

Economics

HS20001

Source : The Economy

Introduction


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GDP contracts by 23.9%: India second-worst performer after US among major global economies

India is the second-worst performer among the major global economies in the first quarter of the current financial year.

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India Today Web Desk
New Delhi
August 31, 2020
UPDATED: August 31, 2020 22:10 IST



Indian economy is among the worst-hit by the lockdown necessitated by the Covid-19 pandemic. (Photo: PTI)

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At -23.9%, GDP Contracts At Its Steepest Pace On Record

The data comes as the government is strategically removing restrictions imposed in March to curb COVID-19 infections, which have caused a big blow to an already-sluggish economy.

Warning | Edited by Sanjeev Singh (with inputs from agencies) | Updated: August 31, 2020 2:09 pm IST



HIGHLIGHTS

- Worst GDP contraction since 1996, also worst among major Asian economies
- Data on expected lines due to COVID restrictions: Chief Economic Adviser
- Statistics office hints at revisions 'in due course'

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GDP collapses 23.9% in Q1, worst among big economies

Surojit Gupta | TNN | Updated: Sep 1, 2020, 07:27 IST

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Written by Vidhi Mishra, Anushka Jha | New Delhi | Updated: September 1, 2020 7:10:53 am



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GDP contracts by record 23.9% in Q1

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India's economy plunges record 23.9 pct

