finding an alternative living in terms of assets, education, health and job opportunities. Further, it is analysed on the basis of the greater risks these groups face at the time of natural disasters (earthquakes, tsunami), terrorism etc. Additional analysis is made of their social and economic ability to handle these risks. In fact, vulnerability describes the greater probability of being more adversely affected than other people when bad time comes for everybody, whether a flood or an earthquake or simply a fall in the availability of jobs.

## **Q3: Consider the following statements.**

1. Since people living in rural areas engage themselves in more physical work, calorie requirements in rural areas are considered to be higher than in urban areas
2. The accepted average calorie requirement in India is 2400 calories per person per day in rural areas and 2100 calories per person per day in urban areas

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

While determining the poverty line in India, a minimum level of food requirement, clothing, footwear, fuel and light, educational and medical requirement, etc., are determined for subsistence. These physical quantities are multiplied by their prices in rupees. The present formula for food requirement while estimating the poverty line is based on the desired calorie requirement. Food items, such as cereals, pulses, vegetable, milk, oil, sugar, etc., together provide these needed calories. The calorie needs vary depending on age, sex and the type of work that a person does. The accepted average calorie requirement in India is 2400 calories per person per day in rural areas and 2100 calories per person per day in urban areas. Since people living in rural areas engage themselves in more physical work, calorie requirements in rural areas are considered to be higher than in urban areas. The monetary expenditure per capita needed for buying these calorie requirements in terms of food grains, etc., is revised periodically taking into consideration the rise in prices.

**Q4: Consider the following statements.**

1. Although there has been a substantial reduction in global poverty, it is marked with great regional differences
2. Poverty declined substantially in China and Southeast Asian countries as a result of rapid economic growth and massive investments in human resource development
3. The new sustainable development goals of the United Nations (UN) proposes ending poverty of all types by 2025

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is A.**

The proportion of people in different countries living in extreme economic poverty—defined by the World Bank as living on less than \$1.90 per day—has fallen from 36 per cent in 1990 to 10 per cent in 2015. Although there has been a substantial reduction in global poverty, it is marked with great regional differences. Poverty declined substantially in China and Southeast Asian countries as a result of rapid economic growth and massive investments in human resource development. Number of poors in China has come down from 88.3 per cent in 1981 to 14.7 per cent in 2008 to 0.7 per cent in 2015. In the countries of South Asia (India, Pakistan, Sri Lanka, Nepal, Bangladesh, Bhutan) the decline has also been rapid 34 per cent in 2005 to 16.2 per cent in 2013. With decline in the percentage of the poor, the number of poor has also declined significantly from 510.4 million in 2005 to 274.5 million in 2013. Because of different poverty line definition, poverty in India is also shown higher than the national estimates. The new sustainable development goals of the United Nations (UN) proposes ending poverty of all types by 2030.

**Q5: In context of widespread poverty in India, consider the following statements.**

1. One historical reason is the low level of economic development under the British colonial administration
2. The policies of the colonial government ruined traditional handicrafts and discouraged development of industries like textiles
3. With the spread of irrigation and the Green revolution, many job opportunities were created in the agriculture sector in the whole India

Which of these statements are correct?

A. 1 and 2 only

B. 2 and 3 only

C. 1 and 3 only

D. All of them

### Explanation - Answer is A.

There were a number of causes for the widespread poverty in India. One historical reason is the low level of economic development under the British colonial administration. The policies of the colonial government ruined traditional handicrafts and discouraged development of industries like textiles. The low rate of growth persisted until the nineteen-eighties. This resulted in less job opportunities and low growth rate of incomes. This was accompanied by a high growth rate of population. The two combined to make the growth rate of per capita income very low. The failure at both the fronts: promotion of economic growth and population control perpetuated the cycle of poverty.

With the spread of irrigation and the Green revolution, many job opportunities were created in the agriculture sector. But the effects were limited to some parts of India. The industries, both in the public and the private sector, did provide some jobs. But these were not enough to absorb all the job seekers. Unable to find proper jobs in cities, many people started working as rickshaw pullers, vendors, construction workers, domestic servants etc. With irregular small incomes, these people could not afford expensive housing.

They started living in slums on the outskirts of the cities and the problems of poverty, largely a rural phenomenon also became the feature of the urban sector.

### Q6: Another feature of high poverty rates has been the huge income inequalities. In context of this, consider the following statements.

1. One of the major reasons for this is the unequal distribution of land and other resources
2. Land reforms which aimed at redistribution of assets in rural areas have not been implemented properly
3. In order to fulfil social obligations and observe religious ceremonies, people in India spend a lot of money

Which of these statements are correct?

A. 1 and 2 only

B. 2 and 3 only

C. 1 and 3 only

D. All of them

### Explanation - Answer is D.

Another feature of high poverty rates has been the huge income inequalities. One of the major reasons for this is the unequal distribution of land and other resources. Despite many policies, we have not been able to tackle the issue in a meaningful manner. Major policy initiatives like land reforms which aimed at redistribution of assets in rural areas have not been implemented properly and effectively by most of the state governments. Since lack of land resources has been one of the major causes of poverty in India, proper implementation of policy could have improved the life of millions of rural poor. Many other socio-cultural and economic factors also are responsible for poverty. In order to fulfil social obligations and observe religious ceremonies, people in India, including the very poor, spend a lot of money. Small farmers need money to buy agricultural inputs like seeds, fertilizer, pesticides etc. Since poor people hardly have any savings, they borrow. Unable to repay because of poverty, they become victims of indebtedness. So the high level of indebtedness is both the cause and effect of poverty.

### Q7: Arrange the following Schemes Chronologically based on their releasing year.

1. Prime Minister Rozgar Yozana (PMRY)
2. Rural Employment Generation Programme (REGP)
3. Pradhan Mantri Gramodaya Yozana (PMGY)
4. Gram Swarozgar Yojana (SGSY)

Choose from the following options.

- A. 1-2-3-4      B. 1-2-4-3      C. 3-4-1-2      D. 4-3-2-1

**Explanation - Answer is B.**

Prime Minister Rozgar Yozana (PMRY) is another scheme which was started in 1993.

The aim of the programme is to create self-employment opportunities for educated unemployed youth in rural areas and small towns. They are helped in setting up small business and industries. Rural Employment Generation Programme (REGP) was launched in 1995. The aim of the programme is to create selfemployment opportunities in rural areas and small towns. A target for creating 25 lakh new jobs has been set for the programme under the Tenth Five Year plan. Swarnajayanti Gram Swarozgar Yojana (SGSY) was launched in 1999. The programme aims at bringing the assisted poor families above the poverty line by organising them into self-help groups through a mix of bank credit and government subsidy. Under the Pradhan Mantri Gramodaya Yozana (PMGY) launched in 2000, additional central assistance is given to states for basic services such as primary health, primary education, rural shelter, rural drinking water and rural electrification.

**Q8: Consider the following statements about Mahatma Gandhi National Rural Employment Guarantee Act, 2005.**

1. It aims to provide 100 days of wage employment to every household to ensure livelihood security in rural areas
2. It also aimed at sustainable development to address the cause of draught, deforestation and soil erosion
3. One-third of the proposed jobs have been reserved for women

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

Mahatma Gandhi National Rural Employment Guarantee Act, 2005 aims to provide 100 days of wage employment to every household to ensure livelihood security in rural areas. It also aimed at sustainable development to address the cause of draught, deforestation and soil erosion. One-third of the proposed jobs have been reserved for women. The scheme provided employment to 220 crores person days of employment to 4.78 crore households. The share of SC, ST, Women person days in the scheme are 23 per cent, 17 per cent and 53 per cent respectively. The average wage has increased from 65 in 2006–07 to 132 in 2013–14. Recently, in March 2018, the wage rate for unskilled manual workers has been revised, state wise, the range of wage rate for different states and union territories lies in between 281 per day (for the workers in Haryana) to ` 168 per day (for the workers of Bihar and Jharkhand).

**Q9: In the present times it is becoming clear that there is a strong link between economic growth and poverty reduction. In this context, consider the following statements.**

1. Economic growth widens opportunities and provides the resources needed to invest in human development
2. However, the poor may or may not be able to take direct advantage from the opportunities created by economic growth
3. The higher growth rates have helped significantly in the reduction of poverty

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

Over a period of thirty years lasting up to the early eighties, there were little per capita income growth and not much reduction in poverty. Official poverty estimates which were about 45 per cent in the early 1950s remained the same even in the early eighties. Since the eighties, India's economic growth has been one of the fastest in the world. The growth rate jumped from the average of about 3.5 per cent a year in the 1970s to about 6 per cent during the 1980s and 1990s. The higher growth rates have helped significantly in the reduction of poverty. Therefore, it is becoming clear that there is a strong link between economic growth and poverty reduction. Economic growth widens opportunities and provides the resources needed to invest in human development. This also encourages people to send their children, including the girl child, to schools in the hope of getting better economic returns from investing in education. However, the poor may not be able to take direct advantage from the opportunities created by economic growth. Moreover, growth in the agriculture sector is much below expectations. This has a direct bearing on poverty as a large number of poor people live in villages and are dependent on agriculture.

### **Q10: Consider the following statements.**

1. The proportion of poor people is almost the same in every state
2. States like Punjab and Haryana have traditionally succeeded in reducing poverty with the help of high agricultural growth rates
3. In West Bengal, land reform measures have helped in reducing poverty

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is B.**

Poverty in India also has another aspect or dimension. The proportion of poor people is not the same in every state. Although state level poverty has witnessed a secular decline from the levels of early seventies, the success rate of reducing poverty varies from state to state. Recent estimates show while the all India Head Count Ratio (HCR) was 21.9 per cent in 2011-12 states like Madhya Pradesh, Assam, Uttar Pradesh, Bihar and Odisha had above all India poverty level. Bihar and Odisha continue to be the two poorest states with poverty ratios of 33.7 and 32.6 per cent respectively. Along with rural poverty, urban poverty is also high in Odisha, Madhya Pradesh, Bihar and Uttar Pradesh. In comparison, there has been a significant decline in poverty in Kerala, Maharashtra, Andhra Pradesh, Tamil Nadu, Gujarat and West Bengal. States like Punjab and Haryana have traditionally succeeded in reducing poverty with the help of high agricultural growth rates. Kerala has focused more on human resource development. In West Bengal, land reform measures have helped in reducing poverty. In Andhra Pradesh and Tamil Nadu public distribution of food grains could have been responsible for the improvement.

## DAY 3. ECONOMY NCERTS

### **Q1: Which of the following are correctly matched?**

1. Availability - food production within the country, food imports and the previous years stock stored in government granaries.
2. Accessibility - food is within reach of every person
3. Affordability - an individual has enough money to buy sufficient, safe and nutritious food to meet one's dietary needs

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

Food is as essential for living as air is for breathing. But food security means something more than getting two square meals. Food security has following dimensions

- (a) Availability of food means food production within the country, food imports and the previous years' stock stored in government granaries.
- (b) Accessibility means food is within reach of every person.
- (c) Affordability implies that an individual has enough money to buy sufficient, safe and nutritious food to meet one's dietary needs. Thus, food security is ensured in a country only if (1) enough food is available for all the persons (2) all persons have the capacity to buy food of acceptable quality and (3) there is no barrier on access to food.

### **Q2: Consider the following statements.**

1. Chronic hunger is a consequence of diets persistently inadequate in terms of quantity and/or quality
2. Seasonal hunger is related to cycles of food growing and harvesting

Which of the statement/statements is/are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is D.**

Hunger is another aspect indicating food insecurity. Hunger is not just an expression of poverty, it brings about poverty. The attainment of food security therefore involves eliminating current hunger and reducing the risks of future hunger. Hunger has chronic and seasonal dimensions. Chronic hunger is a consequence of diets persistently inadequate in terms of quantity and/or quality. Poor people suffer from chronic hunger because of their very low income and in turn inability to buy food even for survival. Seasonal hunger is related to cycles of food growing and harvesting. This is prevalent in rural areas because of the seasonal nature of agricultural activities and in urban areas because of casual labourers, e.g., there is less work for casual construction labourers during the rainy season. This type of hunger exists when a person is unable to get work for the entire year.

### **Q3: Consider the following statements.**

1. Buffer Stock is the stock of foodgrains, namely wheat and rice, procured by the government through the Department of Agriculture

2. The FCI purchases wheat and rice from the farmers in states where there is surplus production
3. The farmers are paid a preannounced price for their crops

Which of the statement/statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is B.**

Buffer Stock is the stock of foodgrains, namely wheat and rice, procured by the government through the Food Corporation of India (FCI). The FCI purchases wheat and rice from the farmers in states where there is surplus production. The farmers are paid a pre- announced price for their crops. This price is called Minimum Support Price (MSP). The MSP is declared by the government every year before the sowing season to provide incentives to farmers for raising the production of these crops. The purchased foodgrains are stored in granaries. Do you know why this buffer stock is created by the government? This is done to distribute foodgrains in the deficit areas and among the poorer strata of the society at a price lower than the market price also known as Issue Price. This also helps resolve the problem of shortage of food during adverse weather conditions or during the periods of calamity.

**Q4: Consider the following statements.**

1. The food procured by the FCI is distributed through every ration shops among the poorer section of the society
2. Ration shops also, known as Fair Price Shops

Which of the statement/statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

**Explanation - Answer is B.**

The food procured by the FCI is distributed through government regulated ration shops among the poorer section of the society. This is called the Public Distribution System (PDS). Ration shops are now present in most localities, villages, towns and cities. There are about 5.5 lakh ration shops all over the country. Ration shops also, known as Fair Price Shops, keep stock of foodgrains, sugar, and kerosene for cooking.

**Q5: Consider the following statements regarding the Public Distribution System.**

1. In the beginning, the coverage of PDS was universal with no discrimination between the poor and the non-poor
2. In 1992, Revamped Public Distribution System (RPDS) was introduced in 1,700 districts in the country
3. Later Targeted Public Distribution System (TPDS) was introduced to adopt the principle of targeting the 'poor in all areas'

Which of the statement/statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is C.**

Name of scheme	Year of introduction	Coverage target group	Latest volume	Issue price (Rs per kg.)
PDS	Up to 1992	Universal	-	W-2.34 R-2.89
RPDS	1992	Backward blocks	20 kg of foodgrains	W-2.80 R-3.77
TPDS	1997	Poor and non-poor BPL APL	35 kg of foodgrains	BPL – W-4.15 R-5.65 APL-W-6.10 R-8.30
AAY	2002	Poorest of the poor	35 kg of foodgrains	W-2.00 R-3.00
APS	2000	Indigent senior citizens	10 kg of foodgrains	Free
National Food Security Act (NFSA)	2013	Priority households	5 Kg per person per month	W-2.00 R-3.00 Coarse-1.00 grains



Public Distribution System (PDS) is the most important step taken by the Government of India (GoI) towards ensuring food security. In the beginning, the coverage of PDS was universal with no discrimination between the poor and the non-poor. Over the years, the policy related to PDS has been revised to make it more efficient and targeted. In 1992, Revamped Public Distribution System (RPDS) was introduced in 1,700 blocks in the country. The target was to provide the benefits of PDS to remote and backward areas. From June 1997, in a renewed attempt, Targeted Public Distribution System (TPDS) was introduced to adopt the principle of targeting the 'poor in all areas'. It was for the first time that a differential price policy was adopted for poor and non-poor.

#### **Q6: In context of the public distribution system, Which of the following are correctly matched?**

Name of the Scheme - Coverage Target Group

1. PDS - Universal
2. RPDS - Backward blocks
3. TPDS - Poorest of the poor

Which of the statement/statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is A.**

#### **Q7: Consider the following statements about Antyodaya Anna Yojana (AAY).**

1. Under this scheme, all the BPL families are covered under the targeted public distribution system
2. Initially, Twenty-five kilograms of foodgrains were made available to each eligible family at a highly subsidised rate of 2 per kg for wheat and 3 per kg for rice

Which of the statement/statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

AAY was launched in December 2000. Under this scheme one crore of the poorest among the BPL families covered under the targeted public distribution system were identified. Poor families were identified by the respective state rural development departments through a Below Poverty Line (BPL) survey. Twenty-five kilograms of foodgrains were made available to each eligible family at a highly subsidised rate of ` 2 per kg for wheat and ` 3 per kg for rice. This quantity has been enhanced from 25 to 35 kg with effect from April 2002. The scheme has been further expanded twice by additional 50 lakh BPL families in June 2003 and in August 2004. With this increase, 2 crore families have been covered under the AAY. In 2009, the scheme was expanded to cover all BPL families and HIV Positive persons.

### **Q8: Consider the following statements.**

1. Subsidy is a payment that a government makes to a producer to supplement the market price of a commodity
2. Subsidies can keep consumer prices low while maintaining a higher income for domestic producers

Which of the statement/statements are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is D.**

### **Q9: Consider the following statements about Academy of Development Science (ADS).**

1. ADS organises training and capacity building programmes on food security for NGOs.
2. ADS is working to set up Grain Banks, to facilitate replication through other NGOs and to influence the Government's policy on food security.

Which of the statement/statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

### **Q10: Which among the following are the factors which led to the decline of public distribution system?**

1. Ration shops regularly have unsold stocks of poor quality grains left
2. The price for above poverty line family is almost as high as the market price
3. Before Targeted PDS, every family, poor and non-poor had a ration card with a fixed quota of items

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

PDS dealers are sometimes found resorting to malpractices like diverting the grains to open market to get better margin, selling poor quality grains at ration shops, irregular opening of the shops, etc. It is common to find that ration shops regularly have unsold stocks of poor quality grains left. This has

proved to be a big problem. When ration shops are unable to sell, a massive stock of foodgrains piles up with the FCI. In recent years, there is another factor that has led to the decline of the PDS. Earlier every family, poor and non-poor had a ration card with a fixed quota of items such as rice, wheat, sugar etc. These were sold at the same low price to every family. The three types of cards and the range of prices that you see today did not exist. A large number of families could buy foodgrains from the ration shops subject to a fixed quota. These included low income families whose incomes were marginally higher than the below poverty line families. Now, with TPDS of three different prices, any family above the poverty line gets very little discount at the ration shop. The price for APL family is almost as high as open market price, so there is little incentive for them to buy these items from the ration shop.

