Reference: - eagri.org

Capital

Capital in a man-made material. Man produces capital equipments or goods to help him in the production of other goods and services. Capital is, therefore, defined as "the produced means of further production". The word 'capital' is often interchangeably used for concepts like money, wealth and land.

Types of Capital:

1**. Fixed Capital and working Capital:**

(**a) Fixed Capital-**

It Can be used many times in the production process. The level of fixed capital does not vary with the level of production in a very short period.

E.g.- Farm buildings, tractors, farm tools etc.

(b) **Working capital variable capital or circulating Capital:**

It Can be used only once and they are not available for further use.

E.g.- fertilizer used to produce Paddy etc.

2. Sunk Capital and Floating capital:

(a) Sunk Capital is meant only for a Specific purpose. E.g. **-** Cane Crusher, Paddy thresher etc.

(b) Floating capital- Can be employed for any use. E.g. - Money

3. Social capital and private Capital:

(a) Social Capital-Social capital is owned by the society as a whole and the benefits derived from these assets are shared among the members of the society. E.g.- Bridge, Dam, Govt. Owned factories etc.

(b) Private Capital-Private capital is owned by individuals and the income or benefits derived from these assets are available only to the individuals who own them. E.g.- Tractors, Private factories

Basic Terms Related to National Income

1) Gross Domestic Product [GDP]:
GDP is the total Market value of all final goods and Services currently produced within the domestic territory of country in a year.

(2) Gross National Product [GNP]:

- GNP is the total market value of all final good and Services produced in year.
- GNP includes net factor income from abroad where as GDP does not. Therefore,

GNP = GDP + Net Factor Income Abroad

Net Factor Income = Factor income received by Indian nationals from abroad **-** factor income paid to foreign nationals working in India.

(3) Net Nation Product [NNPI:

It is the market value of all final goods and Services after providing for depreciation.

NNP = GNP – Depreciation

(4) Gross private domestic investment:

It is equal to the expenditure for new plant and equipment plus the change in inventories.

(5) Net private domestic Investment:

It is equal to gross private domestic investment less depreciation.

(6) Personal Income

It is the total amount of money income actually received by individuals from all resources during a particular year.

(7) Disposable Income:

It is the personal Income minus Income tax.

(8) Per Capital income:

The national income divided by population of the Country.

(9) Aggregate Demand:

It is the total expenditure on consumer goods and services, govt. goods and services, (desired) investment and net exports.

(10) Aggregate Supply:

Aggregate supply refers to aggregate output or real national product produced in a country.

- **Factors of production:**

1. Land
2. Labor
3. Capital
4. Entrepreneur

- **GST [Goods and service Tax]:**

GST is a proposed system of indirect taxation in India merging most of the existing taxes into single system of taxation.

Inflation:

Inflation indicates the rise in price of a basket of commodities on a point-to-point basis.

Classification of Inflation:

A. Creeping Inflation:

When the rise in prices is very slow (less than 3% per annum)

B. Walking or Trotting Inflation:

When prices rise moderately and the annual inflation rate is a single digit (3% -10 %).

C. Running Inflation:

When prices rise rapidly like the running of a horse at a rate of speed of 10%-20% per annum.

D. Galloping or Hyperinflation:

When prices rise between 20% to 100 % per annum or even more.

Factors causing Inflation:

1. Increase in Demand
2. Increase in Money Supply
3. Increase in Disposable Income
4. Increase in Public expenditure
5. Increase in consumer spending
6. Cheap Monetary policy
7. Deficit Financing
8. Increase in exports
9. The prevalence of black money or unaccounted money and also the existence of counter felt money led to inflation
10. Planning for rapid economic development

Control of Inflation: The following are the anti-inflationary measures:

(a) Monetary measures

1) The central bank i.e., the Reserve Bank of India can increase the market rate of interest that will reduce the aggregate spending.

2) If the RBI can reduce the cash available to the banking system, the capacity of the banks to lend money to the borrowers will be reduced.

3) The RBI can sell the Government securities to the banks or to the public so that cash available with bank or public can be reduced.

4) Consumer credit control can reduce money supply.

b) Fiscal measures

1) Reduction of government spending

2) Imposition of new taxes

3) Encouragement of savings or introducing compulsory saving schemes

c) Physical or Non-monetary measures

1) Increasing output, increasing imports and decreasing exports so as to increase the availability of goods which are in short supply.

2) Controlling money wages to keep down costs.

3) Price control and rationing.

- **Forms of Business Organization**

A business organization may be owned either by a single person or by many people. The primary aim of a business organization may be either earning profit or promotion of general welfare of the people. On the basis of the above two criteria, business organizations can be classified into five categories as follows:

a) Individual Entrepreneur (Individual Proprietary System)

- A business organization owned by a single person is known as the individual proprietary system.

b) Partnership

- In this case, two or more persons join together; contribute share capital and share profit or loss in agreed proportions.
- It establishes wider personal contacts and hence, large-scale production is possible.

c) Joint - Stock Company

- The joint-stock company is owned by a large number of share holders who contribute to the share capital.
- They are entitled to get the profits (dividends) of the company.

d) Co-operative Enterprises

- Co-operation is a form of economic organization where people voluntarily work together for a business purpose on the basis of mutual benefit.
- It is a voluntary organization designed to promote economic interests of its members.
- Members have equal rights and responsibilities.

e) State Enterprises

- A commercial undertaking owned by the government is public undertaking or state enterprise.
- Public undertakings have been started for the following reasons:
  - i) It brings about rapid economic development.
  - ii) It ensures that the benefits of development are shared by all the people.