Only farm sector output sees growth, outpaces overall GDP for 3rd straight qtr

LAC chill, GDP fall, Covid surge: storm hits heated markets

Growth will be the key to rebuilding the economy, not increasing taxes

India's economy shrank nearly 24 pct last quarter

The Indian economy, in three time horizons

Measuring pain

**Statement 4: Quarterly Estimates of Expenditures on GDP in Q1 (April-June) of 2020-21
(at Current Prices)**

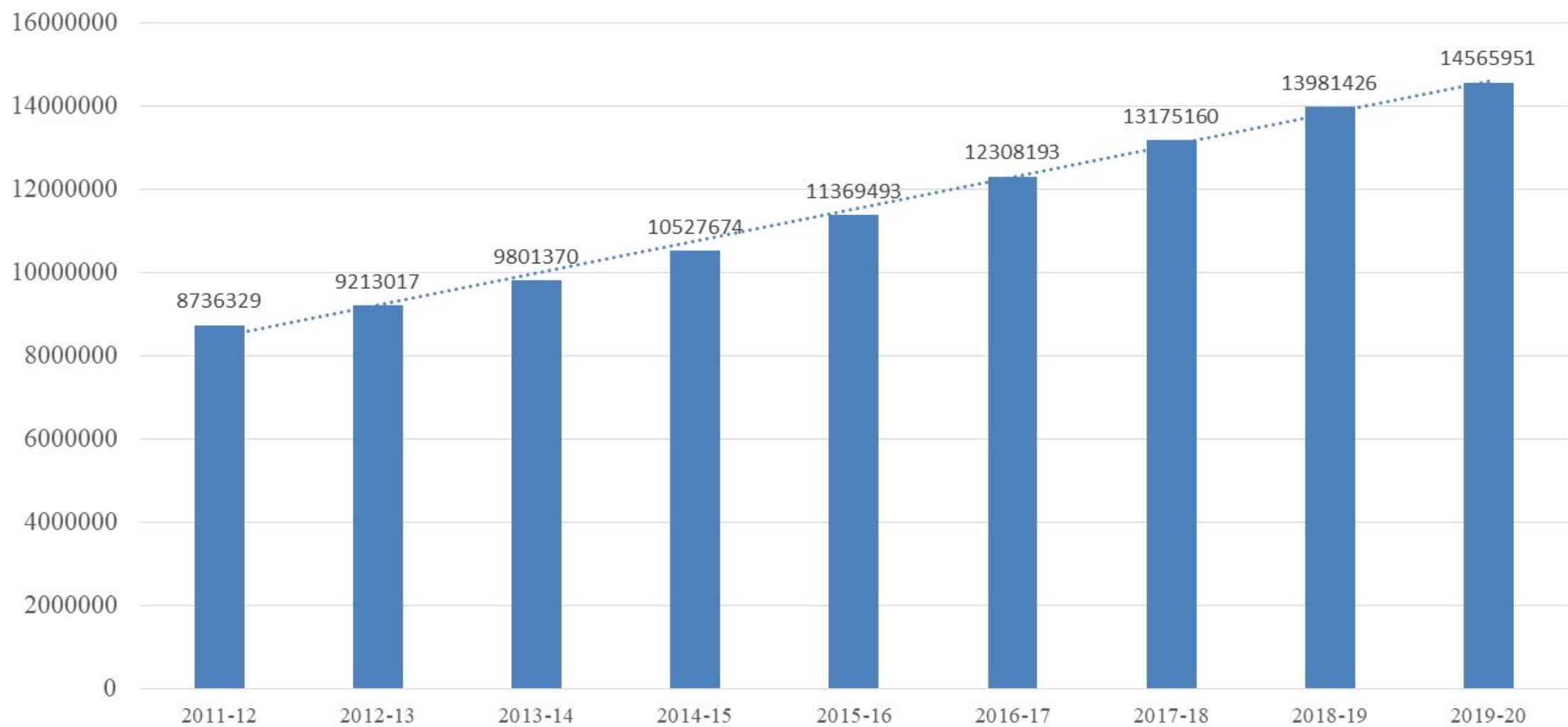
Item	(₹ in crore)				
	April-June (Q1)				
	2018-19	2019-20	2020-21	Rates of GDP (%)	
				2019-20	2020-21
1. Private Final Consumption Expenditure (PFCE)	26,52,987	28,77,927	21,72,892	58.5	57.1
2. Government Final Consumption Expenditure (GFCE)	5,52,100	6,04,299	7,26,278	12.3	19.1
3. Gross Fixed Capital Formation (GFCF)	13,18,447	14,22,545	7,41,057	28.9	19.5
4. Change in Stocks (CIS)	76,913	84,723	69,854	1.7	1.8
5. Valuables	47,431	55,479	5,740	1.1	0.2
6. Exports	8,70,374	9,26,505	7,68,037	18.8	20.2
7. Imports	10,63,713	11,20,793	6,89,734	22.8	18.1
8. Discrepancies	96,685	67,544	14,070	1.4	0.4
GDP	45,51,224	49,18,228	38,08,193	100.0	100.0
GDP (Percentage change over previous year)		8.1	-22.6		