AchieveIAS

## DAY 4, ECONOMY NCERTS

### **Q1: Consider the following statements.**

1. We compare the average income which is the total income of the country divided by its total population
2. The average income is also called per capita income

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

However, for comparison between countries, total income is not such an useful measure. Since, countries have different populations, comparing total income will not tell us what an average person is likely to earn. Are people in one country better off than others in a different country? Hence, we compare the average income which is the total income of the country divided by its total population. The average income is also called per capita income.

In World Development Reports, brought out by the World Bank, this criterion is used in classifying. Countries with per capita income of US\$ 12616 per annum and above in 2012, are called rich countries and those with per capita income of US\$ 1035 or less are called low-income countries. India comes in the category of low middle income countries because its per capita income in 2012 was just US\$ 1530 per annum. The rich countries, excluding countries of Middle East and certain other small countries, are generally called developed countries.

### **Q2: Consider the following statements.**

1. Income by itself is not a completely adequate indicator of material goods and services that citizens are able to use
2. Money in your pocket cannot buy all the goods and services that you may need to live well

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

How is it that the average person in Maharashtra has more income than the average person in Kerala but lags behind in these crucial areas? The reason is— money in your pocket cannot buy all the goods and services that you may need to live well. So, income by itself is not a completely adequate indicator of material goods and services that citizens are able to use. For example, normally, your money cannot buy you a pollution-free environment or ensure that you get unadulterated medicines, unless you can afford to shift to a community that already has all these things. Money may also not be able to protect you from infectious diseases, unless the whole of your community takes preventive steps.

### **Q3: Consider the following statements.**

1. Literacy Rate measures the proportion of literate population in the 7 and above age group.
2. Net Attendance Ratio is the total number of children of age group 14 and 15 years attending school as a percentage of total number of children in the same age group

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

**Explanation - Answer is C.**

Literacy Rate measures the proportion of literate population in the 7 and above age group.

Net Attendance Ratio is the total number of children of age group 14 and 15 years attending school as a percentage of total number of children in the same age group.

**Q4: Assertion: When we produce a good by exploiting natural resources, it is an activity of the primary sector**

**Reason: It forms the base for all other products that we subsequently make.**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.  
(b) Both A and R are true but R is not a correct explanation of A.  
(c) A is true but R is false.  
(d) A is false but R is true.

**Explanation - Answer is A.**

There are many activities that are undertaken by directly using natural resources. Take, for example, the cultivation of cotton. It takes place within a crop season. For the growth of the cotton plant, we depend mainly, but not entirely, on natural factors like rainfall, sunshine and climate. The product of this activity, cotton, is a natural product. Similarly, in the case of an activity like dairy, we are dependent on the biological process of the animals and availability of fodder etc. The product here, milk, also is a natural product. Similarly, minerals and ores are also natural products. When we produce a good by exploiting natural resources, it is an activity of the primary sector. Why primary? This is because it forms the base for all other products that we subsequently make. Since most of the natural products we get are from agriculture, dairy, fishing, forestry, this sector is also called agriculture and related sector.

**Q5: Consider the following statements about the secondary sector of the economy.**

1. The secondary sector covers activities in which natural products are changed into other forms through ways of manufacturing that we associate with industrial activity.
2. The product is not produced by nature but has to be made and therefore some process of manufacturing is essential
3. Transport and storage are the examples of this sector

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is A.**

The secondary sector covers activities in which natural products are changed into other forms through ways of manufacturing that we associate with industrial activity. It is the next step after primary. The product is not produced by nature but has to be made and therefore some process of manufacturing is essential. This could be in a factory, workshop or at home. For example, using cotton fibre from the plant, we spin yarn and weave cloth. Using sugarcane as a raw material, we make sugar or gur. We convert earth into bricks and use bricks to make houses and buildings. Since this sector gradually became associated with the different kinds of industries that came up, it is also called as industrial sector.

**Q6: Assertion: Secondary sector gradually became the most important in total production and employment**

**Reason: New methods of manufacturing were introduced, factories came up and started expanding**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

### **Explanation - Answer is A.**

Over a long time (more than hundred years), and especially because new methods of manufacturing were introduced, factories came up and started expanding. Those people who had earlier worked on farms now began to work in factories in large numbers. People began to use many more goods that were produced in factories at cheap rates. Secondary sector gradually became the most important in total production and employment. Hence, over time, a shift had taken place. This means that the importance of the sectors had changed. In the past 100 years, there has been a further shift from secondary to tertiary sector in developed countries. The service sector has become the most important in terms of total production. Most of the working people are also employed in the service sector. This is the general pattern observed in developed countries.

**Q7: Which of these can be considered as basic services?**

- 1. Telegraph services
- 2. Police stations
- 3. Municipal corporations

Choose from the following options.

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. All of them

### **Explanation - Answer is D.**

In any country several services such as hospitals, educational institutions, post and telegraph services, police stations, courts, village administrative offices, municipal corporations, defence transport, banks, insurance companies, etc. are required. These can be considered as basic services. In a developing country the government has to take responsibility for the provision of these services.

**Q8: Assertion: Workers in agricultural sector are underemployed**

**Reason: Workers in agriculture are not producing as much as they could**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

Even though industrial output or the production of goods went up by more than nine times during the period, employment in the industry went up by around three times. The same applies to tertiary sector as well. While production in the service sector rose by more than 14 times, employment in the service sector rose around five times. As a result, more than half of the workers in the country are working in the primary sector, mainly in agriculture, producing only a quarter of the GDP. In contrast to, the secondary and tertiary sectors produce three-fourth of the produce whereas they employ less than half the people. Does this mean that the workers in agriculture are not producing as much as they could? What it means is that there are more people in agriculture than is necessary. So, even if you move a few people out, production will not be affected. In other words, workers in agricultural sector are under-employed.

**Q9: Consider the following statements about National Rural Employment Guarantee Act 2005 (NREGA 2005).**

- 1. Under NREGA 2005, all those who are able to, and are in need of, work are guaranteed 100 days of employment in a year by the government
- 2. If the government fails in its duty to provide employment, it will give unemployment allowances to the people
- 3. The types of work that would in future help to increase the production from land will be given preference under the Act

Which of the statement/statements is/are correct?

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. All of them

**Explanation - Answer is D.**

For the short-term, we need some quick measures. Recognising this, the central government in India made a law implementing the Right to Work in 200 districts of India and then extended to an

additional 130 districts. The remaining districts in rural areas were brought under the act with effect from 1 April, 2008. It is called National Rural Employment Guarantee Act 2005 (NREGA 2005). Under NREGA 2005, all those who are able to, and are in need of, work are guaranteed 100 days of employment in a year by the government. If the government fails in its duty to provide employment, it will give unemployment allowances to the people. The types of work that would in future help to increase the production from land will be given preference under the Act.

**Q10: Which of the following are the features of the unorganised sector?**

1. Small and scattered units which are largely outside the control of the government
2. There are rules and regulations but these are not followed
3. People may not be employed by anyone but may work on their own but they too have to register themselves with the government
4. People can be asked to leave without any reason

Choose from the following options.

- A. 1, 2 and 3 only      B. 2, 3 and 4 only      C. 1, 2, and 4 only      D. All of them

**Explanation - Answer is C.**

The unorganised sector is characterised by small and scattered units which are largely outside the control of the government. There are rules and regulations but these are not followed. Jobs here are low-paid and often not regular. There is no provision for overtime, paid leave, holidays, leave due to sickness etc. Employment is not secure. People can be asked to leave without any reason. When there is less work, such as during some seasons, some people may be asked to leave. A lot also depends on the whims of the employer. This sector includes a large number of people who are employed on their own doing small jobs such as selling on the street or doing repair work. Similarly, farmers work on their own and hire labourers as and when they require.

## DAY 5, ECONOMY NCERTS

### **Q1: Consider the following statements.**

1. A cheque is a paper instructing the bank to pay a specific amount from the person's account to the person in whose name the cheque has been issued.
2. For payment through cheque, the payer who has an account with the bank, makes out a cheque for a specific amount.

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

For payment through cheque, the payer who has an account with the bank, makes out a cheque for a specific amount. A cheque is a paper instructing the bank to pay a specific amount from the person's account to the person in whose name the cheque has been issued.

### **Q2: Consider the following statements.**

1. In India, the Reserve Bank of India issues currency notes on behalf of the central government
2. The law in India legalizes the use of rupee as a medium of payment
3. Any individual in India can legally refuse a payment made in rupees

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is A.**

Why is it accepted as a medium of exchange? It is accepted as a medium of exchange because the currency is authorised by the government of the country. In India, the Reserve Bank of India issues currency notes on behalf of the central government. As per Indian law, no other individual or organisation is allowed to issue currency. Moreover, the law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India. No individual in India can legally refuse a payment made in rupees. Hence, the rupee is widely accepted as a medium of exchange.

### **Q3: Consider the following statements.**

1. Collateral is an asset that the borrower owns and uses this as a guarantee to a lender until the loan is repaid
2. Debt-trap is the case which pushes the borrower into a situation from which recovery is very painful

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

**Debt-trap** - Credit in this case pushes the borrower into a situation from which recovery is very painful. In one situation credit helps to increase earnings and therefore the person is better off than before. In another situation, because of the crop failure, credit pushes the person into a debt trap. Whether credit would be useful or not, therefore, depends on the risks in the situation and whether there is some support, in case of loss. Collateral is an asset that the borrower owns (such as land, building, vehicle, livestocks, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid. If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment. Property such as land titles, deposits with banks, livestock are some common examples of collateral used for borrowing.

**Q4: Consider the following statements.**

1. Interest rate, collateral and documentation requirement, and the mode of repayment together comprise what is called the terms of credit.
2. The terms of credit are same from one credit arrangement to another

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is A.**

Interest rate, collateral and documentation requirement, and the mode of repayment together comprise what is called the terms of credit. The terms of credit vary substantially from one credit arrangement to another. They may vary depending on the nature of the lender and the borrower.

**Q5: Which of the following are the informal lenders?**

1. Moneylenders
2. Traders
3. Cooperatives

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is A.**

The various types of loans can be conveniently grouped as formal sector loans and informal sector loans. Among the former are loans from banks and cooperatives. The informal lenders include moneylenders, traders, employers, relatives and friends, etc.

**Q6: Consider the following statements**

1. The Reserve Bank of India supervises the functioning of formal sources of loans
2. Securities and exchange Board of India (SEBI) supervises The functioning of informal sources of loans

Which of the statement/statements is/are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is B.**

The Reserve Bank of India supervises the functioning of formal sources of loans. For instance, we have seen that the banks maintain a minimum cash balance out of the deposits they receive. The RBI monitors the banks in actually maintaining cash balance. Similarly, the RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers etc. Periodically, banks have to submit information to the RBI on how much they are lending, to whom, at what interest rate, etc. There is no organisation which supervises the credit activities of lenders in the informal sector.

**Q7: Assertion: Many borrowers find themselves in the Debt trap due to the informal source of loan**

**Reason: The cost to the borrower of informal loans is much higher**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

Compared to the formal lenders, most of the informal lenders charge a much higher interest on loans. Thus, the cost to the borrower of informal is much higher. Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan. Hence, borrowers have less income left for themselves (as we saw for Shyamal in Sonpur). In certain cases, the high interest rate for borrowing can mean that the amount to be repaid is greater than the income of the borrower. This could lead to increasing debt (as we saw for Rama in Sonpur) and debt trap. Also, people who might wish to start an enterprise by borrowing may not do so because of the high cost of borrowing.

**Q8: Consider the following statements.**

- 1. The percentage of the loans taken by poor households in the urban areas from informal sources are much more than the percentage of the loans taken by rich households in the urban areas from informal sources
- 2. The rich households are availing cheap credit from formal lenders whereas the poor households have to pay a large amount for borrowing

Which of the statement/statements is/are not correct?

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

**Explanation - Answer is D.**

The rich households are availing cheap credit from formal lenders whereas the poor households have to pay a large amount for borrowing. What does all this suggest? First, the formal sector still meets only about half of the total credit needs of the rural people. The remaining credit needs are met from informal sources.

**Q9: Consider the following statements**

- 1. Members can take small loans from the group itself to meet their needs

2. The group charges interest on these loans but this is still less than what the moneylender charges
3. Loan is sanctioned in the name of the particular member and is meant to create self-employment opportunities for the members

Which of these statements are correct about Self Help Groups?

- A. 1 only      B. 2 only      C. 3 only      D. 1 and 2 only

**Explanation - Answer is D.**

The idea is to organise rural poor, in particular women, into small Self Help Groups (SHGs) and pool (collect) their savings. A typical SHG has 15-20 members, usually belonging to one neighbourhood, who meet and save regularly. Saving per member varies from Rs 25 to Rs 100 or more, depending on the ability of the people to save. Members can take small loans from the group itself to meet their needs. The group charges interest on these loans but this is still less than what the moneylender charges. After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank. Loan is sanctioned in the name of the group and is meant to create self- employment opportunities for the members. For instance, small loans are provided to the members for releasing mortgaged land, for meeting working capital needs (e.g. buying seeds, fertilisers, raw materials like bamboo and cloth), for housing materials, for acquiring assets like sewing machine, handlooms, cattle, etc. Most of the important decisions regarding the savings and loan activities are taken by the group members

**Q10: Consider the following statements.**

1. It is the group which is responsible for the repayment of the loan
2. Any case of nonrepayment of loan by any one member is followed up seriously by other members in the group
3. The purpose and the amount of the loan is decided by the group

Which of these statements are not correct about Self Help Groups?

- A. 1 only      B. 2 only      C. 3 only      D. None of them

**Explanation - Answer is D.**

The group decides as regards the loans to be granted — the purpose, amount, interest to be charged, repayment schedule etc. Also, it is the group which is responsible for the repayment of the loan. Any case of non- repayment of loan by any one member is followed up seriously by other members in the group. Because of this feature, banks are willing to lend to the poor women when organised in SHGs, even though they have no collateral as such. Thus, the SHGs help borrowers overcome the problem of lack of collateral. They can get timely loans for a variety of purposes and at a reasonable interest rate. Moreover, SHGs are the building blocks of organisation of the rural poor. Not only does it help women to become financially self-reliant, the regular meetings of the group provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.

## DAY 6. ECONOMY NCERTS

### **Q1: Consider the following statements.**

1. A MNC is a company that owns or controls production in more than one nation
2. Investment made by MNCs is called foreign investment

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

A MNC is a company that owns or controls production in more than one nation. MNCs set up offices and factories for production in regions where they can get cheap labour and other resources. This is done so that the cost of production is low and the MNCs can earn greater profits. Having assured themselves of these conditions, MNCs set up factories and offices for production. The money that is spent to buy assets such as land, building, machines and other equipment is called investment. Investment made by MNCs is called foreign investment. Any investment is made with the hope that these assets will earn profits.

### **Q2: Consider the following statements.**

1. The result of greater foreign investment and greater foreign trade has been greater integration of production and markets across countries
2. Globalisation is this process of rapid integration or interconnection between countries

Which of the statements/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

The result of greater foreign investment and greater foreign trade has been greater integration of production and markets across countries. Globalisation is this process of rapid integration or interconnection between countries. MNCs are playing a major role in the globalisation process. More and more goods and services, investments and technology are moving between countries. Besides the movements of goods, services, investments and technology, there is one more way in which the countries can be connected. This is through the movement of people between countries. People usually move from one country to another in search of better income, better jobs or better education. In the past few decades, however, there has not been much increase in the movement of people between countries due to various restrictions.

### **Q3: Consider the following statements.**

1. Telecommunication facilities are used to contact one another around the world, to access information instantly, and to communicate from remote areas
2. This has been facilitated by satellite communication devices

Which of the statements/statements is/are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is D.**

Even more remarkable have been the developments in information and communication technology. In recent times, technology in the areas of telecommunications, computers, Internet has been changing rapidly. Telecommunication facilities (tele-graph, telephone including mobile phones, fax) are used to contact one another around the world, to access information instantly, and to communicate from remote areas. This has been facilitated by satellite communication devices. As you would be aware, computers have now entered almost every field of activity.

### **Q4: Consider the following statements.**

1. Tax on imports is an example of trade barrier
2. Governments can use trade barriers to increase or decrease foreign goods only

Which of the statements/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is A.**

Tax on imports is an example of trade barrier. It is called a barrier because some restriction has been set up. Governments can use trade barriers to increase or decrease (regulate) foreign trade and to decide what kinds of goods and how much of each, should come into the country.

The Indian government, after Independence, had put barriers to foreign trade and foreign investment. This was considered necessary to protect the producers within the country from foreign competition. Industries were just coming up in the 1950s and 1960s, and competition from imports at that stage would not have allowed these industries to come up.

### **Q5: Consider the following statements.**

1. Removing barriers or restrictions set by the government is what is known as liberalisation.
2. With liberalisation of trade, businesses are allowed to make decisions freely about what they wish to import or export.
3. The government imposes much less restrictions than before and is therefore said to be more liberal

Which of the statements/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

Starting around 1991, some far-reaching changes in policy were made in India. The government decided that the time had come for Indian producers to compete with producers around the globe. It felt that competition would improve the performance of producers within the country since they would have to improve their quality. This decision was supported by powerful international organisations. Thus, barriers on foreign trade and foreign investment were removed to a large extent. This meant that goods could be imported and exported easily and also foreign companies could set up factories and offices here. Removing barriers or restrictions set by the government is what is known as liberalisation. With liberalisation of trade, businesses are allowed to make decisions freely about what they wish to import or export. The government imposes much less restrictions than before and is therefore said to be more liberal.

**Q6: Consider the following statements.**

1. More than 150 countries of the world are currently members of the WTO
2. WTO rules have forced the developing countries to remove trade barriers
3. WTO establishes rules regarding international trade

Which of the statements/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

World Trade Organisation (WTO) is one such organisation whose aim is to liberalise international trade. Started at the initiative of the developed countries, WTO establishes rules regarding international trade, and sees that these rules are obeyed. Nearly 164 countries of the world are currently members of the WTO (as on April 2020). Though WTO is supposed to allow free trade for all, in practice, it is seen that the developed countries have unfairly retained trade barriers. On the other hand, WTO rules have forced the developing countries to remove trade barriers. An example of this is the current debate on trade in agricultural products.

