

Indian Economy by Prasad Sir, Class - 8

Topics

Marginal Productivity and income relationship, aggregate demand and its 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

$MP_L \Rightarrow$ Additional output produced by one additional unit of labour

Labour	Output	
20	100	} +10 $\rightarrow MP_L$
21	110	

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$$\boxed{\text{Price} \times MP_L = VMP_L}$$

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

Value of Marginal Product of Labour.

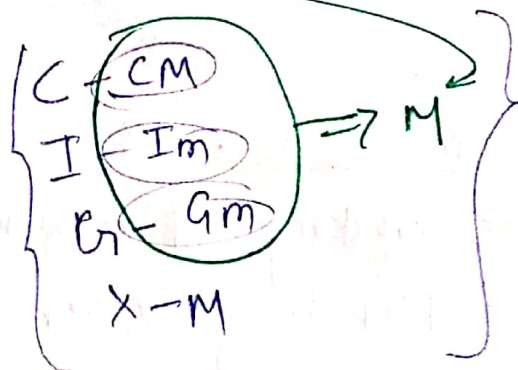
eg. $P \times MP_L = W$
 $100 \times 10 = 1000$
 $= 1000 = W$

Aggregate Demand (AD)

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

$C \rightarrow$ final consumption expenditure by households

NX



$I \rightarrow$ Gross Investment

$G \rightarrow$ Total Demand for G & S by the Govt.

$X \rightarrow$ Exports

$M \rightarrow$ Import

$NX \rightarrow$ Net exports.

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

$AE \rightarrow$ Aggregate Expenditure.

$$\boxed{X = M = 0}$$


Closed economy

No Export
No Import

Classical Theory (given by J.B. Say)

↓
based on Say's Law of Market

↓
"Supply creates its own demand"


 $\Rightarrow Y = AS = AD$

[Y = level of output / Level of Income] Aggregate Supply = Aggregate Demand.

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

Barter System - There is no sale of money.

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

Recession - Low Aggregate Demand

↓
Low Output

↓
High unemployment

$$AD = \underbrace{C + I + G}_{\text{Domestic Demand}} + \underbrace{X - M}_{\text{External Demand. Net Exports}}$$

Aggregate demand for domestically produced Goods & Services.

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.

$$AD = C + I + G + NX$$

* China is a export leading Economy.
 $X \uparrow = AD \uparrow = Y \uparrow = \text{emp} \uparrow$

$\begin{matrix} \downarrow \\ \text{Export} \end{matrix}$

India $\rightarrow (X - M) \rightarrow -ve \rightarrow M > X$

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

Consumption (C)

Consumption function $C = f(Y) = f(Y_d) = f(Y - T)$

Consumption is the function of level of income. If level of income increases then level of consumption will go up and if level of income decreases they

⑥

level of consumption will also decrease.

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

$C \rightarrow$ 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.

Saving and income are directly related. It means

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

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