**Statement 2: Quarterly Estimates of Expenditures on GDP in Q1 (April-June) of 2020-21
(at 2011-12 Prices)**

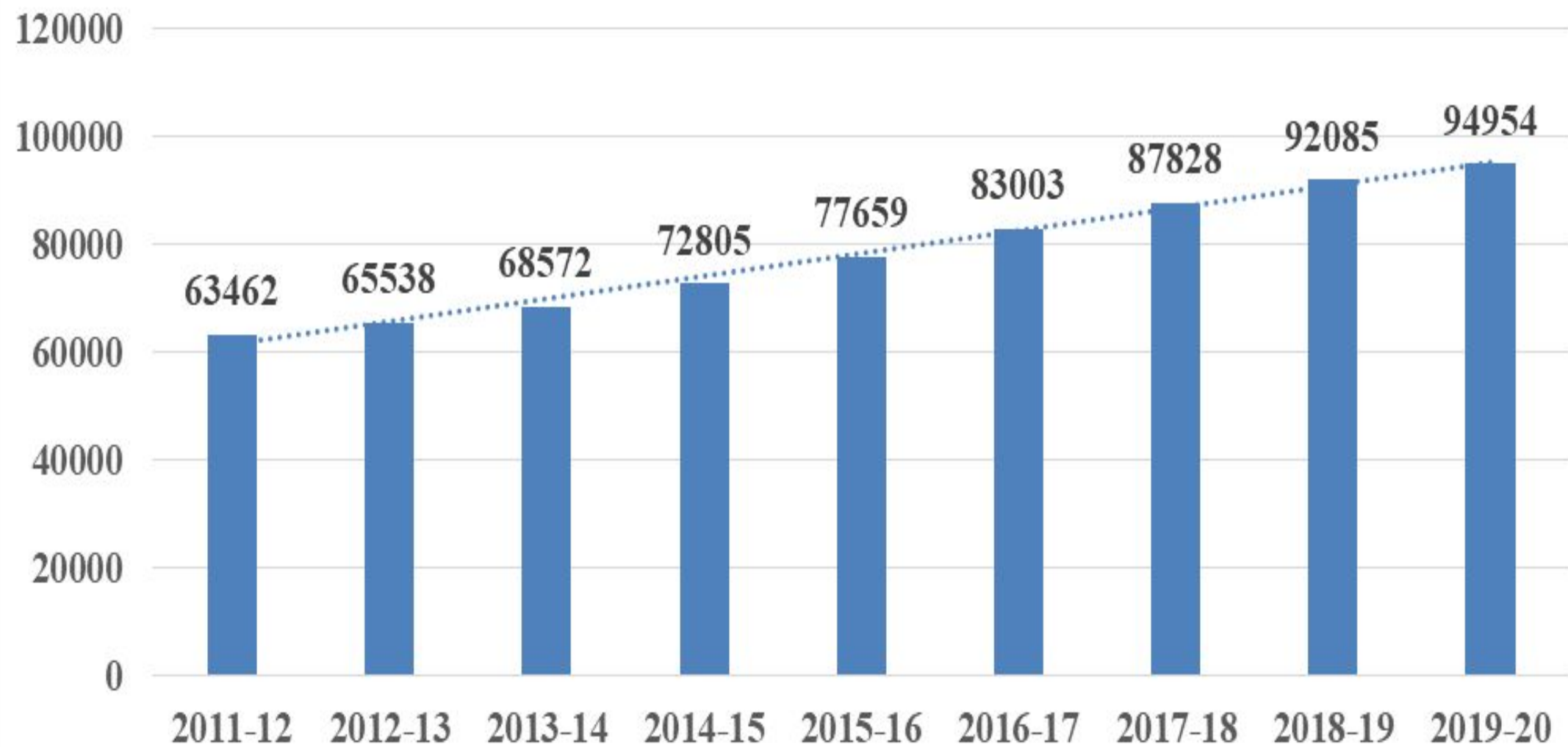
(₹ in crore)

Item	April-June (Q1)				
	2018-19	2019-20	2020-21	Rates of GDP (%)	
				2019-20	2020-21
1. Private Final Consumption Expenditure (PFCE)	18,89,008	19,92,967	14,61,164	56.4	54.3
2. Government Final Consumption Expenditure (GFCE)	3,93,709	4,18,249	4,86,636	11.8	18.1
3. Gross Fixed Capital Formation (GFCF)	10,82,670	11,32,195	5,99,192	32.0	22.3
4. Change in Stocks (CIS)	64,131	67,328	53,336	1.9	2.0
5. Valuables	41,080	51,347	4,645	1.5	0.2
6. Exports	6,86,695	7,08,546	5,67,961	20.0	21.1
7. Imports	8,08,933	8,25,788	4,92,286	23.4	18.3
8. Discrepancies	10,803	-9,576	8,908	-0.3	0.3
GDP	33,59,162	35,35,267	26,89,556	100.0	100.0
GDP (Percentage change over previous year)		5.2	-23.9		