**Q7: Consider the following statements about Consumer Protection Act 2019.**

1. Under COPRA, a three-tier quasi - judicial machinery at the district, state and national levels has been set up for redressal of consumer disputes
2. If a case is dismissed in district level court, the consumer can also appeal in state and then in National level courts

Which of the statements/statements is/are correct?

- A. 1 only      B. 2 only      C. Both 1 and 2      D. None

**Explanation - Answer is C.**

Under COPRA 2019, a three-tier quasi- judicial machinery at the district, state and national levels has been set up for redressal of consumer disputes. If a case is dismissed in district level court, the consumer can also appeal in state and then in National level courts.

**Q8: Consider the following statements.**

1. India has been observing 24 December as the National Consumers' Day
2. It was on this day that the Indian Parliament enacted the Consumer Protection Act in 1986
3. India is the only country that have exclusive courts for consumer redressal

Which of the statements/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is A.**

India has been observing 24 December as the National Consumers' Day. It was on this day that the Indian Parliament enacted the Consumer Protection Act in 1986. India is one of the countries that have exclusive courts for consumer redressal. The consumer movement in India has made some progress

in terms of numbers of organised groups and their activities. There are today more than 700 consumer groups in the country of which only about 20-25 are well organised and recognised for their work.

AchieveIAS

## DAY 7, ECONOMY NCERTs

### **Q1: Consider the following statements about the Muslin.**

1. Muslin is a type of cotton textile which had its origin in Bengal, particularly, places in and around Dhaka
2. The poorest variety of muslin was called malmal and finest variety of Muslin was called Daccai Muslin
3. Sometimes, foreign travellers also used to refer to it as malmal shahi or malmal khas

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is C.**

Muslin is a type of cotton textile which had its origin in Bengal, particularly, places in and around Dhaka (spelled during the pre-independence period as Dacca), now the capital city of Bangladesh. 'Daccai Muslin' had gained worldwide fame as an exquisite type of cotton textile. The finest variety of muslin was called malmal. Sometimes, foreign travellers also used to refer to it as malmal shahi or malmal khas implying that it was worn by, or fit for, the royalty.

### **Q2: Assertion: Agricultural productivity became low though, in absolute terms, the sector experienced some growth**

#### **Reason: Aggregate area under cultivation expanded**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

### **Explanation - Answer is A.**

Agricultural productivity became low though, in absolute terms, the sector experienced some growth due to the expansion of the aggregate area under cultivation. This stagnation in the agricultural sector was caused mainly because of the various systems of land settlement that were introduced by the colonial government. Particularly, under the zamindari system which was implemented in the then Bengal Presidency comprising parts of India's present-day eastern states, the profit accruing out of the agriculture sector went to the zamindars instead of the cultivators. However, a considerable number of zamindars, and not just the colonial government, did nothing to improve the condition of agriculture.

### **Q3: Consider the following statements.**

1. Zamindars were immune from getting the punishment even if they fail to deposit the revenue in the fixed time
2. Interest of the zamindars was only to collect rent regardless of the economic condition of the cultivators

Which of the statement/statements is/are correct?

- A 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is B.**

Interest of the zamindars was only to collect rent regardless of the economic condition of the cultivators; this caused immense misery and social tension among the latter. To a very great extent, the terms of the revenue settlement were also responsible for the zamindars adopting such an attitude; dates for depositing specified sums of revenue were fixed, failing which the zamindars were to lose their rights.

**Q4: Assertion: During the Colonial Era in India, there was some evidence of a relatively higher yield of cash crops in certain areas of the country**

**Reason: There was negligible use of fertilisers in agriculture**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

### **Explanation - Answer is B.**

Low levels of technology, lack of irrigation facilities and negligible use of fertilisers, all added up to aggravate the plight of the farmers and contributed to the dismal level of agricultural productivity. There was, of course, some evidence of a relatively higher yield of cash crops in certain areas of the country due to commercialisation of agriculture.

**Q5: Consider the following statements.**

1. Unlike in the case of agriculture, India developed a sound industrial base under the colonial rule in manufacturing sector
2. Handicraft industries declined but corresponding modern industrial base in other sectors was allowed to expand

Which of the statement/statements is/are correct?

- A 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is D.**

As in the case of agriculture, so also in manufacturing, India could not develop a sound industrial base under the colonial rule. Even as the country's world famous handicraft industries declined, no corresponding modern industrial base was allowed to come up to take pride of place so long enjoyed by the former. The primary motive of the colonial government behind this policy of systematically deindustrialising India was two-fold. The intention was, first, to reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain and, second, to turn India into a sprawling market for the finished products of those industries so that their continued expansion could be ensured to the maximum advantage of their home country — Britain. In the unfolding economic scenario, the decline of the indigenous handicraft industries created not only massive unemployment in India but also a new demand in the Indian consumer market, which was now deprived of the supply of locally made goods.

**Q6: Consider the following statements.**

1. During the second half of the nineteenth century, modern industry began to take root in India very aggressively
2. Initially, this development was confined to the setting up of cotton and jute textile mills in eastern and western parts of the country respectively

Which of the statement/statements is/are correct?

- A 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is D.**

During the second half of the nineteenth century, modern industry began to take root in India but its progress remained very slow. Initially, this development was confined to the setting up of cotton and jute textile mills. The cotton textile mills, mainly dominated by Indians, were located in the western parts of the country, namely, Maharashtra and Gujarat, while the jute mills dominated by the foreigners were mainly concentrated in Bengal. Subsequently, the iron and steel industries began coming up in the beginning of the twentieth century. The Tata Iron and Steel Company (TISCO) was incorporated in 1907. A few other industries in the fields of sugar, cement, paper etc. came up after the Second World War.

**Q7: Consider the following statements regarding the new industrial sector developed by the British rule in India.**

1. The growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small.
2. Another significant drawback of the new industrial sector was the very limited area of operation of the public sector
3. This sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

There was hardly any capital goods industry to help promote further industrialisation in India. Capital goods industry means industries which can produce machine tools which are, in turn, used for producing articles for current consumption. The establishment of a few manufacturing units here and Furthermore, the growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small. Another significant drawback of the new industrial sector was the very limited area of operation of the public sector. This sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

**Q8: Consider the following statements regarding the consequences of the British rule in India.**

1. India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc.

2. India became an importer of finished consumer goods like cotton, silk and woolen clothes and capital goods.

Which of the statement/statements is/are correct?

- A 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc. and an importer of finished consumer goods like cotton, silk and woollen clothes and capital goods like light machinery produced in the factories of Britain. For all practical purposes, Britain maintained a monopoly control over India's exports and imports. As a result, more than half of India's foreign trade was restricted to Britain while the rest was allowed with a few other countries like China, Ceylon (Sri Lanka) and Persia (Iran). The opening of the Suez Canal further intensified British control over India's foreign trade. The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this surplus came at a huge cost to the country's economy.

**Q9: Consider the following statements.**

1. The important characteristics of India's foreign trade throughout the colonial period was the generation of a large export surplus
2. The export surplus resulted in flow of gold or silver into India

Which of the statement/statements is/are correct?

- A 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is A.**

The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this surplus came at a huge cost to the country's economy. Several essential commodities—food grains, clothes, kerosene etc. — were scarcely available in the domestic market. Furthermore, this export surplus did not result in any flow of gold or silver into India. Rather, this was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war, again fought by the British government, and the import of invisible items, all of which led to the drain of Indian wealth.

**Q10: Consider the following statements about Suez Canal.**

1. It is an artificial waterway running from north to south across the Isthmus of Suez in north-eastern Egypt
2. It connects Port Said on the Mediterranean Sea with the Gulf of Suez, an arm of the Red Sea

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

Suez Canal is an artificial waterway running from north to south across the Isthmus of Suez in north-eastern Egypt. It connects Port Said on the Mediterranean Sea with the Gulf of Suez, an arm of the

Red Sea. The canal provides a direct trade route for ships operating between European or American ports and ports located in South Asia, East Africa and Oceania by doing away with the need to sail around Africa. Strategically and economically, it is one of the most important waterways in the world. Its opening in 1869 reduced the cost of transportation and made access to the Indian market easier.

## DAY 8, ECONOMY NCERTs

**Q1: The railways affected the structure of the Indian economy in many important ways. Consider the following statements regarding it.**

1. It enabled people to undertake long distance travel and thereby break geographical and cultural barriers
2. It fostered commercialisation of Indian agriculture which increased the self-sufficiency of the village economies in India

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is A.**

The British introduced the railways in India in 1850 and it is considered as one of their most important contributions. The railways affected the structure of the Indian economy in two important ways. On the one hand it enabled people to undertake long distance travel and thereby break geographical and cultural barriers while, on the other hand, it fostered commercialisation of Indian agriculture which adversely affected the self-sufficiency of the village economies in India. The volume of India's exports undoubtedly expanded but its benefits rarely accrued to the Indian people.

**Q2: Consider the following statements about Colonial India**

1. The introduction of the expensive system of electric telegraph in India, served the purpose of maintaining law and order
2. The postal services despite serving a useful public purpose, remained all through inadequate
3. The inland waterways, at times, proved uneconomical

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

Along with the development of roads and railways, the colonial dispensation also took measures for developing the inland trade and sea lanes. However, these measures were far from satisfactory. The inland waterways, at times, also proved uneconomical as in the case of the Coast Canal on the Orissa coast. Though the canal was built at a huge cost to the government exchequer, yet, it failed to compete with the railways, which soon traversed the region running parallel to the canal, and had to be ultimately abandoned. The introduction of the expensive system of electric telegraph in India, similarly, served the purpose of maintaining law and order. The postal services, on the other hand, despite serving a useful public purpose, remained all through inadequate.

**Q3: Consider the following statements.**

1. Roads constructed in India prior to the advent of the British rule were not fit for modern transport
2. The roads that were built primarily served the purposes of mobilising the army within India and drawing out raw materials from the countryside to the nearest railway station
3. There always remained an acute shortage of all-weather roads to reach out to the rural areas during the rainy season

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

However, the real motive behind this development was not to provide basic amenities to the people but to subserve various colonial interests. Roads constructed in India prior to the advent of the British rule were not fit for modern transport. The roads that were built primarily served the purposes of mobilising the army within India and drawing out raw materials from the countryside to the nearest railway station or the port to send these to far away England or other lucrative foreign destinations. There always remained an acute shortage of all-weather roads to reach out to the rural areas during the rainy season. Naturally, therefore, people mostly living in these areas suffered grievously during natural calamities and famines.

**Q4: Arrange the following sectors according to their share in the economy during the Colonial rule in India?**

1. Agriculture
2. Manufacturing
3. Services

Choose from the following options.

- A. 1-2-3      B. 3-2-1      C. 1-3-2      D. 3-1-2

**Explanation - Answer is C.**

During the colonial period, the occupational structure of India, i.e., distribution of working persons across different industries and sectors, showed little sign of change. The agricultural sector accounted for the largest share of workforce, which usually remained at a high of 70-75 per cent while the manufacturing and the services sectors accounted for only 10 and 15-20 per cent respectively.

Another striking aspect was the growing regional variation. Parts of the then Madras Presidency (comprising areas of the present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors. However, there had been an increase in the share of workforce in agriculture during the same time in states such as Orissa, Rajasthan and Punjab.

**Q5: Consider the following statements.**

1. In a capitalist society the goods produced are distributed among people on the basis of what people need
2. In a socialist society It is assumed that the government knows what is good for the people of the country and so the desires of individual consumers are given much importance
3. In a mixed economy, the market will provide whatever goods and services it can produce well

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. 3 only      D. None of them

### **Explanation - Answer is D.**

In a capitalist society the goods produced are distributed among people not on the basis of what people need but on the basis of Purchasing Power—the ability to buy goods and services. That is, one has to have the money in the pocket to buy it. Low cost housing for the poor is much needed but will not count as demand in the market sense because the poor do not have the purchasing power to back the demand. As a result this commodity will not be produced and supplied as per market forces. Such a society did not appeal to Jawaharlal Nehru, our first prime minister, for it meant that the great majority of people of the country would be left behind without the chance to improve their quality of life. A socialist society answers the three questions in a totally different manner. In a socialist society the government decides what goods are to be produced in accordance with the needs of society. It is assumed that then government knows what is good for the people of the country and so the desires of individual consumers are not given much importance. The government decides how goods are to be produced and how they should be distributed. In principle, distribution under socialism is supposed to be based on what people need and not on what they can afford to purchase. Unlike under capitalism, for example, a socialist nation provides free health care to all its citizens. Strictly, a socialist society has no private property since everything is owned by the state. In Cuba and China, for example, most of the economic activities are governed by the socialistic principles.

Most economies are mixed economies, i.e. the government and the market together answer the three questions of what to produce, how to produce and how to distribute what is produced. In a mixed economy, the market will provide whatever goods and services it can produce well, and the government will provide essential goods and services which the market fails to do.

### **Q6: Consider the following statements about the concept of growth.**

1. It refers to increase in the country's capacity to produce the output of goods and services within the country
2. A good indicator of economic growth, in the language of economics, is steady increase in the Gross Domestic Product (GDP)

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

Growth: It refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a larger stock of productive capital, or a larger size of supporting services like transport and banking, or an increase in the efficiency of productive capital and services. A good indicator of economic growth, in the language of economics, is steady increase in the Gross Domestic Product (GDP). The GDP is the market value of all the goods and services produced in the country during a year. You can think of the GDP as a cake and growth is increase in the size of the cake. If the cake is larger, more people can enjoy it. It is necessary to produce more goods and services if the people of India are to enjoy (in the words of the First Five Year Plan) a more rich and varied life.

### **Q7: Consider the following statements about the concept of modernisation.**

1. Adoption of new technology is called modernisation
2. Modernisation does not refer only to the use of new technology but also to changes in social outlook

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

Modernisation: To increase the production of goods and services the producers have to adopt new technology. For example, a farmer can increase the output on the farm by using new seed varieties instead of using the old ones. Similarly, a factory can increase output by using a new type of machine. Adoption of new technology is called modernisation. However, modernisation does not refer only to the use of new technology but also to changes in social outlook such as the recognition that women should have the same rights as men. In a traditional society, women are supposed to remain at home while men work. A modern society makes use of the talents of women in the work place — in banks, factories, schools etc. — and such a society in most occasions is also prosperous.

**Q8: Assertion: The first seven five year plans gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself**

**Reason: It was feared that dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies.**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.  
(b) Both A and R are true but R is not a correct explanation of A.  
(c) A is true but R is false.  
(d) A is false but R is true.

**Explanation - Answer is A.**

Self-reliance: A nation can promote economic growth and modernisation by using its own resources or by using resources imported from other nations. The first seven five year plans gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself. This policy was considered a necessity in order to reduce our dependence on foreign countries, especially for food. It is understandable that people who were recently freed from foreign domination should give importance to self-reliance. Further, it was feared that dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies.

**Q9: Consider the following statements about the concept of equity.**

1. It is important to ensure that the benefits of economic prosperity reach the poor sections
2. Now growth, modernization and self-reliance, by themselves, may not improve the kind of life which people are living

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

**Equity:** Now growth, modernisation and self-reliance, by themselves, may not improve the kind of life which people are living. A country can have high growth, the most modern technology developed in the country itself, and also have most of its people living in poverty. It is important to ensure that the benefits of economic prosperity reach the poor sections as well instead of being enjoyed only by the rich. So, in addition to growth, modernisation and self-reliance, equity is also important. Every Indian should be able to meet his or her basic needs such as food, a decent house, education and health care and inequality in the distribution of wealth should be reduced. Let us now see how the first seven five year plans, covering the period 1950-1990, attempted to attain these four goals and the extent to which they succeeded in doing so, with reference to agriculture, industry and trade.

**Q10: Consider the following statements about the statistician, Prasanta Chandra Mahalanobis.**

1. He was educated at the Presidency College in Calcutta and at Cambridge University in England.
2. He was made a Fellow of Britain's Royal Society
3. He established the Indian Statistical Institute (ISI) in Calcutta

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

Many distinguished thinkers contributed to the formulation of our five year plans. Among them, the name of the statistician, Prasanta Chandra Mahalanobis, stands out. Planning, in the real sense of the term, began with the Second Five Year Plan. The Second Plan, a landmark contribution to development planning in general, laid down the basic ideas regarding goals of Indian planning; this plan was based on the ideas of Mahalanobis. In that sense, he can be regarded as the architect of Indian planning. Mahalanobis was born in 1893 in Calcutta. He was educated at the Presidency College in Calcutta and at Cambridge University in England. His contributions to the subject of statistics brought him international fame. In 1946 he was made a Fellow (member) of Britain's Royal Society, one of the most prestigious organisations of scientists; only the most outstanding scientists are made members of this Society. Mahalanobis established the Indian Statistical Institute (ISI) in Calcutta and started a journal, Sankhya, which still serves as a respected forum for statisticians to discuss their ideas. Both, the ISI and Sankhya, are highly regarded by statisticians and economists all over the world to this day. During the second plan period, Mahalanobis invited many distinguished economists from India and abroad to advise him on India's economic development. Some of these economists became Nobel Prize winners later, which shows that he could identify individuals with talent. Among the economists invited by Mahalanobis were those who were very critical of the socialist principles of the second plan. In other words, he was willing to listen to what his critics had to say, the mark of a great scholar. Many economists today reject the approach to planning formulated by Mahalanobis but he will always be remembered for playing a vital role in putting India on the road to economic progress, and statisticians continue to profit from his contribution to statistical theory.

## DAY 9, ECONOMY NCERTS

**Q1: Assertion:** The policy of 'land to the tiller' is based on the idea that the cultivators will take more interest and they will have more incentive resulting in increasing output if they are the owners of the land

**Reason:** Ownership of land enables the tiller to make profit from the increased output

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

The policy of 'land to the tiller' is based on the idea that the cultivators will take more interest — they will have more incentive — in increasing output if they are the owners of the land. This is because ownership of land enables the tiller to make profit from the increased output. Tenants do not have the incentive to make improvements on land since it is the landowner who would benefit more from higher output. The importance of ownership in providing incentives is well illustrated by the carelessness with which farmers in the former Soviet Union used to pack fruits for sale. It was not uncommon to see farmers packing rotten fruits along with fresh fruits in the same box. Now, every farmer knows that the rotten fruits will spoil the fresh fruits if they are packed together. This will be a loss to the farmer since the fruits cannot be sold. So why did the Soviet farmers do something which would so obviously result in loss for them? The answer lies in the incentives facing the farmers. Since farmers in the former Soviet Union did not own any land, they neither enjoyed the profits nor suffered the losses. In the absence of ownership, there was no incentive on the part of farmers to be efficient, which also explains the poor performance of the agricultural sector in the Soviet Union despite availability of vast areas of highly fertile land.

