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Indian Economy Class-06

Date
9/Aug/20

Topics - Economic Growth, Economic Development,
Indicators - PQLI, HDI, IHDI, MPI, GII, GDI

$$\text{India GDP (₹)} = 200t \text{ ₹ } (P_1 \times Q_1)$$

$$\text{US GDP (\$)} = 20t \text{ \$ } (P_2 \times Q_2)$$

$$\text{GDP (PPP)} = Q_1 = \frac{200t}{20} \div \frac{₹}{\$} = 10t$$

Bisleri
1\$ 20₹

$$Q_2 = \frac{20t}{1} \frac{\$}{\$} = 20t$$

CHAPTER-4 Economic Growth & Development

EG \rightarrow \uparrow RGDP, \uparrow PCI (Per capita Income)

A 10 — 5

B 90 — 195

Avg (PCI) — 50 \rightarrow 100 50

NI GDP \rightarrow RGDP \rightarrow PCI \rightarrow ?

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Economic Growth

Real and sustained improvement in the quantitative economic variable such as real GDP is called economic growth. Short term increased or fluctuations in the value of GDP are not considered as growth hence the growth rate should be computed for long term and it should be in real terms. That is why real GDP is considered to be a better variable than the nominal GDP. Moreover the increase in the value of production should be more than increase in population hence per capita income and per capita GDP are considered even better. A high rate of economic growth is important for all economics and at around 8% of annual growth, it takes 10 year to double the income on compounding basis.

Yr		
1	100	}
2	108	
3	116.6	
4	1	

(I) Growth Rate (g)

$$g = \left(\frac{CYV - PYV}{PYV} \right) \times 100$$

$$= \frac{203 - 190}{190} \times 100$$

$$= 7\%$$

GDP = { 2018 — 190
2019 — 203 }

$$\text{II} \left| \begin{array}{l} \{ 2019 \rightarrow 3 \text{t\$} \\ 2024 \rightarrow 5 \text{t\$} \} \end{array} \right. \quad \begin{array}{l} A = P(1+RL)^T \\ 5 = 3(1 + \frac{x}{100})^T \end{array}$$

$$\underline{x = 11\%}$$

During the period 1951 to 2020 Indian economy has grown on an average 6% rate per annum.

Before 1980 India was growing at around 3% average rate per annum which was popular as Hindu rate of growth.

Till about 1990 the GDP (PPP) of India and China were almost equal however Chinese reform started in late 1970s and India started reforms in early 1990s. As a result due to higher growth rate China has become No 1 economy with GDP (PPP) of ~~Rup~~ dollar 27 trillions.

Although India has been growing at faster rate post ~~in~~ 1980 but the average annual growth rate has effectively increased only in past few year. According to world bank the growth of India's GDP (PPP) in last few years was as follows.

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2013	6.4 %
2014	7.4 %
2015	8 %
2016	8.26 %
2017	7 %
2018	6 %
2019	5 %
	(Approx)

According to Ministry of Statistics and Programme Implementation the growth rate for 2019-20 was over 4% as compared to around 6% in 2018-19.

According to Organisation of Economic Development - the growth should be inclusive growth and it is defined as the economic growth that is distributed fairly across society and creates opportunity for all. The world bank has stated that inclusive growth can be achieved by focusing on expanding the regional scope of economic growth and expanding equity in opportunities for the next generation of citizens no matter who they are and where they live. It is also called as Broad-based growth, Pro-poor growth or Shared growth.

Economic Development

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Sustained and real progress in the quantitative as well as qualitative variables of economy or country in a holistic manner. It is a much wider term as it covers several economic and non-economic domains including social welfare and environment protection.

	Economic Growth	Economic Development
Meaning		
Coverage	1 - Dimensional	Multi - Dimensional
Relation	Means	Ends
Nature	Quantitative	Quantitative + Qualitative
Indicators	GDP, PCI, NI	PQLI, HDI, IHDI, MPI, GII, GDI,

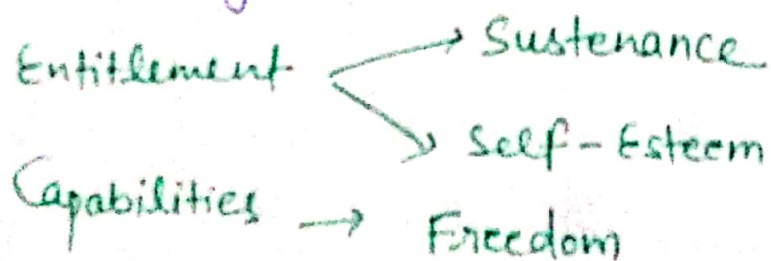
According to Dr. Amartya Sen development can be seen as a process of improving the quality of all human lives and capabilities by raising their standard of living self ~~esteem~~ ^{esteem} and freedom.