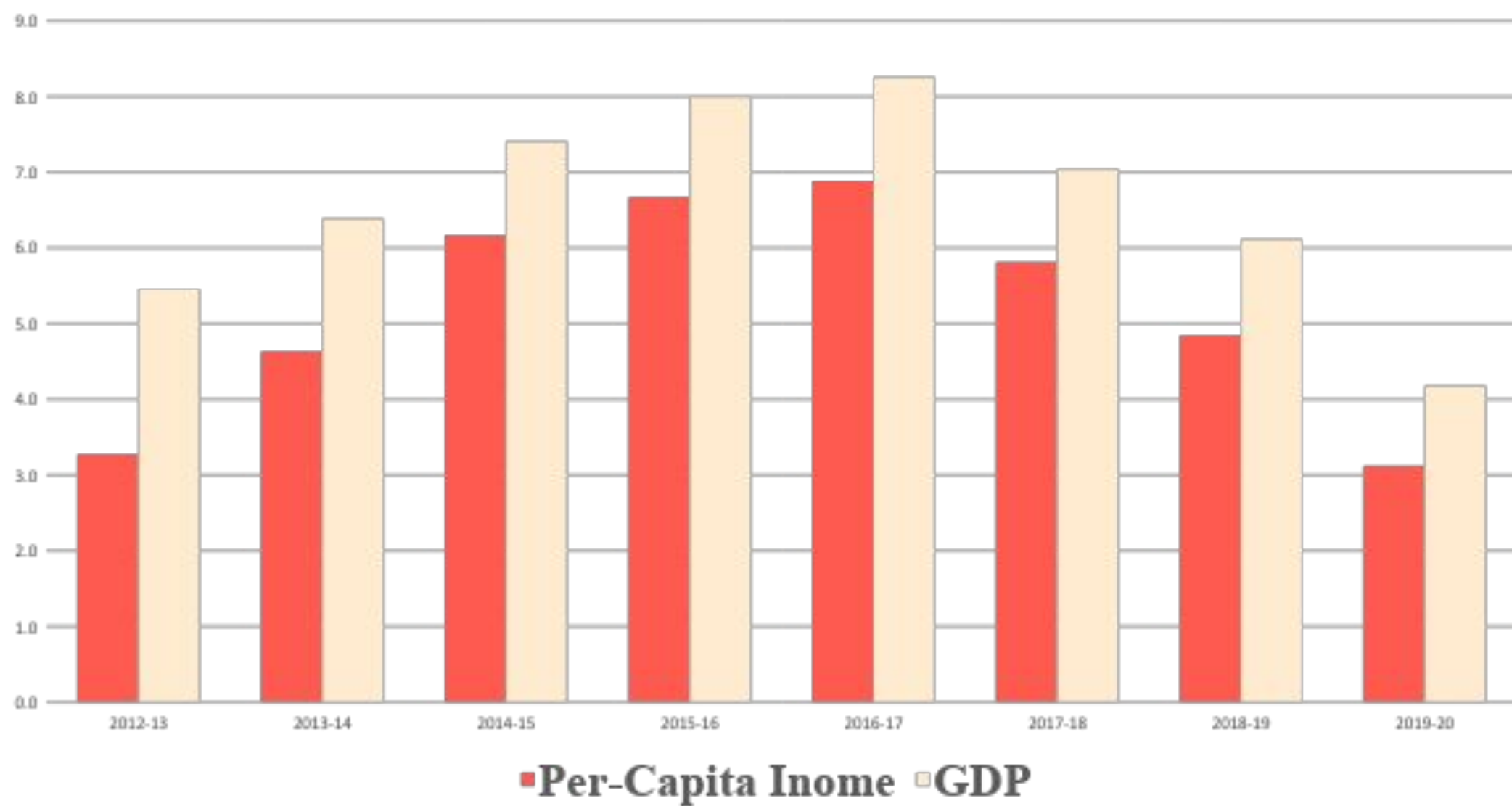
Gross Domestic Product (Rupees in crore)



Per capita income (INR)