**Q2: Consider the following statements regarding the land ceiling. Regarding the land ceiling.**

- 1. This means fixing the minimum size of land which could be owned by an individual
- 2. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands
- 3. The ownership conferred on tenants gave them the incentive to increase output and this contributed to growth in agriculture

Which of the statement/statements is/are correct?

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. All of them

**Explanation - Answer is B.**

The low productivity of the agricultural sector forced India to import food from the United States of America (U.S.A.). Equity in agriculture called for land reforms which primarily refer to change in the ownership of landholdings. Just a year after independence, steps were taken to abolish intermediaries and to make the tillers the owners of land. The idea behind this move was that ownership of land would

give incentives (see Box 2.5) to the tillers to invest in making improvements provided sufficient capital was made available to them.

Land ceiling was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands. The abolition of intermediaries meant that some 200 lakh tenants came into direct contact with the government — they were thus freed from being exploited by the zamindars. The ownership conferred on tenants gave them the incentive to increase output and this contributed to growth in agriculture. However, the goal of equity was not fully served by abolition of intermediaries.

### **Q3: Why the goal of equity was not fully served by abolition of intermediaries?**

1. In some areas the former zamindars continued to own large areas of land by making use of some loopholes in the legislation
2. The poorest of the agricultural labourers did not benefit from land reforms
3. There was not same level of commitment in all the states to abolish intermediaries

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

In some areas the former zamindars continued to own large areas of land by making use of some loopholes in the legislation; there were cases where tenants were evicted and the landowners claimed to be self-cultivators (the actual tillers), claiming ownership of the land; and even when the tillers got ownership of land, the poorest of the agricultural labourers (such as sharecroppers and landless labourers) did not benefit from land reforms. The land ceiling legislation also faced hurdles. The big landlords challenged the legislation in the courts, delaying its implementation.

They used this delay to register their lands in the name of close relatives, thereby escaping from the legislation. The legislation also had a lot of loopholes which were exploited by the big landholders to retain their land. Land reforms were successful in Kerala and West Bengal because these states had governments committed to the policy of land to the tiller. Unfortunately other states did not have the same level of commitment and vast inequality in landholding continues to this day.

### **Q4: Assertion: The price of food grains declined relative to other items of consumption.**

**Reason: A good proportion of the rice and wheat produced during the green revolution period was consumed by the farmers themselves**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

### **Explanation - Answer is C.**

The portion of agricultural produce which is sold in the market by the farmers is called marketed surplus. A good proportion of the rice and wheat produced during the green revolution period (available as marketed surplus) was sold by the farmers in the market. As a result, the price of food grains declined relative to other items of consumption. The low-income groups, who spend a large percentage of their income on food, benefited from this decline in relative prices. The green revolution enabled the government to procure sufficient amount of food grains to build a stock which could be used in times of food shortage.

**Q5: Assertion: The green revolution benefited the small as well as rich farmers**

**Reason: The risk of the small farmers being ruined attack their crops was considerably reduced**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

The government provided loans at a low interest rate to small farmers and subsidised fertilisers so that small farmers could also have access to the needed inputs. Since the small farmers could obtain the required inputs, the output on small farms equaled the output on large farms in the course of time. As a result, the green revolution benefited the small as well as rich farmers. The risk of the small farmers being ruined when pests attack their crops was considerably reduced by the services rendered by research institutes established by the government. You should note that the green revolution would have favoured the rich farmers only if the state did not play an extensive role in ensuring that the small farmer also gains from the new technology.

**Q6: What are the reasons to believe that the government should continue with agricultural subsidies?**

- 1. Most farmers are very poor and they will not be able to afford the required inputs without subsidies.
- 2. Eliminating subsidies will increase the inequality between rich and poor farmers and violate the goal of equity

Choose from the following options.

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

**Explanation - Answer is C.**

**The Debate Over Subsidies:** The economic justification of subsidies in agriculture is, at present, a hotly debated question. It is generally agreed that it was necessary to use subsidies to provide an incentive for adoption of the new HYV technology by farmers in general and small farmers in particular. Any new technology will be looked upon as being risky by farmers. Subsidies were, therefore, needed to encourage farmers to test the new technology. Some economists believe that once the technology is found profitable and is widely adopted, subsidies should be phased out since their purpose has been

served. Further, subsidies are meant to benefit the farmers but a substantial amount of fertiliser subsidy also benefits the fertiliser industry; and among farmers, the subsidy largely benefits the farmers in the more prosperous regions. Therefore, it is argued that there is no case for continuing with fertiliser subsidies; it does not benefit the target group and it is a huge burden on the government's finances. On the other hand, some believe that the government should continue with agricultural subsidies because farming in India continues to be a risky business. Most farmers are very poor and they will not be able to afford the required inputs without subsidies. Eliminating subsidies will increase the inequality between rich and poor farmers and violate the goal of equity. These experts argue that if subsidies are largely benefiting the fertiliser industry and big farmers, the correct policy is not to abolish subsidies but to take steps to ensure that only the poor farmers enjoy the benefits.

**Q7: Assertion: The five year plans place a lot of emphasis on industrial development**

**Reason: Industry provides employment which is more stable than the employment in agriculture**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

Economists have found that poor nations can progress only if they have a good industrial sector. Industry provides employment which is more stable than the employment in agriculture; it promotes modernisation and overall prosperity. It is for this reason that the five year plans place a lot of emphasis on industrial development. You might have studied in the previous chapter that, at the time of independence, the variety of industries was very narrow largely confined to cotton textiles and jute. There were two well-managed iron and steel firms — one in Jamshedpur and the other in Kolkata — but, obviously, we needed to expand the industrial base with a variety of industries if the economy was to grow.

**Q8: Industrial Policy Resolution 1956 (IPR 1956): In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. This resolution classified industries into three categories. Consider the following statement regarding it.**

1. The first category comprised industries which would be exclusively owned by the state
2. The second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new units
3. The third category consisted of the remaining industries which were to be in the private sector

Which of the statement/statements is/are correct?

A. 1 and 2 only

B. 2 and 3 only

C. 1 and 3 only

D. All of them

**Explanation - Answer is D.**

Industrial Policy Resolution 1956 (IPR 1956): In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. This resolution classified industries into three categories. The first category comprised industries which would be exclusively owned by the state; the second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new units; the third category consisted of the remaining industries which were to be in the private sector. Although there was a category of industries left to the private sector, the sector was kept under state control through a system of licenses. No new industry was allowed unless a license was obtained from the government. This policy was used for promoting industry in backward regions; it was easier to obtain a if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote regional equality.

**Q9: Consider the following statements regarding the import substitution policy.**

1. This policy aimed at replacing or substituting imports with domestic production.
2. In this policy the government protected the domestic industries from foreign competition
3. Tariffs helped the government specified the quantity of goods which can be imported

Which of the statement/statements is/are correct?

A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is A.**

The industrial policy that we adopted was closely related to the trade policy. In the first seven plans, trade was characterised by what is commonly called an inward looking trade strategy. Technically, this strategy is called import substitution. This policy aimed at replacing or substituting imports with domestic production. For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in India itself. In this policy the government protected the domestic industries from foreign competition. Protection from imports took two forms: tariffs and quotas. Tariffs are a tax on imported goods; they make imported goods more expensive and discourage their use. Quotas specify the quantity of goods which can be imported. The effect of tariffs and quotas is that they restrict imports and, therefore, protect the domestic firms from foreign competition.

**Q10: Consider the following statements about the licensing Raj system.**

1. A big industrialist would get a license not for starting a new firm but to prevent competitors from starting new firms
2. More time was spent by industrialists in trying to obtain a license or lobby with the concerned ministries rather than on thinking about how to improve their products.

Which of the statement/statements is/are not correct?

A. 1 only

B. 2 only

C. Both of them

D. Neither of them

**Explanation - Answer is D.**

The need to obtain a license to start an industry was misused by industrial houses; a big industrialist would get a license not for starting a new firm but to prevent competitors from starting new firms. The excessive regulation of what came to be called the permit license raj prevented certain firms from becoming more efficient. More time was spent by industrialists in trying to obtain a license or lobby with the concerned ministries rather than on thinking about how to improve their products. The protection from foreign competition is also being criticised on the ground that it continued even after it proved to do more harm than good. Due to restrictions on imports, the Indian consumers had to purchase whatever the Indian producers produced. The producers were aware that they had a captive market; so they had no incentive to improve the quality of their goods. Why should they think of improving quality when they could sell low quality items at a high price? Competition from imports forces our producers to be more efficient.

## DAY 10, ECONOMY NCERTs

**Q1: In India, regulatory mechanisms were enforced in various ways. Consider the following statements regarding it.**

1. Entrepreneur had to get permission from government officials to start a firm, close a firm or decide the amount of goods that could be produced
2. Private sector was not allowed in many industries
3. Some goods could be produced only in small-scale industries

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

Deregulation of Industrial Sector: In India, regulatory mechanisms were enforced in various ways (i) industrial licensing under which every entrepreneur had to get permission from government officials to start a firm, close a firm or decide the amount of goods that could be produced (ii) private sector was not allowed in many industries (iii) some goods could be produced only in small-scale industries, and (iv) controls on price fixation and of selected industrial products.

**Q2: Consider the following statements.**

1. The financial sector in India is regulated by the Reserve Bank of India (RBI)
2. The RBI decides the amount of money that the banks can keep with themselves

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

Financial sector includes financial institutions, such as commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is regulated by the Reserve Bank of India (RBI). You may be aware that all banks and other financial institutions in India are regulated through various norms and regulations of the RBI. The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors, etc. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

**Q3: Consider the following statements regarding the reform policies.**

1. It led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 per cent
2. Those banks which fulfil certain conditions have been given freedom to set up new branches without the approval of the RBI
3. Banks have been given permission to generate resources from India and abroad

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

The reform policies led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 per cent. Those banks which fulfil certain conditions have been given freedom to set up new branches without the approval of the RBI and rationalise their existing branch networks. Though banks have been given permission to generate resources from India and abroad, certain managerial aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation. Foreign Institutional Investors (FII), such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets.

**Q4: Consider the following statements regarding the Trade and Investment Policy Reforms.**

1. It was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy
2. The aim was also to promote the efficiency of local industries and adoption of modern technologies

Which of the statement/statements is/are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is D.**

Trade and Investment Policy Reforms: Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of local industries and adoption of modern technologies.

**Q5: The trade policy reforms were aimed at:**

1. Dismantling of quantitative restrictions on imports and exports
2. Reduction of tariff rates
3. Removal of licensing procedures for imports

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

In order to protect domestic industries, India was following a regime of quantitative restrictions on imports. This was encouraged through tight control over imports and by keeping the tariffs very high. These policies reduced efficiency and competitiveness which led to slow growth of the manufacturing sector. The trade policy reforms aimed at (i) dismantling of quantitative restrictions on imports and exports (ii) reduction of tariff rates and (iii) removal of licensing procedures for imports. Import licensing was abolished except in case of hazardous and environmentally sensitive industries. Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001.

**Q6: In which of the following ways Government companies are converted into private companies?**

1. By withdrawal of the government from ownership and management of public sector companies
2. By outright sale of public sector companies

Choose from the following options.

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

**PRIVATISATION**

It implies shedding of the ownership or management of a government owned enterprise. Government companies are converted into private companies in two ways (i) by withdrawal of the government from ownership and management of public sector companies and or (ii) by outright sale of public sector companies. Privatisation of the public sector enterprises by selling off part of the equity of PSEs to the public is known as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernisation. It was also envisaged that private capital and managerial capabilities could be effectively utilised to improve the performance of the PSUs.

**Q7: Which of the following are Maharatnas:**

1. Indian Oil Corporation Limited
2. Steel Authority of India Limited
3. Hindustan Aeronautics Limited

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is A.**

The Central Public Sector Enterprises are designated with different status. A few examples of public enterprises with their status are as follows: (i) Maharatnas – (a) Indian Oil Corporation Limited, and (b) Steel Authority of India Limited, (ii) Navratnas – (a) Hindustan Aeronautics Limited, (b) Mahanagar Telephone Nigam Limited; and (iii) Miniratnas – (a) Bharat Sanchar Nigam Limited; (b) Airport Authority of India and (c) Indian Railway Catering and Tourism Corporation Limited. Many of these profitable PSEs were originally formed during the 1950s and 1960s when self-reliance was an important element of public policy. They were set up with the intention of providing infrastructure and direct employment to the public so that quality end-product reaches the masses at a nominal cost and the companies themselves were made accountable to all stakeholders. The granting of status resulted in better performance of these companies. Scholars allege that instead of facilitating public enterprises in their expansion and enabling them to become global players, the government partly privatised them through disinvestment. Of late, the government has decided to retain them in the public sector and enable them to expand themselves in the global markets and raise resources by themselves from financial markets.

**Q8: Consider the following statements regarding the process of outsourcing.**

1. In this process a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country
2. The low wage rates and availability of skilled manpower in India have made it a destination for global outsourcing in the post-reform period

Which of the statement/statements is/are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is D.**

Outsourcing: This is one of the important outcomes of the globalisation process. In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security — each provided by respective departments of the company). As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Many of the services such as voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India. With the help of modern telecommunication links including the Internet, the text, voice and visual data in respect of these services is digitised and transmitted in real time over continents and national boundaries. Most multinational corporations, and even small companies, are outsourcing their services to India where they can be availed at a cheaper cost with reasonable degree of skill and accuracy. The low wage rates and availability of skilled manpower in India have made it a destination for global outsourcing in the post-reform period.

**Q9: Consider the following statements.**

1. The WTO agreements cover trade in goods only
2. The WTO was founded in 1948 as the successor organisation to the General Agreement on Trade and Tariff (GATT)

Which of the statement/statements is/are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

World Trade Organisation (WTO): The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). WTO is expected to establish a rule-based trading regime in which nations cannot place arbitrary restrictions on trade. In addition, its purpose is also to enlarge production and trade of services, to ensure optimum utilisation of world resources and to protect the environment. The WTO agreements cover trade in goods as well as services to facilitate international trade (bilateral and multilateral) through removal of tariff as well as non-tariff

barriers and providing greater market access to all member countries. As an important member of WTO, India has been in the forefront of framing fair global rules, regulations and safeguards and advocating the interests of the developing world. India has kept its commitments towards liberalisation of trade, made in the WTO, by removing quantitative restrictions on imports and reducing tariff rates.

**Q10: Consider the following statements about the Reforms introduced in Indian Economy post – 1991.**

1. Reforms have not been able to benefit agriculture, where the growth rate has been decelerating
2. The removal of fertiliser subsidy has led to decrease in the cost of production, which has severely affected the small and marginal farmers
3. There has been a shift from production for the domestic market towards production for the export market focusing on cash crops

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is C.**

Reforms in Agriculture: Reforms have not been able to benefit agriculture, where the growth rate has been decelerating. Public investment in agriculture sector especially in infrastructure, which includes irrigation, power, roads, market linkages and research and extension (which played a crucial role in the Green Revolution), has fallen in the reform period. Further, the removal of fertiliser subsidy has led to increase in the cost of production, which has severely affected the small and marginal farmers. This sector has been experiencing a number of policy challenges such as reduction in import duties on agricultural products and lifting of quantitative restrictions on agricultural products; these have adversely affected Indian farmers as they now have to face increased international competition. Moreover, because of export- oriented policy strategies in agriculture, there has been a shift from production for the domestic market towards production for the export market focusing on cash crops in lieu of production of food grains. This puts pressure on prices of food grains.

## DAY 11, ECONOMY NCERTs

### **Q1: Consider the following statements regarding the concept of 'Jail cost of living'.**

1. In pre-independent India, Mahatma Gandhi was the first to discuss the concept of a Poverty Line
2. Gandhi used the menu for a prisoner and used appropriate prevailing prices to arrive at what may be called 'jail cost of living'

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is D.**

In pre-independent India, Dadabhai Naoroji was the first to discuss the concept of a Poverty Line. He used the menu for a prisoner and used appropriate prevailing prices to arrive at what may be called 'jail cost of living'. However, only adults stay in jail whereas, in an actual society, there are children too. He, therefore, appropriately adjusted this cost of living to arrive at the poverty line. For this adjustment, he assumed that one-third population consisted of children and half of them very little while the other half of the adult diet. This is how he arrived at the factor of three-fourths;  $(1/6)(\text{Nil}) + (1/6)(\text{Half}) + (2/3)(\text{Full}) = (3/4) (\text{Full})$ .

The weighted average of consumption of the three segments gives the average poverty line, which comes out to be three-fourth of the adult jail cost of living. In post-independent India, there have been several attempts to work out a mechanism to identify the number of poor in the country. For instance, in 1962, the Planning Commission formed a Study Group. In 1979, another body called the 'Task Force on Projections of Minimum Needs and Effective Consumption Demand' was formed. In 1989 and 2005, 'Expert Groups' were constituted for the same purpose.