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According to Prof. Davis Gaulet sustenance, self-esteem and freedom are the three core values of development. Sustenance covers the basic needs for a minimum human living like food, clothing and shelter. Self-Esteem is the feeling of self-respect that society enjoys when its social, political and economic systems promote human values like integrity, self-determination, dignity, respect and so on.

Freedom is the situation in which society has at its disposal a variety of alternatives to satisfy human bonds and individual enjoys real choices according to their preferences.

Dr Amartya Sen defined economic development as expansion of entitlement on capabilities of people. The entitlement give sustenance and self-esteem but capabilities give freedom.



Indicators of Economic Development

1. Per Capita Income (PCI)

Per Capita Income has been taken as a standard indicator in the past because it is an important precondition for the economic growth and development. It is better than the absolute GDP because it takes into account population as well as. But it suffers from a serious problem that it does not ensure equal distribution of income. Moreover it ignores the other qualitative aspects.

2. Physical Quality of Life Index (PQLI)

In 1979, Prof. MD Morris developed this indicator to measure economic development based on the following three domains.

1. Infant Mortality } health
2. Life Expectancy }
3. Basic Literacy } education

PQLI is calculated on the scale 0-100 and it is arithmetic mean of the three indicators. $\left(\frac{I+L+B}{3} \right)$

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3. Human Development Index

In 1990, a team of economists of the United Nations development program (UNDP) headed by Prof. Mehbub ul-Haq designed HDI based on the following domains.

(i) Long and Healthy life as indicated by life expectancy

(ii) Index

(ii) Knowledge as indicated by Education Index.

(iii) Decent standard of living indicated by GNI index calculated on per capita (PPP) basis.

All these indices are computed on a scale 0-1
an HDI is the geometric average of the three.

$$HDI = \sqrt[3]{(LEI) \times (EI) \times (GNI)}$$

(and published their HDI)

UNDP collects data from member countries with their rankings in the annual Human Development Report.

Based upon the HDI values countries are grouped as follows.

1. Countries with very high E.D
2. Countries with High E.D
3. " " Medium E.D
4. " " Low E.D

According to HD Report 2019, the HDI of India has been 0.647 and India ranks 129 out of 189 members. The indicator improves from 0.431 in 1990 to 0.647 in 2018. (Published in 2019)

In 2010, UNDP introduced three additional indices as follows:

1. Inequality-adjusted Human Development Index (IHDI)

2. Multi-Dimensional Poverty Index - (MPI)

3. Gender Inequality Index - (GII)

4. IHDI takes into account the inequality that exist within and among different indices of HDI.

$$\begin{aligned} \text{HDI} &= \sqrt[3]{0.9 \times 0.5 \times 0.1} = 0.5 \text{ (with Inequality)} \\ &= \sqrt[3]{0.5 \times 0.5 \times 0.5} = 0.5 \text{ (Better)} \end{aligned}$$

If there is inequality within any index or among the indices then discounting is done in the value of index as penalty. All the three indices after discounting, the geometric mean is recalculated and is called IHDI. for eg. In case of India inequality exist in all the three domains so after a discounting of over 26% the IHDI comes down to 0.477

⑩ as compare to HDI of 0.647.

5. MPI (Multi-Dimensional Poverty Index)

Poverty is difficult to define and measure and different organisation and experts have different opinion. Some poverty indicators are based upon minimum income while some are based on minimum nutrition and so on. UNDP with Onford Poverty and Human Development Initiative developed MPI based on 10 indicators in three domains

- (i) Health which is indicated by nutrition and Child mortality.
- (ii) Education which is indicated by children Enrollment schools and the average year of Schooling.
- (iii) Standard of living which is indicated by availability of cooking fuel, toilet, drinking water, concrete floor, Electricity and assets like T.V, Bike etc

6. Gender Inequality Index (GII)

GII measures inequality under the following domains.

1. Maternal Health which is indicated by maternal mortality ratio and adolescent birth rate.
2. Women Empowerment which is indicated by number of women MPs and their attainment of secondary education.

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3. Women participation in Labour market which is indicated by percentage of working women.

In 2014 UNDP introduced gender development Index (GDI) which is calculated as the ratio of HDI of women to HDI of men. According to HDR 2019 its value was 0.829, which was computed as under.

$$GDI = \left(\frac{HDI_w}{HDI_m} \right) = \frac{0.574}{0.692} = 0.829$$