GROWTH RATES



- http://www.mospi.gov.in/sites/default/files/press_release/PRESS%20NOTE%20PE%20and%20Q4%20estimates%20of%20GDP.pdf
- <https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20Indian%20Economy>
- <https://databank.worldbank.org/source/world-development-indicators>



SEARCH

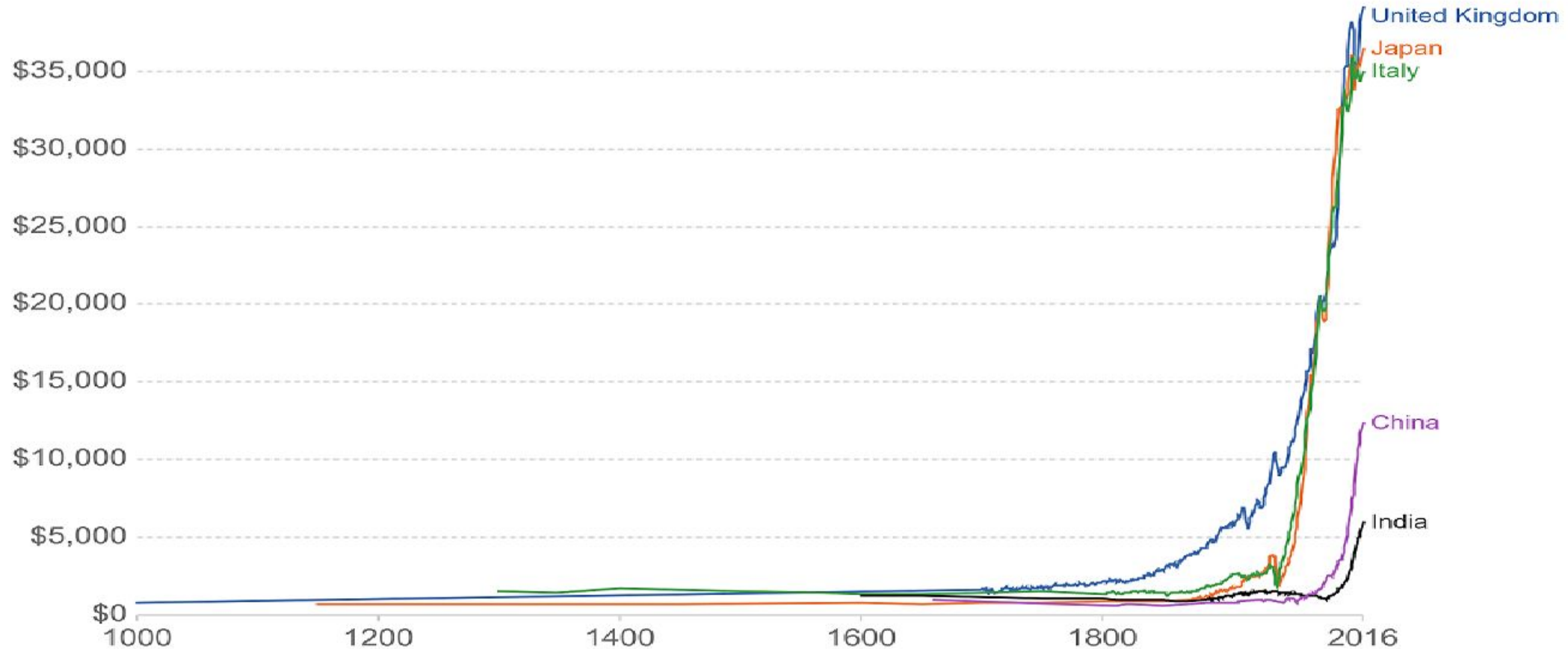
Archives

Table 13 : Institutional Sector-Wise Gross Capital Formation (At Current Prices)

	10 kb		115 kb
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History's hockey stick: Worldwide historical real gross domestic product per capita (1000–2016)

Unit 1 'The capitalist revolution' in The CORE Team, The Economy. Available at: <https://tinyco.re/19274920> [Figure 1.1a]