### **Q2: Which of the following are correctly matched?**

1. Occasionally poor - who are rich most of the time but may sometimes have a patch of bad luck
2. Churning poor - who regularly move in and out of poverty
3. Chronic poor - Who may sometimes have a little more money

Choose from the following Options:

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

Categorising Poverty: There are many ways to categorise poverty. In one such way people who are always poor and those who are usually poor but who may sometimes have a little more money (example: casual workers) are grouped together as the chronic poor. Another group are the churning poor who regularly move in and out of poverty (example: small farmers and seasonal workers) and the occasionally poor who are rich most of the time but may sometimes have a patch of bad luck. They are called the transient poor. And then, there are who are never poor and they are the non-poor

### **Q3: Consider the following statements about the Monthly Per Capita Expenditure (MPCE).**

1. This mechanism is helpful in identifying the poor as a group to be taken care of by the government, but it would be difficult to identify who among the poor need help the most
2. It groups all the poor together and does not differentiate between the very poor and the other poor

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

There are many ways of measuring poverty. One way is to determine it by the monetary value (per capita expenditure) of the minimum calorie intake that was estimated at 2,400 calories for a rural person and 2,100 for a person in the urban area. Based on this, in 2011-12, the poverty line was defined for rural areas as consumption worth Rs 816 per person a month and for urban areas it was Rs 1,000. Though the government uses Monthly Per Capita Expenditure (MPCE) as proxy for income of households to identify the poor. State that a major problem with this mechanism is that it groups all the poor together and does not differentiate between the very poor and the other poor. Also this mechanism takes into account expenditure on food and a few select items as proxy for income, and thus economists question its basis. This mechanism is helpful in identifying the poor as a group to be taken care of by the government, but it would be difficult to identify who among the poor need help the most. There are many factors, other than income and assets, which are associated with poverty; for instance, the accessibility to basic education, healthcare, drinking water and sanitation. They need to be considered to develop Poverty Line. The existing mechanism for determining the Poverty Line also does not take into consideration social factors that trigger and perpetuate poverty such as illiteracy, ill health, lack of access to resources, discrimination or lack of civil and political freedoms. The aim of poverty alleviation schemes should be to improve human lives by expanding the range of things that a person could be and could do, such as to be healthy and well-nourished, to be knowledgeable and participate in the life of a community.

**Q4: Consider the following statements about the National Social Assistance Programme.**

- Under this programme, elderly people who do not have anyone to take care of them are given pension to sustain themselves
- Poor women who are destitute and widows are also covered under this scheme

Which of the statement/statements is/are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is D.**

The government has a variety of social security programmes to help a few specific groups. National Social Assistance Programme is one such programme initiated by the central government. Under this programme, elderly people who do not have anyone to take care of them are given pension to sustain themselves. Poor women who are destitute and widows are also covered under this scheme. The government has also introduced a few schemes to provide health insurance to poor people. From 2014, a scheme called Pradhan Mantri Jan-Dhan Yojana is available in which people in India are encouraged to open bank accounts. Besides promoting savings habit, this scheme intends to transfer all the benefits of government schemes and subsidies to eligible account holders directly. Each bank account holder is also entitled to Rs. 1 lakh accident insurance and Rs. 30,000 life insurance cover.

**Q5: Consider the following statements.**

1. Physical capital is tangible and can be easily sold in the market like any other commodity while Human capital is intangible and Human capital is not sold in the market
2. Physical capital formation can be built even through imports whereas human capital formation is to be done through conscious policy formulations

Which of the statement/statements is/are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is D.**

**Physical and Human Capital:**

Both the forms of capital formation are outcomes of conscious investment decisions. Decision regarding investment in physical capital is taken on the basis of one's knowledge in this regard. The entrepreneur possesses knowledge to calculate the expected rates of return to a range of investments and then rationally decides which one of the investments should be made. The ownership of physical capital is the outcome of the conscious decision of the owner — the physical capital formation is mainly an economic and technical process. A substantial part of the human capital formation takes place in one's life when she/he is unable to decide whether it would maximise her/his earnings. Children are given different types of school education and health care facilities by their parents and the society. The peers, educators and society influence the decisions regarding human capital investments even at the tertiary level, that is, at the college level. Moreover, the human capital formation at this stage is dependent upon the already formed human capital at the school level. Human capital formation is partly a social process and partly a conscious decision of the possessor of the human capital. You know that the owner of a physical capital, say a bus, need not be present in the place where it is used; whereas, a bus-driver, who possesses the knowledge and ability to drive the bus, should be present when the bus is used for transportation of people and materials. Physical capital is tangible and can be easily sold in the market like any other commodity. Human capital is intangible; it is endogenously built in the body and mind of its owner. Human capital is not sold in the market; only the services of the human capital are sold and, hence, there arises the necessity of the owner of the human capital to be present in the place of production. The physical capital is separable from its owner, whereas, human capital is inseparable from its owner. The two forms of capital differ in terms of mobility across space. Physical capital is completely mobile between countries except for some artificial trade restrictions. Human capital is not perfectly mobile between countries as movement is restricted by nationality and culture. Therefore, physical capital formation can be built even through imports, whereas human capital formation is to be done through conscious policy formulations in consonance with the nature of the society and economy and expenditure by the state and the individuals. Both forms of capital depreciate with time but the nature of depreciation differs between the two. Continuous use of machine leads to depreciation and change of technology makes a machine obsolete. In the case of human capital, depreciation takes place with ageing but can be reduced, to a large extent, through continuous investment in education, health, etc. This investment also facilitates the human capital to cope with change in technology which is not the case with physical capital. Nature of benefits flowing from human capital are different from that of physical capital. Human capital benefits not only the owner but also the society in general. This is called external benefit. An educated person can effectively take part in a democratic process and contribute to the socio-economic progress of a nation. A healthy person, by maintaining personal hygiene and sanitation, stops the spread of contagious diseases and epidemics.

Human capital creates both private and social benefits, whereas physical capital creates only private benefit. That is, benefits from a capital good flow to those who pay the price for the product and services produced by it.

**Q6: Consider the following statements.**

1. Human capital treats human beings as a means to an end
2. As per Human Capital Perspective, Any investment in education and health is unproductive if it does not enhance output of goods and services

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

What is the Difference Between the approach of Development of Human Capital and Human Development?

Human capital considers education and health as a means to increase labour productivity. Human development is based on the idea that education and health are integral to human well-being because only when people have the ability to read and write and the ability to lead a long and healthy life, they will be able to make other choices which they value. Human capital treats human beings as a means to an end; the end being the increase in productivity. In this view, any investment in education and health is unproductive if it does not enhance output of goods and services. In the human development perspective, human beings are ends in themselves. Human welfare should be increased through investments in education and health even if such investments do not result in higher labour productivity. Therefore, basic education and basic health are important in themselves, irrespective of their contribution to labour productivity.

**Q7: Education Commission (1964–66) had recommended that at least**

- A. 5 per cent of GDP be spent on education  
B. 3 per cent of GDP be spent on education  
C. 2 per cent of GDP be spent on education  
D. 6 per cent of GDP be spent on education

**Explanation - Answer is D.**

About 50 years ago, the Education Commission (1964–66) had recommended that at least 6 per cent of GDP be spent on education so as to make a noticeable rate of growth in educational achievements. The Tapas Majumdar Committee, appointed by the Government of India in 1998, estimated an expenditure of around Rs 1.37 lakh crore over 10 years (1998-99 to 2006-07) to bring all Indian children in the age group of 6-14 years under the purview of school education. Compared to this desired level of education expenditure which is around 6 per cent of GDP, the current level of a little over 4 per cent has been quite inadequate. A goal of 6 per cent needs to be reached—this has been accepted as a must for the coming years. In 2009, the Government of India enacted the Right of Education Act to make free education a fundamental right of all children in the age group of 6-14 years.

**Q8: ‘Kudumbashree’ is a women-oriented community-based poverty reduction programme being implemented in:**

A. Kerala

B. Karnataka

C. Tamil Nadu

D. Maharashtra

**Explanation - Answer is A.**

**Q9: Consider the following statements about Self Help Groups.**

1. The SHGs promote thrift in small proportions by a minimum contribution from each member
2. From the pooled money, credit is given to the needy members to be repayable in small instalments at reasonable interest rates

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

The institutional structure of rural banking today consists of a set of multi-agency institutions, namely, commercial banks, regional rural banks (RRBs), cooperatives and land development banks. They are expected to dispense adequate credit at cheaper rates. Recently, Self-Help Groups (henceforth SHGs) have emerged to fill the gap in the formal credit system because the formal credit delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development. Since some kind of collateral is required, vast proportion of poor rural households were automatically out of the credit network. The SHGs promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy members to be repayable in small instalments at reasonable interest rates. By March end 2003, more than seven lakh SHGs had reportedly been credit linked.

**Q10: Consider the following statements.**

1. Prior to independence, farmers, while selling their produce to traders, suffered from faulty weighing and manipulation of accounts
2. Farmers who did not have the required information on prices prevailing in markets were often forced to sell at low prices

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

Prior to independence, farmers, while selling their produce to traders, suffered from faulty weighing and manipulation of accounts. Farmers who did not have the required information on prices prevailing in markets were often forced to sell at low prices. They also did not have proper storage facilities to keep back their produce for selling later at a better price. Do you know that even today, more than 10 per cent of goods produced in farms are wasted due to lack of storage? Therefore, state intervention became necessary to regulate the activities of the private traders.

However, after Independence, certain measures were initiated to improve the marketing aspect. The first step was regulation of markets to create orderly and transparent marketing conditions. By and large, this policy benefited farmers as well as consumers. However, there is still a need to develop

about 27,000 rural periodic markets as regulated market places to realise the full potential of rural markets. Second component is provision of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units. The current infrastructure facilities are quite inadequate to meet the growing demand and need to be improved.

AchieveIAS

## DAY 12, ECONOMY NCERTs

### **Q1: Net earning for the country which may be**

1. Positive - if we have exported more in value terms than imported
2. Negative - If imports exceeded exports in value terms
3. Zero - If exports and imports were of the same value

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

We know that the total money value of all such goods and services produced in a country in a year is called its gross domestic product for that year. When we also consider what we pay for our imports and get from our exports we find that there is a net earning for the country which may be positive (if we have exported more in value terms than imported) or negative (if imports exceeded exports in value terms) or zero (if exports and imports were of the same value). When we add this earning (plus or minus) from foreign transactions, what we get is called the country's gross national product for that year.

### **Q2: Consider the following statements about the Worker-Population ratio:**

1. This ratio is useful in knowing the proportion of population that is actively contributing to the production of goods and services of a country
2. If the ratio is higher, it means that the engagement of people is greater
3. If the ratio for a country is medium, or low, it means that a very high proportion of its population is not involved directly in economic activities

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. 3 only      D. All of them

### **Explanation - Answer is D.**

Worker-population ratio is an indicator which is used for analysing the employment situation in the country. This ratio is useful in knowing the proportion of population that is actively contributing to the production of goods and services of a country. If the ratio is higher, it means that the engagement of people is greater; if the ratio for a country is medium, or low, it means that a very high proportion of its population is not involved directly in economic activities.

### **Q3: Consider the following statements.**

1. Workers who own and operate an enterprise to earn their livelihood are known as self-employed
2. When a worker is engaged by someone or an enterprise and paid his or her wages on a regular basis, they are known as regular salaried employees

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

### **Explanation - Answer is C.**

Let us take three workers from the construction industry — a cement shop owner, a construction worker and a civil engineer of a construction company. Since the status of each one of them is different from another, they are also called differently. Workers who own and operate an enterprise to earn their livelihood are known as self-employed. Thus the cement shop owner is self-employed. About 52 per cent workforce in India belongs to this category. The construction workers are known as casual wage labourers; they account for 30 per cent of India's workforce. Such labourers are casually engaged in others' farms and, in return, get a remuneration for the work done. Workers like the civil engineer working in the construction company account for 18 per cent of India's workforce. When a worker is engaged by someone or an enterprise and paid his or her wages on a regular basis, they are known as regular salaried employees.

**Q4: Consider the following statements regarding the workers in informal sector.**

1. Workers and enterprises in the informal sector do not get regular income
2. They do not have any protection or regulation from the government
3. Workers are dismissed without any compensation

Which of the statement/statements is/are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is D.**

**Q5: Which of the following are non-commercial sources of energy?**

1. Firewood
2. Agricultural waste
3. Electricity

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is A.**

There are commercial and non-commercial sources of energy. Commercial sources are coal, petroleum and electricity as they are bought and sold. Non-commercial sources of energy are firewood, agricultural waste and dried dung. These are non-commercial as they are found in nature/forests. While commercial sources of energy are generally exhaustible (with the exception of hydropower), non-commercial sources are generally renewable. More than 60 per cent of Indian households depend on traditional sources of energy for meeting their regular cooking and heating needs.

Note: This Data might have changed due to the introduction of Pradhan Mantri Ujjwala Yojana.

**Q6: Consider the following statements.**

1. Commercial Sources are known as conventional sources
2. Noncommercial sources are known as non-conventional sources

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

### **Explanation - Answer is A.**

**Non-conventional Sources of Energy:** Both commercial and non-commercial sources of energy are known as conventional sources of energy. There are three other sources of energy which are commonly termed as non-conventional sources — solar energy, wind energy and tidal power. Being a tropical country, India has almost unlimited potential for producing all three types of energy if some appropriate cost effective technologies that are already available are used. Even cheaper technologies can be developed.

### **Q7: Which of the following is second largest source of commercial energy consumption?**

- A. Coal      B. Oil      C. Natural Gas      D. Hydro electricity

### **Explanation - Answer is B.**

**Consumption Pattern of Commercial Energy:** In India, commercial energy consumption makes up about 74 per cent of the total energy consumed in India. This includes coal with the largest share of 54 per cent, followed by oil at 32 per cent, natural gas at 10 per cent and hydro energy at 2 per cent.

Non-commercial energy sources consisting of firewood, cow dung and agricultural wastes account for over 26 per cent of the total energy consumption. The critical feature of India's energy sector, and its linkages to the economy, is the import dependence on crude and petroleum products, which is likely to grow rapidly in the near future. The transport sector was the largest consumer of commercial energy in 1953-54. However, there has been continuous fall in the share of the transport sector while the shares of the household, agriculture and industrial sector have been increasing.

### **Q8: Consider the following statements.**

1. The most visible form of energy is called electricity
2. The growth rate of demand for power is generally higher than the GDP growth rate

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

### **Explanation - Answer is C.**

**Power/Electricity:** The most visible form of energy, which is often identified with progress in modern civilisation, is power, commonly called electricity. It is critical component of infrastructure that determines the economic development of a country. The growth rate of demand for power is generally higher than the GDP growth rate. Studies point out that in order to have 8 per cent GDP growth per annum, power supply needs to grow around 12 per cent annually

### **Q9: Consider the following challenges in the Power Sector.**

1. Electricity generated by various power stations is not consumed entirely by ultimate consumers
2. The installed capacity is over-utilised

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

### **Explanation - Answer is A.**

Some Challenges in the Power Sector:

Electricity generated by various power stations is not consumed entirely by ultimate consumers; a part is consumed by power station auxiliaries. Also, while transmitting power, a portion is lost in transmission. What we get in our houses, offices and factories is the net availability.

Some of the challenges that India's power sector faces today are — (i) India's installed capacity to generate electricity is not sufficient to feed an annual economic growth of 7–8 per cent. In order to meet the growing demand for electricity, India's energy supply needs to grow at about 7 per cent. Even the installed capacity is under-utilized because plants are not run properly (ii) State Electricity Boards (SEBs), which distribute electricity, incur losses which exceed Rs 500 billion.

### **Q10: Consider the following statements.**

1. The LED bulb uses one-tenth energy as an incandescent bulb and half as much as a CFL to produce the same amount of light
2. CFLs consume 80 per cent less power as compared to ordinary bulbs

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

### **Explanation - Answer is C.**

According to the Bureau of Energy Efficiency (BEE), CFLs consume 80 per cent less power as compared to ordinary bulbs. As put by a CFL manufacturer, Indo-Asian, replacement of one million 100-watt bulbs with 20 watt CFLs can save 80 megawatt in power generation. This amounts to saving Rs 400 crore. These days LED (Light Emitting Diode) lamps are promoted throughout the country to save energy. The LED bulb uses one-tenth energy as an incandescent bulb and half as much as a CFL to produce the same amount of light. According to the Energy Efficiency Services Ltd, the UJALA scheme that aims to replace incandescent bulbs with LEDs could save 5,905 MW in power generation. This translates to an annual savings of Rs. 4,000 for an average family due to efficiency gains and lower replacement costs.

## DAY 13, ECONOMY NCERTs

### **Q1: Consider the following statements.**

1. Infrastructure associated with energy, transportation and communication are included in economic infrastructure
2. Infrastructure related to education, health and housing are included in the social infrastructure

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

### **Explanation - Answer is C.**

Some divide infrastructure into two categories — economic and social. Infrastructure associated with energy, transportation and communication are included in the former category whereas those related to education, Health and housing are included in the latter.

### **Q2: Assertion: The share of power and telecommunication infrastructure is greater in high-income countries.**

**Reason:** As economies mature and most of their basic consumption demands are met, the share of agriculture in the economy shrinks and more service-related infrastructure is required.

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.  
(b) Both A and R are true but R is not a correct explanation of A.  
(c) A is true but R is false.  
(d) A is false but R is true.

### **Explanation - Answer is A.**

Some economists have projected that India will become the third biggest economy in the world a few decades from now. For that to happen, India will have to boost its infrastructure investment. In any country, as the income rises, the composition of infrastructure requirements changes significantly. For low-income countries, basic infrastructure services, like irrigation, transport and power, are more important. As economies mature and most of their basic consumption demands are met, the share of agriculture in the economy shrinks and more service-related infrastructure is required. This is why, the share of power and telecommunication infrastructure is greater in high-income countries.

### **Q3: Consider the following statements.**

1. Agriculture depends, to a considerable extent, on the adequate expansion and development of irrigation facilities
2. Industrial progress depends on the development of power and electricity generation, transport and communications

Which of the statement/statements is/are correct?

- A. 1 only      B. 2 only      C. Both of them      D. None of them

### **Explanation - Answer is C.**

For low-income countries, basic infrastructure services, like irrigation, transport and power, are more important. As economies mature and most of their basic consumption demands are met, the share of agriculture in the economy shrinks and more service-related infrastructure is required. This is why, the share of power and telecommunication infrastructure is greater in high-income countries.

Thus, development of infrastructure and economic development go hand in hand. Agriculture depends, to a considerable extent, on the adequate expansion and development of irrigation facilities. Industrial progress depends on the development of power and electricity generation, transport and communications.

### **Q4: Which of the following are the biotic elements.**

- 1. Birds
- 2. Animals
- 3. Air

Which of the statement/statements is/are correct?

