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Indian Economy by Prasad Sir, Class - 8

Topics

Marginal Productivity and income relationship, aggregate demand and it's components, keynes and classical theory basic concepts only, Role of demand.

Topics to be discussed

→ Working of Economics
→ Monetary System
→ Fiscal System
→ Planning in India
→ Poverty
→ Unemployment
→ Agriculture
→ Industry
→ External Sector
→ Economic Reforms

Marginal Productivity

MP_L ⇒ Additional Output produced by one additional unit of Labour

Labour	Output
10	100
11	110

+1 (Labour) ; +10 (Output) — MP_L

(2)

$$\boxed{\text{Price} \times MP_L = VMP_L}$$ Value of Marginal Productivity of Labour.

$$\boxed{P \times MP_L = VMP_L}$$

eg. $P \times MP_L = W$

$100 \times 10 = W$

$= 1000 = W$

Aggregate Demand (AD)

$$\boxed{AD = C + I + G + (X - M)}$$

$X - M$ → NX

C → final consumption Expenditure by Households

C – CM
I – Im
G – Gm
X – M

CM, Im, Gm → M

I → Gross Investment

G → Total Demand for G&S by the Govt.

X → Exports

M → Import

NX – Net exports.

$$\boxed{AD = C + I + G + NX}$$

AD ↓ AE – Aggregate Expenditure.

$X = M = 0$ – Closed economy

- No Export
- No Import

Classical Theory (given by JB Say)

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based on Say's Law of Market

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"Supply Creates its own demand."

$\Rightarrow Y = \boxed{AS = AD}$

Aggregate Supply = Aggregate Demand.

[Y = level of output / Level of Income]

Says Law of Market says that supply creates its own demand. It means whatever resource a country has if you produce~~d~~ and supply in the market it will produced the demand itself.

Barter System – There is no role of money.

If in an economy there is no role of money and people exchange goods & services, it is called Barter system.

Recession – Low Aggregate Demand

⇓

Low Output

⇓

High unemployment

Domestic Demand — External Demand.

$AD = (C + I + G) + (X - M)$

$X - M$ = NX → Net Exports,

AD → Aggregate demand for domestically produced Goods & Services.

$C + I + G$ → Total demand for domestically produced Goods & Services by domestic People / Players

$(X-M)$ — demand for domestically produced Goods and Services by Rest of the World.

$$\boxed{AD = C + I + G + NX}$$

* China is a export leading Economy

X ↓ Export

$X\uparrow = AD\uparrow = Y\uparrow = emp\uparrow$

India → $(X-M)$ → $(-ve)$ → $(M > X)$

$AD = \underline{C} + I + G + X - M$

Consumption (C)

Consumption function $C = f(Y) = f(Yd) = f(\cancel{Y} - T)$

Consumption is the function of levels of income. Consumption depends on level of income. If level of income increases then level of consumption will go up and if level of income decreases then level of consumption will also decrease.

$$Y\uparrow = C\uparrow, \quad Y\downarrow = C\downarrow$$

C → Consumption
Y - level of Income

Disposable Income is the income left after the payment of taxes.

$$Y_d = Y - T$$

$$\therefore C = f(Y_d)$$
$$C = f(Y - T)$$

$$Y_d = C + S$$
$$S = Y_d - C$$

Saving is that part of Income which is not Consumed. Saving is the function of level of income or it depends on level of income. It means Saving and income are directly related.

$$S = f(Y) - \text{Saving function}$$

$$\left.\begin{array}{l} Y\uparrow \Rightarrow S\uparrow \\ Y\downarrow \Rightarrow S\downarrow \end{array}\right\}$$