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. All of them

### **Explanation - Answer is A.**

Environment is defined as the total planetary inheritance and the totality of all resources. It includes all the biotic and abiotic factors that influence each other. While all living elements—the birds, animals and plants, forests, fisheries etc.—are biotic elements, abiotic elements include air, water, land etc. Rocks and sunlight are all examples of abiotic elements of the environment. A study of the environment then calls for a study of the inter- relationship between these biotic and abiotic components of the environment.

### **Q5: Consider the following statements regarding the Environment**

- 1. It assimilates waste
- 2. It sustains life by providing genetic resources and bio diversity
- 3. It also provides aesthetic services

Which of the statement/statements is/are correct?

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. All of them

### **Explanation - Answer is D.**

The environment performs four vital functions

- (i) it supplies resources: resources here include both renewable and non-renewable resources. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. That is, a continuous supply of the resource remains available. Examples of renewable resources are the trees in the forests and the fishes in the ocean. Non-renewable resources, on the other hand, are those which get exhausted with extraction and use, for example, fossil fuel
- (ii) it assimilates waste

- (iii) it sustains life by providing genetic resources and bio diversity and
- (iv) it also provides aesthetic services like scenery etc.

**Q6: Consider the following statements.**

- 1. Absorptive capacity means the ability of the environment to absorb degradation
- 2. Today many resources have become extinct and the wastes generated are beyond the absorptive capacity of the environment

Which of these statement/statements is/are correct?

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

**Explanation - Answer is C.**

The rising population of the developing countries and the affluent consumption and production standards of the developed world have placed a huge stress on the environment in respect of its functions. Many resources have become extinct and the wastes generated are beyond the absorptive capacity of the environment. Absorptive capacity means the ability of the environment to absorb degradation. The result — we are today at the threshold of environmental crisis. The past development has polluted and dried up rivers and other aquifers making water an economic good.

**Q7: Consider the following statements about the Global Warming.**

- 1. It is caused by man-made increases in carbon dioxide and other greenhouse gases through the burning of fossil fuels and deforestation
- 2. It is a gradual increase in the average temperature of the earth's lower atmosphere as a result of the increase in greenhouse gases since the Industrial Revolution

Which of the statement/statements is/are correct?

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

**Explanation - Answer is C.**

Global warming is a gradual increase in the average temperature of the earth's lower atmosphere as a result of the increase in greenhouse gases since the Industrial Revolution. Much of the recently observed and projected global warming is human-induced. It is caused by man-made increases in carbon dioxide and other greenhouse gases through the burning of fossil fuels and deforestation. Adding carbon dioxide, methane and such other gases (that have the potential to absorb heat) to the atmosphere with no other changes make our planet's surface warmer. The atmospheric concentrations of carbon dioxide and CH<sub>4</sub> have increased by 31 per cent and 149 per cent respectively above pre-industrial levels since 1750. During the past century, the atmospheric temperature has risen by 1.1°F (0.6°C) and sea level has risen several inches. Some of the longer-term results of global warming are melting of polar ice with a resulting rise in sea level and coastal flooding; disruption of drinking water supplies dependent on snow melts; extinction of species as ecological niches disappear; more frequent tropical storms; and an increased incidence of tropical diseases.

**Q8: Consider the following statements.**

1. Ozone layer prevents most harmful wavelengths of ultraviolet light from passing through the Earth's atmosphere
2. Montreal Protocol banned the use of chlorofluorocarbon (CFC) compounds
3. The problem of ozone depletion is caused by high levels of chlorine and bromine compounds in the Troposphere

Which of the statement/statements is/are not correct?

- A. 1 only      B. 2 only      C. 3 only      D. All of them

**Explanation - Answer is C.**

Ozone depletion refers to the phenomenon of reductions in the amount of ozone in the stratosphere. The problem of ozone depletion is caused by high levels of chlorine and bromine compounds in the stratosphere. The origins of these compounds are chlorofluorocarbons (CFC), used as cooling substances in air conditioners and refrigerators, or as aerosol propellants, and bromofluorocarbons (halons), used in fire extinguishers. As a result of depletion of the ozone layer, more ultraviolet (UV) radiation comes to Earth and causes damage to living organisms. UV radiation seems responsible for skin cancer in humans; it also lowers production of phytoplankton and thus affects other aquatic organisms. It can also influence the growth of terrestrial plants. A reduction of approximately 5 per cent in the ozone layer was detected from 1979 to 1990. Since the ozone layer prevents most harmful wavelengths of ultraviolet light from passing through the Earth's atmosphere, observed and projected decreases in ozone have generated worldwide concern. This led to the adoption of the Montreal Protocol banning the use of chlorofluorocarbon (CFC) compounds, as well as other ozone depleting chemicals such as carbon tetrachloride, trichloroethane (also known as methyl chloroform), and bromine compounds known as halons.

**Q9: Assertion: There is a concentration of textile industries in Deccan Plateau**

**Reason: The black soil of the Deccan Plateau is particularly suitable for cultivation of cotton**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

India has abundant natural resources in terms of rich quality of soil, hundreds of rivers and tributaries, lush green forests, plenty of mineral deposits beneath the land surface, vast stretch of the Indian Ocean, ranges of mountains, etc. The black soil of the Deccan Plateau is particularly suitable for cultivation of cotton, leading to concentration of textile industries in this region. The Indo-Gangetic plains — spread from the Arabian Sea to the Bay of Bengal — are one of the most fertile, intensively cultivated and densely populated regions in the world. India's forests, though unevenly distributed, provide green cover for a majority of its population and natural cover for its wildlife. Large deposits of iron-ore, coal and natural gas are found in the country. India alone accounts for nearly 20 per cent of the world's total

iron-ore reserves. Bauxite, copper, chromate, diamonds, gold, lead, lignite, manganese, zinc, uranium, etc. are also available in different parts of the country. However, the developmental activities in India have resulted in pressure on its finite natural resources, besides creating impacts on human health and well-being.

**Q10: Which of the following are factors responsible for land degradation?**

1. Loss of vegetation occurring due to deforestation
2. Unsustainable fuel wood and fodder extraction
3. Shifting cultivation
4. Forest fires and over grazing

Choose from the following Options:

- A. 1, 2 and 3 only      B. 2, 3 and 4 only      C. 1, 3 and 4 only      D. All of them

**Explanation - Answer is D.**

Some of the factors responsible for land degradation are:

- (i) loss of vegetation occurring due to deforestation (ii) unsustainable fuel wood and fodder extraction  
(iii) shifting cultivation (iv) encroachment into forest lands (v) forest fires and over grazing (vi) non-adoption of adequate soil conservation measures (vii) improper crop rotation (viii) indiscriminate use of agro-chemicals such as fertilisers and pesticides (ix) improper planning and management of irrigation systems (x) extraction of ground water in the competing uses of land for forestry, agriculture, pastures, human settlements and industries exert an enormous pressure on the country's finite land resources.

## Day 14, ECONOMY NCERTs

### **Q1: Consider the following statements about the Final Good.**

1. It is ready to be sold finally to the consumers for final use
2. It will not pass through any more stages of production or transformations
3. Tea leaves purchased by the households are final goods

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 3 and 4 only      D. All of them

### **Explanation - Answer is D.**

A farmer producing cotton sells it to a spinning mill where the raw cotton undergoes transformation to yarn; the yarn is, in turn, sold to a textile mill where, through the productive process, it is transformed into cloth; the cloth is, in turn, transformed through another productive process into an article of clothing which is then ready to be sold finally to the consumers for final use. Such an item that is meant for final use and will not pass through any more stages of production or transformations is called a final good. Why do we call this a final good? Because once it has been sold it passes out of the active economic flow. It will not undergo any further transformation at the hands of any producer. It may, however, undergo transformation by the action of the ultimate purchaser. In fact many such final goods are transformed during their consumption. Thus the tea leaves purchased by the consumer are not consumed in that form – they are used to make drinkable tea, which is consumed. Similarly most of the items that enter our kitchen are transformed through the process of cooking. But cooking at home is not an economic activity, even though the product involved undergoes transformation. Home cooked food is not sold to the market. However, if the same cooking or tea brewing was done in a restaurant where the cooked product would be sold to customers, then the same items, such as tea leaves, would cease to be final goods and would be counted as inputs to which economic value addition can take place. Thus it is not in the nature of the good but in the economic nature of its use that a good becomes a final good.

### **Q2: Consider the following statements about the capital goods.**

1. They are final goods which are to be ultimately consumed
2. They continue to enable the production process to go on for Continuous cycles of production
3. These also includes services which are consumed by the ultimate consumer

Which of these statements are correct?

- A. 1 only      B. 2 only      C. 3 only      D. All of them

### **Explanation - Answer is B.**

Of the final goods, we can distinguish between consumption goods and capital goods. Goods like food and clothing, and services like recreation that are consumed when purchased by their ultimate consumers are called consumption goods or consumer goods. (This also includes services which are consumed but for convenience we may refer to them as consumer goods.) Then there are other

goods that are of durable character which are used in the production process. These are tools, implements and machines. While they make production of other commodities feasible, they themselves don't get transformed in the production process. They are also final goods yet they are not final goods to be ultimately consumed. Unlike the final goods that we have considered above, they are the crucial backbone of any production process, in aiding and enabling the production to take place. These goods form a part of capital, one of the crucial factors of production in which a productive enterprise has invested, and they continue to enable the production process to go on for continuous cycles of production. These are capital goods and they gradually undergo wear and tear, and thus are repaired or gradually replaced over time. The stock of capital that an economy possesses is thus preserved, maintained and renewed partially or wholly over time.

**Q3: What are the reasons that we include final goods only while measuring the final value of Economic activity of a country and not the intermediary goods?**

1. Final goods already includes the value of the intermediate goods that have entered into their production as inputs
2. Counting them separately will lead to the error of double counting
3. Counting them will highly exaggerate the final value of our economic activity

Which of these statements are not correct?

- A. 1 only      B. 2 only      C. 3 only      D. None of them

**Explanation - Answer is D.**

**Why are we to measure final goods only?** Surely intermediate goods are crucial inputs to any production process and a significant part of our manpower and capital stock are engaged in production of these goods. However, since we are dealing with value of output, we should realise that the value of the final goods already includes the value of the intermediate goods that have entered into their production as inputs. Counting them separately will lead to the error of double counting. Whereas considering intermediate goods may give a fuller description of total economic activity, counting them will highly exaggerate the final value of our economic activity

**Q4: Consider the following statements.**

1. Flows are defined over a period of time.
2. A particular machine can be part of the capital stock only for a year
3. Stocks are defined at a particular point of time

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

**Explanation - Answer is C.**

Sometimes, when the context is familiar, we assume that the time period is known and therefore do not mention it. But inherent in all such statements is a definite period of time. Otherwise such statements are meaningless. Thus income, or output, or profits are concepts that make sense only

when a time period is specified. These are called flows because they occur in a period of time. Therefore we need to delineate a time period to get a quantitative measure of these. Since a lot of accounting is done annually in an economy, many of these are expressed annually like annual profits or production. Flows are defined over a period of time. In contrast, capital goods or consumer durables once produced do not wear out or get consumed in a delineated time period. In fact capital goods continue to serve us through different cycles of production. The buildings or machines in a factory are there irrespective of the specific time period. There can be addition to, or deduction from, these if a new machine is added or a machine falls in disuse and is not replaced. These are called stocks. Stocks are defined at a particular point of time. However we can measure a change in stock over a specific period of time like how many machines were added this year. Such changes in stocks are thus flows, which can be measured over specific time periods. A particular machine can be part of the capital stock for many years (unless it wears out); but that machine can be part of the flow of new machines added to the capital stock only for a single year when it was initially installed.

**Q5: Assertion: All the capital goods produced in a year constitute an addition to the capital stock already existing**

**Reason: The already existing capital stock suffers wear and tear and needs maintenance and replacement**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is D.**

Part of our final output that comprises of capital goods constitutes gross investment of an economy. These may be machines, tools and implements; buildings, office spaces, storehouses or infrastructure like roads, bridges, airports or jetties. But all the capital goods produced in a year do not constitute an addition to the capital stock already existing. A significant part of current output of capital goods goes in maintaining or replacing part of the existing stock of capital goods. This is because the already existing capital stock suffers wear and tear and needs maintenance and replacement. A part of the capital goods produced this year goes for replacement of existing capital goods and is not an addition to the stock of capital goods already existing and its value needs to be subtracted from gross investment for arriving at the measure for net investment. This deletion, which is made from the value of gross investment in order to accommodate regular wear and tear of capital, is called depreciation. So new addition to capital stock in an economy is measured by net investment or new capital formation, which is expressed as: Net Investment = Gross investment – Depreciation

**Q6: Consider the following statements regarding the concept of depreciation.**

- 1. Depreciation is the cost of the good divided by number of years of its useful life.
- 2. No real expenditure may have actually been incurred each year yet depreciation is annually accounted for.

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

Depreciation is an annual allowance for wear and tear of a capital good. In other words it is the cost of the good divided by number of years of its useful life. Notice here that depreciation is an accounting concept. No real expenditure may have actually been incurred each year yet depreciation is annually accounted for. In an economy with thousands of enterprises with widely varying periods of life of their equipment, in any particular year, some enterprises are actually making the bulk replacement spending. Thus, we can realistically assume that there will be a steady flow of actual replacement spending which will more or less match the amount of annual depreciation being accounted for in that economy.

**Q7: Consider the following statements.**

1. Purchase of consumer goods depends on the capacity of the people to spend on these goods which, in turn, depends on their income
2. The more is the production of consumer goods, the more capital goods will be produced

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is A.**

The consumer goods sustain the consumption of the entire population of the economy. Purchase of consumer goods depends on the capacity of the people to spend on these goods which, in turn, depends on their income. The other part of the final goods, the capital goods, are purchased by business enterprises. They are used either for maintenance of the capital stock because there are wear and tear of it, or they are used for addition to their capital stock. In a specific time period, say in a year, the total production of final goods can thus be either in the form of consumption or investment. This implies that there is a trade-off. If an economy produces more of consumer goods, it is producing less of capital goods and vice-versa.

**Q8: Which of the following are correctly matched?**

1. Entrepreneur - earning interests
2. Landlord - earning rents
3. Owner of capital - earning profits

Choose from the following options.

- A. 1 only      B. 2 only      C. 3 only      D. All of them

**Explanation - Answer is B.**

We have already discussed above that one's ability to buy commodities come from the income one earns as labourer (earning wages), or as entrepreneur (earning profits), or as landlord (earning rents),

or as owner of capital (earning interests). In short, the incomes that people earn as owners of factors of production are used by them to meet their demand for goods and services. So we can see a circular flow here which is facilitated through the market. Simply put, the firms' demand for factors of production to run the production process creates payments to the public. In turn, the public's demand for goods and services creates payments to the firms and enables the sale of the products they produce.

**Q9: Consider the following statements.**

1. When the income is being spent on the goods and services produced by the firms, it takes the form of aggregate expenditure received by the firms
2. When the aggregate revenue received by the firms is paid out to the factors of production it takes the form of aggregate income

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

When the income is being spent on the goods and services produced by the firms, it takes the form of aggregate expenditure received by the firms. Since the value of expenditure must be equal to the value of goods and services, we can equivalently measure the aggregate income by "calculating the aggregate value of goods and services produced by the firms". When the aggregate revenue received by the firms is paid out to the factors of production it takes the form of aggregate income.

**Q10: Consider the following statements.**

1. In product method we calculate the aggregate annual value of goods and services produced
2. The term that is used to denote the net contribution made by a firm is called its value added

Which of these statements are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is D.**

In product method we calculate the aggregate annual value of goods and services produced (if a year is the unit of time). How to go about doing this? Do we add up the value of all goods and services produced by all the firms in an economy? The following example will help us to understand. Let us suppose that there are only two kinds of producers in the economy. They are the wheat producers (or the farmers) and the bread makers (the bakers). The wheat producers grow wheat and they do not need any input other than human labour. They sell a part of the wheat to the bakers. The bakers do not need any other raw materials besides wheat to produce bread. Let us suppose that in a year the total value of wheat that the farmers have produced is Rs 100. Out of this they have sold Rs 50 worth of wheat to the bakers. The bakers have used this amount of wheat completely during the year and have produced Rs 200 worth of bread. What is the value of total production in the economy? If we follow the simple way of aggregating the values of production of the sectors, we would add Rs 200 (value of production of the bakers) to Rs 100 (value of production of farmers). The result will be Rs

300. A little reflection will tell us that the value of aggregate production is not Rs 300. The farmers had produced Rs 100 worth of wheat for which it did not need assistance of any inputs. Therefore the entire Rs 100 is rightfully the contribution of the farmers. But the same is not true for the bakers. The bakers had to buy Rs 50 worth of wheat to produce their bread. The Rs 200 worth of bread that they have produced is not entirely their own contribution. To calculate the net contribution of the bakers, we need to subtract the value of the wheat that they have bought from the farmers. If we do not do this we shall commit the mistake of 'double counting'. This is because Rs 50 worth of wheat will be counted twice. First it will be counted as part of the output produced by the farmers. Second time, it will be counted as the imputed value of wheat in the bread produced by the bakers. Therefore, the net contribution made by the bakers is,  $\text{Rs } 200 - \text{Rs } 50 = \text{Rs } 150$ . Hence, aggregate value of goods produced by this simple economy is  $\text{Rs } 100$  (net contribution by the farmers) +  $\text{Rs } 150$  (net contribution by the bakers) =  $\text{Rs } 250$ . The term that is used to denote the net contribution made by a firm is called its value added. We have seen that the raw materials that a firm buys from another firm which are completely used up in the process of production are called 'intermediate goods'. Therefore the value added of a firm is, value of production of the firm – value of intermediate goods used by the firm. The value added of a firm is distributed among its four factors of production, namely, labour, capital, entrepreneurship and land. Therefore wages, interest, profits and rents paid out by the firm must add up to the value added of the firm. Value added is a flow variable.

## DAY 15, ECONOMY NCERTs

### **Q1: Consider the following statements.**

1. If we deduct the Personal Tax Payments and Non-tax Payments from Personal Income, we obtain what is known as the Personal Disposable Income
2. Personal Disposable Income is the part of the aggregate income which belongs to the households

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

Personal Income (PI)  $\equiv$  NI – Undistributed profits – Net interest payments made by households – Corporate tax + Transfer payments to the households from the government and firms. However, even PI is not the income over which the households have complete say. They have to pay taxes from PI. If we deduct the Personal Tax Payments (income tax, for example) and Non-tax Payments (such as fines) from PI, we obtain what is known as the Personal Disposable Income. Thus Personal Disposable Income (PDI)  $\equiv$  PI – Personal tax payments – Non-tax payments. Personal Disposable Income is the part of the aggregate income which belongs to the households.

### **Q2: Which of the following will be added in the 'Factor income from net domestic product accruing to the private sector' to get the private income?**

1. National debt interest
2. Net factor income from abroad
3. Current transfers from government
4. Other net transfers from the rest of the world

Choose from the following options.

- A. 1, 2 and 3 only      B. 2, 3 and 4 only      C. 1, 3 and 4 only      D. 1, 2, 3 and 4

### **Explanation - Answer is D.**

Private Income = Factor income from net domestic product accruing to the private sector + National debt interest + Net factor income from abroad + Current transfers from government + Other net transfers from the rest of the world.

### **Q3: Consider the following statements.**

1. NDP at Factor Cost measure allows policy-makers to estimate how much the country has to spend just to maintain their current GDP
2. If the country is not able to replace the capital stock lost through depreciation, then GDP will fall

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is B.**

NDP at factor cost is the income earned by the factors in the form of wages, profits, rent, interest, etc., within the domestic territory of a country less Depreciation.

### **Net Domestic Product at Market Prices:**

This measure allows policy-makers to estimate how much the country has to spend just to maintain their current GDP. If the country is not able to replace the capital stock lost through depreciation, then GDP will fall.

### **Q4: Consider the following statements regarding the concept of GDP at factor cost.**

1. GDP at factor cost is gross domestic product at market prices, less net product taxes
2. Market prices also include product taxes and subsides
3. GDP at factor cost measures money value of output produced by the firms within the domestic boundaries of a country in a year

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

GDP at factor cost is gross domestic product at market prices, less net product taxes. Market prices are the prices as paid by the consumers. Market prices also include product taxes and subsides. The term factor cost refers to the prices of products as received by the producers. Thus, factor cost is equal to market prices, minus net indirect taxes. GDP at factor cost measures money value of output produced by the firms within the domestic boundaries of a country in a year.

### **Q5: Consider the following statements.**

1. Real GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices
2. Nominal GDP, on the other hand, is simply the value of GDP at the current prevailing prices

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

In order to compare the GDP figures (and other macroeconomic variables) of different countries or to compare the GDP figures of the same country at different points of time, we cannot rely on GDPs evaluated at current market prices. For comparison we take the help of real GDP. Real GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices (or constant prices). Since these prices remain fixed, **if the Real GDP changes we can be sure that it is the volume of production which is undergoing changes**. Nominal GDP, on the other hand, is simply the value of GDP at the current prevailing prices. For example, suppose a country only produces bread. In the year 2000 it had produced 100 units of bread, price was Rs 10 per bread. GDP at current price was Rs 1,000. In 2001 the same country produced 110 units of bread at price Rs 15 per bread. Therefore nominal GDP in 2001 was Rs 1,650 ( $=110 \times \text{Rs } 15$ ). Real GDP in 2001 calculated at the price of the year 2000 (2000 will be called the base year) will be  $110 \times \text{Rs } 10 = \text{Rs } 1,100$ .

### **Q6: Assertion: If the GDP of the country is rising, the welfare may not rise as a consequence.**

**Reason:** This is because the rise in GDP may be concentrated in the hands of very few individuals or firms.

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

If the GDP of the country is rising, the welfare may not rise as a consequence. This is because the rise in GDP may be concentrated in the hands of very few individuals or firms. For the rest, the income may in fact have fallen. In such a case the welfare of the entire country cannot be said to have increased. For example, suppose in year 2000, an imaginary country had 100 individuals each earning Rs 10. Therefore the GDP of the country was Rs 1,000 (by income method). In 2001, let us suppose the same country had 90 individuals earning Rs 9 each, and the rest 10 individual earning Rs 20 each. Suppose there had been no change in the prices of goods and services between these two periods.

The GDP of the country in the year 2001 was  $90 \times (\text{Rs } 9) + 10 \times (\text{Rs } 20) = \text{Rs } 810 + \text{Rs } 200 = \text{Rs } 1,010$ . Observe that compared to 2000, the GDP of the country in 2001 was higher by Rs 10. But this has happened when 90 per cent of people of the country have seen a drop in their real income by 10 per cent (from Rs 10 to Rs 9), whereas only 10 per cent have benefited by a rise in their income by 100 per cent (from Rs 10 to Rs 20). 90 per cent of the people are worse off though the GDP of the country has gone up.

If we relate welfare improvement in the country to the percentage of people who are better off, then surely GDP is not a good index.

**Q7: Consider the following statements.**

- 1. Externalities refer to the benefits a firm or an individual causes to another for which they are not paid
- 2. Externalities have the proper market in which they can be bought and sold

Which of these statements are correct?

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

**Explanation - Answer is A.**

Externalities refer to the benefits (or harms) a firm or an individual causes to another for which they are not paid (or penalised). Externalities do not have any market in which they can be bought and sold. For example, let us suppose there is an oil refinery which refines crude petroleum and sells it in the market. The output of the refinery is the amount of oil it refines. We can estimate the value added of the refinery by deducting the value of intermediate goods used by the refinery (crude oil in this case) from the value of its output. The value added of the refinery will be counted as part of the GDP of the economy. But in carrying out the production the refinery may also be polluting the nearby river. This may cause harm to the people who use the water of the river. Hence their well-being will fall. Pollution may also kill fish or other organisms of the river on which fish survive. As a result, the fishermen of the river may be losing

their livelihood. Such harmful effects that the refinery is inflicting on others, for which it will not bear any cost, are called externalities. In this case, the GDP is not taking into account such negative externalities. Therefore, if we take GDP as a measure of welfare of the economy we shall be overestimating the actual welfare. This was an example of negative externality. There can be cases of positive externalities as well. In such cases, GDP will underestimate the actual welfare of the economy.

**Q8: In how many ways we can calculate the aggregate value of goods and services produced in the economy?**

1. Measuring the aggregate value of factor payments
2. Measuring the aggregate value of goods and services produced by the firms
3. Measuring the aggregate value of spending received by the firms

Which of these statements are correct?

- A. 1 only      B. 2 only      C. 3 only      D. All of them

**Explanation - Answer is D.**

The firms employ inputs supplied by households and produce goods and services to be sold to households. Households get the remuneration from the firms for the services rendered by them and buy goods and services produced by the firms. So we can calculate the aggregate value of goods and services produced in the economy by any of the three methods (a) measuring the aggregate value of factor payments (income method) (b) measuring the aggregate value of goods and services produced by the firms (product method) (c) measuring the aggregate value of spending received by the firms (expenditure method). In the product method, to avoid double counting, we need to deduct the value of intermediate goods and take into account only the aggregate value of final goods and services. We derive the formulae for calculating the aggregate income of an economy by each of these methods.

**Q9: Consider the following statements.**

1. The exchanges which take place in the informal sector without the help of money are called barter exchanges
2. Barter exchanges are registered as part of economic activity

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is A.**

Non-monetary exchanges: Many activities in an economy are not evaluated in monetary terms. For example, the domestic services women perform at home are not paid for. The exchanges which take place in the informal sector without the help of money are called barter exchanges. In barter exchanges, goods (or services) are directly exchanged against each other. But since money is not being used here, these exchanges are not registered as part of economic activity. In developing countries, where many remote regions are underdeveloped, these kinds of exchanges do take place, but they are generally not counted in the GDPs of these countries. This is a case of underestimation of GDP. Hence, GDP calculated in the standard manner may not give us a clear indication of the productive activity and well-being of a country.

**Q10: Consider the following statements.**

1. GDP deflator does not include prices of imported goods
2. CPI does not includes prices of goods consumed by the representative consumers

Which of these statements are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is B.**

CPI (and analogously WPI) may differ from GDP deflator because

1. The goods purchased by consumers do not represent all the goods which are produced in a country. GDP deflator takes into account all such goods and services.
2. CPI includes prices of goods consumed by the representative consumer, hence it includes prices of imported goods. GDP deflator does not include prices of imported goods.
3. The weights are constant in CPI – but they differ according to production level of each good in GDP deflator.

## DAY 16, ECONOMY NCERTs

### **Q1: Consider the following statements.**

1. Money also acts as a convenient unit of account
2. The value of all goods and services can be expressed in monetary units
3. It is difficult to carry forward one's wealth under the barter system

Which of these statements are correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is C.**

Money also acts as a convenient unit of account. The value of all goods and services can be expressed in monetary units. When we say that the value of a certain wristwatch is Rs 500 we mean that the wristwatch can be exchanged for 500 units of money, where a unit of money is rupee in this case. If the price of a pencil is Rs 2 and that of a pen is Rs 10 we can calculate the relative price of a pen with respect to a pencil, viz. a pen is worth  $10 \div 2 = 5$  pencils. The same notion can be used to calculate the value of money itself with respect to other commodities. In the above example, a rupee is worth  $1 \div 2 = 0.5$  pencil or  $1 \div 10 = 0.1$  pen. Thus if prices of all commodities increase in terms of money i.e., there is a general increase in the price level, the value of money in terms of any commodity must have decreased – in the sense that a unit of money can now purchase less of any commodity. We call it a deterioration in the purchasing power of money.

### **Q2: Consider the following statements.**

1. A cashless society describes an economic state whereby financial transactions are connected with money in the form of physical bank notes or coins and through the transfer of digital information between the transacting parties
2. Financial inclusion is seen as an impossible dream because of mobile and smart phone penetration across the country

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is D.**

Some countries have made an attempt to move towards an economy which use less of cash and more of digital transactions. A cashless society describes an economic state whereby financial transactions are not connected with money in the form of physical bank notes or coins but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. In India government has been consistently investing in various reforms for greater financial inclusion. During the last few years' initiatives such as Jan Dhan accounts, Aadhar enabled payment systems, e-Wallets, National financial Switch (NFS) and others have strengthened the government resolve to go cashless. Today, financial inclusion is seen as a realistic dream because of mobile and smart phone penetration across the country.

### **Q3: Assertion: When interest rates go up, people become more interested in holding money**

**Reason: A rise in income will lead to rise in demand for money**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

#### **Explanation - Answer is D.**

The demand for money tells us what makes people desire a certain amount of money. Since money is required to conduct transactions, the value of transactions will determine the money people will want to keep: the larger is the quantum of transactions to be made, the larger is the quantity of money demanded. Since the quantum of transactions to be made depends on income, it should be clear that a rise in income will lead to rise in demand for money. Also, when people keep their savings in the form of money rather than putting it in a bank which gives them interest, how much money people keep also depends on rate of interest. Specifically, when interest rates go up, people become less interested in holding money since holding money amounts to holding less of interest-earning deposits, and thus less interest received. Therefore, at higher interest rates, money demanded comes down.

#### **Q4: Consider the following statements regarding the commercial banks.**

- 1. They accept deposits from the public and lend out part of these funds to those who want to borrow
- 2. The interest rate paid by the banks to depositors is higher than the rate charged from the borrowers

Which of these statements are correct?

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

#### **Explanation - Answer is A.**

Commercial banks are the other type of institutions which are a part of the money-creating system of the economy. In the following section we look at the commercial banking system in detail. They accept deposits from the public and lend out part of these funds to those who want to borrow. The interest rate paid by the banks to depositors is lower than the rate charged from the borrowers. This difference between these two types of interest rates, called the 'spread' is the profit appropriated by the bank.

#### **Q5: Consider the following statements.**

- 1. Reserves are deposits which commercial banks keep with the Central bank, Reserve Bank of India and its cash
- 2. These reserves are kept partly as cash and partly in the form of financial instruments issued by the central government

Which of these statements are not correct?

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

#### **Explanation - Answer is B.**

Reserves are deposits which commercial banks keep with the Central bank, Reserve Bank of India (RBI) and its cash. These reserves are kept partly as cash and partly in the form of financial instruments

(bonds and treasury bills) issued by the RBI. Reserves are similar to deposits we keep with banks. We keep deposits and these deposits are our assets, they can be withdrawn by us. Similarly, commercial banks like State Bank of India (SBI) keep their deposits with RBI and these are called Reserves.

Assets = Reserves + Loans

**Q6: The accounting rule states that both sides of the account must balance. Hence if assets are greater than liabilities, they are recorded on the right hand side as:**

- A. Bad Loans
- B. Reserves
- C. Profits
- D. Net worth

**Explanation - Answer is D.**

Liabilities for any firm are its debts or what it owes to others. For a bank, the main liability is the deposits which people keep with it. Liabilities = Deposits The accounting rule states that both sides of the account must balance. Hence if assets are greater than liabilities, they are recorded on the right hand side as Net Worth.

Net Worth = Assets – Liabilities

**Q7: If CRR = 40 per cent, with deposits of Rs 100, our bank will need to keep**

- A. Rs 60 as cash reserves
- B. Rs 40 as cash reserves
- C. Rs 20 as cash reserves
- D. Rs 100 as cash reserves

**Explanation - Answer is B.**

The RBI decides a certain percentage of deposits which every bank must keep as reserves. This is done to ensure that no bank is ‘over lending’. This is a legal requirement and is binding on the banks. This is called the ‘Required Reserve Ratio’ or the ‘Reserve Ratio’ or ‘Cash Reserve Ratio’ (CRR). Cash Reserve Ratio (CRR) = Percentage of deposits which a bank must keep as cash reserves with itself. Apart from the CRR, banks are also required to keep some reserves in liquid form in the short term. This ratio is called Statutory Liquidity Ratio or SLR.

**Q8: Assertion: Central bank is said to be the lender of last resort**

**Reason: It is the only institution which can issue currency**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is B.**

Reserve Bank is the only institution which can issue currency. When commercial banks need more funds in order to be able to create more credit, they may go to market for such funds or go to the Central Bank. Central bank provides them funds through various instruments. This role of RBI, that of being ready to lend to banks at all times is another important function of the central bank, and due to this central bank is said to be the lender of last resort. The RBI controls the money supply in the economy in various ways. The tools used by the Central bank to control money supply can be quantitative or qualitative. Quantitative tools, control the extent of money supply by changing the CRR, or bank rate or open market operations. Qualitative tools include persuasion by the Central bank in order to make commercial banks discourage or encourage lending which is done through moral suasion, margin requirement, etc

**Q9: Consider the following statements regarding the open market operations of the RBI.**

1. When RBI buys a Government bond in the open market, it pays for it by giving a cheque.
2. Selling of a bond by RBI leads to increase in quantity of reserves and hence the money supply
3. RBI cannot sell bonds to the private institutions

Which of these statements are correct?

- A. 1 only      B. 2 only      C. 3 only      D. 1 and 2 only

**Explanation - Answer is A.**

Open Market Operations refers to buying and selling of bonds issued by the Government in the open market. This purchase and sale is entrusted to the Central bank on behalf of the Government. When RBI buys a Government bond in the open market, it pays for it by giving a cheque. This cheque increases the total amount of reserves in the economy and thus increases the money supply. Selling of a bond by RBI (to private individuals or institutions) leads to reduction in quantity of reserves and hence the money supply.

**Q10: Consider the following statements.**

1. By increasing the bank rate, loans taken by commercial banks become more expensive
2. A fall in the bank rate can increase the money supply

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

The RBI can influence money supply by changing the rate at which it gives loans to the commercial banks. This rate is called the Bank Rate in India. By increasing the bank rate, loans taken by commercial banks become more expensive; this reduces the reserves held by the commercial bank and hence decreases money supply. A fall in the bank rate can increase the money supply.

## Day 17, ECONOMY NCERTs

### **Q1: Consider the following statements.**

1. A consumption function describes the relation between consumption and income
2. The simplest consumption function assumes that consumption changes at a constant rate as income changes

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

The most important determinant of consumption demand is household income. A consumption function describes the relation between consumption and income. The simplest consumption function assumes that consumption changes at a constant rate as income changes. Of course, even if income is zero, some consumption still takes place. Since this level of consumption is independent of income it is called autonomous consumption. We can describe this function as:  $C = c + CY$  (4.1) The above equation is called the consumption function households.

### **Q2: Which of these are correctly matched?**

1. The consumers does not increase consumption at all:  $MPC = 0$
2. Use entire change in income on consumption:  $MPC = 1$
3. Use part of the change in income for changing consumption:  $0 < MPC < 1$

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of them

### **Explanation - Answer is D.**

When income changes, change in consumption  $\Delta C$  can never exceed the change in income ( $\Delta Y$ ). The maximum value which  $c$  can take is 1. On the other hand consumer may choose not to change consumption even when income has changed. In this case  $MPC = 0$ . Generally, MPC lies between 0 and 1 (inclusive of both values). This means that as income increases either the consumers does not increase consumption at all ( $MPC = 0$ ) or use entire change in income on consumption ( $MPC = 1$ ) or use part of the change in income for changing consumption ( $0 < MPC < 1$ )

### **Q3: Which of the following are correctly matched?**

1. Marginal propensity to consume (APC): it is the consumption per unit of income
2. Average propensity to consume (MPC): it is the change in consumption per unit change in income
3. Average propensity to save (APS): it is the savings per unit of income

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. 3 only

### **Explanation - Answer is D.**

### **Q4: Consider the following statements.**

1. Investment decisions by producers, such as whether to buy a new machine, depend, to a large extent, on the market rate of interest
2. Machines produced in an economy in a given year are not ‘used up’ to produce other goods but yield their services over a number of years

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

Investment is defined as addition to the stock of physical capital (such as machines, buildings, roads etc., i.e. anything that adds to the future productive capacity of the economy) and changes in the inventory (or the stock of finished goods) of a producer. Note that ‘investment goods’ (such as machines) are also part of the final goods – they are not intermediate goods like raw materials. Machines produced in an economy in a given year are not ‘used up’ to produce other goods but yield their services over a number of years. Investment decisions by producers, such as whether to buy a new machine, depend, to a large extent, on the market rate of interest. However, for simplicity, we assume here that firms plan to invest the same amount every year. We can write the ex ante investment demand as  $I = I$  (4.2) where  $I$  is a positive constant which represents the autonomous (given or exogenous) investment in the economy in a given year.

**Q5: Consider the following statements.**

1. Ex ante supply is equal to ex ante demand only when the final goods market, and hence the economy, is in equilibrium
2. if there is a rise in inventory, it is positive inventory investment, while a depletion of inventory is negative inventory investment

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

**Q6: Consider the following statements.**

1. The point where ex ante aggregate demand is equal to ex ante aggregate supply will be equilibrium
2. Equilibrium requires that the plans of suppliers are matched by plans of those who provide final demands in the economy

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

Equilibrium is shown graphically by putting ex ante aggregate demand and supply together in a diagram (Fig. 4.6). The point where ex ante aggregate demand is equal to ex ante aggregate supply will be equilibrium. Thus, equilibrium point is E and equilibrium level of income is OY1

## (B) Algebraic Method

Ex ante aggregate demand =

$$I C cY + +$$

Ex ante aggregate supply = Y

Equilibrium requires that the plans of suppliers are matched by plans of those who provide final demands in the economy. Thus, in this situation, ex ante aggregate demand = ex ante aggregate supply,

### **Q7: Consider the following statements.**

1. If all the people of the economy increase the proportion of income they save the total value of savings in the economy will not increase
2. People become thriftier they end up saving less or same as before

Which of these statements are not correct?

- A. 1 only              B. 2 only              C. Both of them              D. Neither of them

### **Explanation - Answer is D.**

All the people of the economy increase the proportion of income they save (i.e. if the mps of the economy increases) the total value of savings in the economy will not increase – it will either decline or remain unchanged. This result is known as the Paradox of Thrift – which states that as people become thriftier they end up saving less or same as before.

This result, though sounds apparently impossible, is actually a simple application of the model we have learnt. Let us continue with the example. Suppose at the initial equilibrium of  $Y = 250$ , there is an exogenous or autonomous shift in peoples' expenditure pattern – they suddenly become more thrifty.

### **Q8: Consider the following statements.**

1. The equilibrium level of output may be more or less than the full employment level of output
2. If it is less than the full employment of output, it is due to the fact that demand is not enough to employ all factors of production
3. This situation is called the situation of deficient demand

Which of these statements are correct?

- A. 1 and 2 only              B. 2 and 3 only              C. 1 and 3 only              D. All of them

### **Explanation - Answer is D.**

Full employment level of income is that level of income where all the factors of production are fully employed in the production process. Recall that equilibrium attained at the point of equality of  $Y$  and  $AD$  by itself does not signify full employment of resources. Equilibrium only means that if left to itself the level of income in the economy will not change even when there is unemployment in the economy. The equilibrium level of output may be more or less than the full employment level of output. If it is less than the full employment of output, it is due to the fact that demand is not enough to employ all factors of production. This situation is called the situation of deficient demand. It leads to decline in prices in the long run. On the other hand, if the equilibrium level of output is more than the full employment level, it is due to the fact that the demand is more than the level of output produced at full employment level. This situation is called the situation of excess demand. It leads to rise in prices in the long run.

**Q9: Consider the following statements.**

1. The rate of increase in ex ante consumption due to a unit increment in income is called marginal propensity to consume
2. An increase in autonomous spending causes aggregate output of final goods to decrease by a larger amount through the multiplier process

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is A.**

Aggregate demand for final goods consists of ex ante consumption, ex ante investment, government spending etc. The rate of increase in ex ante consumption due to a unit increment in income is called marginal propensity to consume. For simplicity we assume a constant final goods price and constant rate of interest over short run to determine the level of aggregate demand for final goods in the economy. We also assume that the aggregate supply is perfectly elastic at this price. Under such circumstances, aggregate output is determined solely by the level of aggregate demand. This is known as effective demand principle. An increase (decrease) in autonomous spending causes aggregate output of final goods to increase (decrease) by a larger amount through the multiplier process.

**Q10: Consider the following statements.**

1. Easy availability of credit encourages investment
2. At higher interest rates, firms tend to lower investment

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

Change in investment: we have assumed that investment is autonomous. However, it just means that it does not depend on income. There are a number of variables other than income which can affect investment. One important factor is availability of credit: easy availability of credit encourages investment. Another factor is interest rate: interest rate is the cost of investible funds, and at higher interest rates, firms tend to lower investment.

## DAY 18, ECONOMY NCERTs

### **Q1: Consider the following statements.**

1. Those that relate to the current financial year only are included in the revenue account
2. Those that concern the assets and liabilities of the government into the capital account

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

Although the budget document relates to the receipts and expenditure of the government for a particular financial year, the impact of it will be there in subsequent years. There is a need therefore to have two accounts- those that relate to the current financial year only are included in the revenue account (also called revenue budget) and those that concern the assets and liabilities of the government into the capital account (also called capital budget).

### **Q2: With respect to the difference between private goods and public goods, consider the following statements.**

1. The benefits of public goods are available to all and are not only restricted to one particular consumer
2. In case of private goods anyone who does not pay for the goods can be excluded from enjoying its benefits
3. One person's consumption of a good does not reduce the amount available for consumption for others then it is a public good

Which of these statements are not correct?

- A. 1 only      B. 2 only      C. 3 only      D. None of the above

### **Explanation - Answer is D.**

There are two major differences. One, the benefits of public goods are available to all and are not only restricted to one particular consumer. For example, if a person eats a chocolate or wears a shirt, these will not be available to others. It is said that this person's consumption stands in rival relationship to the consumption of others. However, if we consider a public park or measures to reduce air pollution, the benefits will be available to all. One person's consumption of a good does not reduce the amount available for consumption for others and so several people can enjoy the benefits, that is, the consumption of many people is not 'rivalrous'. Two, in case of private goods anyone who does not pay for the goods can be excluded from enjoying its benefits. If you do not buy a ticket, you will not be allowed to watch a movie at a local cinema hall. However, in case of public goods, there is no feasible way of excluding anyone from enjoying the benefits of the good. That is why public goods are called non-excludable. Even if some users do not pay, it is difficult and sometimes impossible to collect fees for the public good.

### **Q3: Consider the following statements.**

1. Public goods may be produced by the government or the private sector
2. When goods are produced directly by the government it is called public provision

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is A.**

There is a difference between public provision and public production. Public provision means that they are financed through the budget and can be used without any direct payment. Public goods may be produced by the government or the private sector. When goods are produced directly by the government it is called public production.

**Q4: Consider the following statements.**

1. Out of private income, what finally reaches the households is known as personal disposable income and the amount that can be spent is the personal income
2. The government sector affects the personal income of households by making transfers and collecting taxes
3. This activity of the government can change the distribution of income, called as redistribution function

Which of these statements are not correct?

- A. 1 only      B. 2 only      C. 3 only      D. 1 and 2 only

**Explanation - Answer is D.**

Out of private income, what finally reaches the households is known as personal income and the amount that can be spent is the personal disposable income. The government sector affects the personal disposable income of households by making transfers and collecting taxes. It is through this that the government can change the distribution of income and bring about a distribution that is considered 'fair' by society. This is the redistribution function.

**Q5: Consider the following statements.**

1. There may be times when demand exceeds available output under conditions of low utilisation of labour and economy
2. The intervention of the government whether to expand demand or reduce it constitutes the stabilisation function

Which of these statements are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is A.**

The overall level of employment and prices in the economy depends upon the level of aggregate demand which depends on the spending decisions of millions of private economic agents apart from the government. These decisions, in turn, depend on many factors such as income and credit availability. In any period, the level of demand may not be sufficient for full utilisation of labour and other resources of the economy. Since wages and prices do not fall below a level, employment cannot be brought back to the earlier level automatically. The government needs to intervene to raise the aggregate demand. On the other hand, there may be times when demand exceeds available output under conditions of high employment and thus may give rise to inflation. In such situations, restrictive

conditions may be needed to reduce demand. The intervention of the government whether to expand demand or reduce it constitutes the stabilisation function.

**Q6: Non-tax revenue of the central government mainly consists of:**

1. Interest receipts on account of loans by the central government
2. Dividends and profits on investments made by the government
3. Cash grants-in-aid from foreign countries and international organisations
4. Duties levied on goods produced within the country

Choose from the following options.

- A. 1, 2 and 3 only      B. 2 and 4 only      C. 1, 2 and 4 only      D. 1 and 3 only

**Explanation - Answer is A.**

Revenue receipts are those receipts that do not lead to a claim on the government. They are therefore termed non-redeemable. They are divided into tax and non-tax revenues. Tax revenues, an important component of revenue receipts, have for long been divided into direct taxes (personal income tax) and firms (corporation tax), and indirect taxes like excise taxes (duties levied on goods produced within the country), customs duties (taxes imposed on goods imported into and exported out of India) and service tax<sup>1</sup>. Other direct taxes like wealth tax, gift tax and estate duty (now abolished) have never brought in large amount of revenue and thus have been referred to as 'paper taxes'. The redistribution objective is sought to be achieved through progressive income taxation, in which higher the income, higher is the tax rate. Firms are taxed on a proportional basis, where the tax rate is a particular proportion of profits. With to excise taxes, necessities of life are exempted or taxed at low rates, comforts and semi-luxuries are moderately taxed, and luxuries, tobacco and petroleum products are taxed heavily. Non-tax revenue of the central government mainly consists of interest receipts on account of loans by the central government, dividends and profits on investments made by the government, fees and other receipts for services rendered by the government. Cash grants-in-aid from foreign countries and international organisations are also included.

**Q7: Consider the following statements.**

1. All those receipts of the government which create liability or reduce financial assets are termed as capital receipts
2. When government sells an asset, then it means that in future its earnings from that asset, will disappear

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

**Capital Receipts:** The government also receives money by way of loans or from the sale of its assets. Loans will have to be returned to the agencies from which they have been borrowed. Thus they create liability. Sale of government assets, like sale of shares in Public Sector Undertakings (PSUs) which is referred to as PSU disinvestment, reduce the total amount of financial assets of the government. All those receipts of the government which create liability or reduce financial assets are termed as capital receipts. When government takes fresh loans it will mean that in future these loans will have to be

returned and interest will have to be paid on these loans. Similarly, when government sells an asset, then it means that in future its earnings from that asset, will disappear. Thus, these receipts can be debt creating or non-debt creating.

**Q8: Which of the following are included in the non plan expenditure?**

- 1. Interest payments
- 2. Defence services
- 3. Subsidies

Choose from the following options.

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. All of the above

**Explanation - Answer is D.**

Budget documents classify total expenditure into plan and non-plan expenditure. A distinction is made between plan and non-plan. According to this classification, plan revenue expenditure relates to central Plans (the Five-Year Plans) and central assistance for State and Union Territory plans. Non-plan expenditure, the more important component of revenue expenditure, covers a vast range of general, economic and social services of the government. The main items of non-plan expenditure are interest payments, defence services, subsidies, salaries and pensions.

**Q9: Gross fiscal deficit =**

- A. Total expenditure + (Revenue receipts - Non-debt creating capital receipts)
- B. Total expenditure – (Revenue receipts + Non-debt creating capital receipts)
- C. Total expenditure – (Revenue receipts - Non-debt creating capital receipts)
- D. Total expenditure + Revenue receipts + Non-debt creating capital receipts

**Explanation - Answer is B.**

Fiscal Deficit: Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing.

Gross fiscal deficit = Total expenditure – (Revenue receipts + Non-debt creating capital receipts)

**Q10: Consider the following statements.**

- 1. Gross primary deficit = Gross fiscal deficit – Net interest liabilities
- 2. Net interest liabilities consist of interest payments in addition to interest receipts by the government on net domestic lending

Which of these statements are correct?

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

**Explanation - Answer is A.**

Primary Deficit: We must note that the borrowing requirement of the government includes interest obligations on accumulated debt. The goal of measuring primary deficit is to focus on present fiscal imbalances. To obtain an estimate of borrowing on account of current expenditures exceeding revenues, we need to calculate what has been called the primary deficit. It is simply the fiscal deficit minus the interest payments

Gross primary deficit = Gross fiscal deficit – Net interest liabilities

Net interest liabilities consist of interest payments minus interest receipts by the government on net domestic lending.

AchieveIAS

## DAY 19, ECONOMY NCERTs

### **Q1: Consider the following statements.**

1. When GDP rises, disposable income also rises but by less than the rise in GDP because a part of it is siphoned off as taxes
2. During a recession when GDP falls, disposable income falls less sharply, and consumption drop as much as it otherwise would have fallen had the tax liability been fixed

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is A.**

When GDP rises, disposable income also rises but by less than the rise in GDP because a part of it is siphoned off as taxes. This helps limit the upward fluctuation in consumption spending. During a recession when GDP falls, disposable income falls less sharply, and consumption does not drop as much as it otherwise would have fallen had the tax liability been fixed. This reduces the fall in aggregate demand and stabilises the economy.

### **Q2: Consider the following statements.**

1. Budgetary deficits can't be financed by printing money
2. Governments have mostly relied on borrowing, giving rise to what is called government debt
3. Debt can be thought of as a flow which add to the stock of deficit

Which of these statements are not correct?

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. 1 only

### **Explanation - Answer is C.**

Budgetary deficits must be financed by either taxation, borrowing or printing money. Governments have mostly relied on borrowing, giving rise to what is called government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

### **Q3: Consider the following statements.**

1. If an economy experiences a recession and GDP falls, tax revenues fall because firms and households pay lower taxes when they earn less
2. This means that the deficit increases in a recession and falls in a boom, even with no change in fiscal policy

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

### **Explanation - Answer is C.**

We must note that larger deficits do not always signify a more expansionary fiscal policy. The same fiscal measures can give rise to a large or small deficit, depending on the state of the economy. For example, if an economy experiences a recession and GDP falls, tax revenues fall because firms and households pay lower taxes when they earn less. This means that the deficit increases in a recession and falls in a boom, even with no change in fiscal policy.

**Q4: Assertion: Proportional taxes reduce the autonomous expenditure multiplier**

**Reason: Taxes reduce the marginal propensity to consume out of income**

Select the correct code:

- (a) Both A and R are true and R is the correct explanation of A.
- (b) Both A and R are true but R is not a correct explanation of A.
- (c) A is true but R is false.
- (d) A is false but R is true.

**Explanation - Answer is A.**

Both A and R are true and R is the correct explanation of A.

**Q5: Which of the following are correctly matched?**

- 1. Output Market: An economy can trade in goods and services with other countries
- 2. Financial Market: Most often an economy can buy financial assets from other countries
- 3. Labour Market: Consumers and producers can choose between domestic and foreign goods

Choose from the following options.

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. All of the above

**Explanation - Answer is A.**

Output Market: An economy can trade in goods and services with other countries. This widens choice in the sense that consumers and producers can choose between domestic and foreign goods.

Financial Market: Most often an economy can buy financial assets from other countries. This gives investors the opportunity to choose between domestic and foreign assets.

Labour Market: Firms can choose where to locate production and workers to choose where to work. There are various immigration laws which restrict the movement of labour between countries.

**Q6: Consider the following statements.**

- 1. Trade in services includes factor income and non-factor income transactions
- 2. Transfer payments are the receipts which the residents of a country get for 'free', without having to provide any goods or services in return

Which of these statements are correct?

- A. 1 only
- B. 2 only
- C. Both of them
- D. Neither of them

**Explanation - Answer is C.**

Trade in services includes factor income and non-factor income transactions. Transfer payments are the receipts which the residents of a country get for 'free', without having to provide any goods or

services in return. They consist of gifts, remittances and grants. They could be given by the government or by private citizens living abroad.

**Q7: Consider the following statements about the Balance of Trade (BOT).**

1. BOT is said to be in balance when exports of goods are more than the imports of goods
2. Export of goods is entered as a credit item in BOT, whereas import of goods is entered as a debit item in BOT

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is B.**

Balance of Trade (BOT) is the difference between the value of exports and value of imports of goods of a country in a given period of time. Export of goods is entered as a credit item in BOT, whereas import of goods is entered as a debit item in BOT. It is also known as Trade Balance. BOT is said to be in balance when exports of goods are equal to the imports of goods. Surplus BOT or Trade surplus will arise if country exports more goods than what it imports. Whereas, Deficit BOT or Trade deficit will arise if a country imports more goods than what it exports.

**Q8: Consider the following statements.**

1. The reserve bank sells foreign exchange when there is a deficit
2. The increase in official reserves is called the overall balance of payments surplus

Which of these statements are correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is C.**

The reserve bank sells foreign exchange when there is a deficit. This is called official reserve sale. The decrease (increase) in official reserves is called the overall balance of payments deficit (surplus). The basic premise is that the monetary authorities are the ultimate financiers of any deficit in the balance of payments (or the recipients of any surplus).

**Q9: Which of the following are the reasons for the flow of foreign currency?**

1. Exports by a country lead to the purchase of its domestic goods and services by the foreigners
2. Foreigners send gifts or make transfers
3. The assets of a home country are bought by the foreigners

Choose from the following options.

- A. 1 and 2 only      B. 2 and 3 only      C. 1 and 3 only      D. All of the above

**Explanation - Answer is D.**

Foreign currency flows into the home country due to the following reasons: exports by a country lead to the purchase of its domestic goods and services by the foreigners; foreigners send gifts or make transfers; and, the assets of a home country are bought by the foreigners.

**Q10: Consider the following statements.**

1. When imports increase, the demand curve for foreign exchange shifts to the right
2. If there is an increase in income abroad as well, domestic exports will rise and the supply curve of foreign exchange shifts outward

Which of these statements are not correct?

- A. 1 only      B. 2 only      C. Both of them      D. Neither of them

**Explanation - Answer is D.**

When income increases, consumer spending increases. Spending on imported is also likely to increase. When imports increase, the demand curve for foreign exchange shifts to the right. There is a depreciation of the domestic currency. If there is an increase in income abroad as well, domestic exports will rise and the supply curve of foreign exchange shifts outward. On balance, then domestic currency may or may not depreciate. What happens will depend on whether exports are growing faster than imports. In general, other things remaining equal, a country whose aggregate demand grows faster than the rest of the world's normally finds its currency depreciating because its imports grown faster than its exports. Its demand curve for foreign currency shifts faster than its supply curve.