Source: Maddison Project Database (2018)

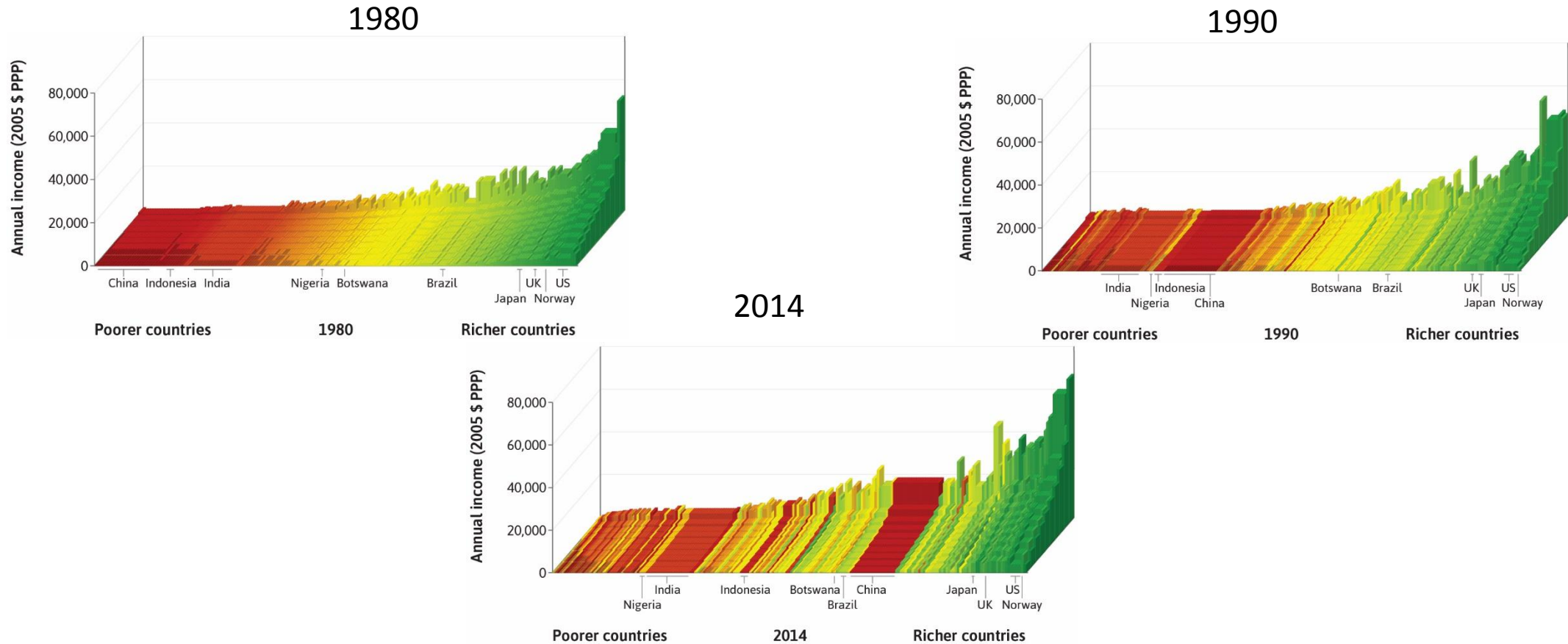
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Note: The units of measurement is '2011 US dollar' which is used to compare Purchasing Power Parity and GDP across countries over time.

Rapid, sustained growth in average living standards since 1700.
How did this happen?

Inequality

How unequal is the world?



In Singapore, the richest country on the furthest right, the average incomes of the richest and poorest 10% are \$67,436 and \$3,652 respectively.

In Liberia, the furthest left, the corresponding incomes are \$994 and \$17.

Measuring income and living standards

Gross Domestic Product (GDP) = A measure of total income and output of the economy in a given period.

- Usually expressed in **per-capita** terms (as an average income).

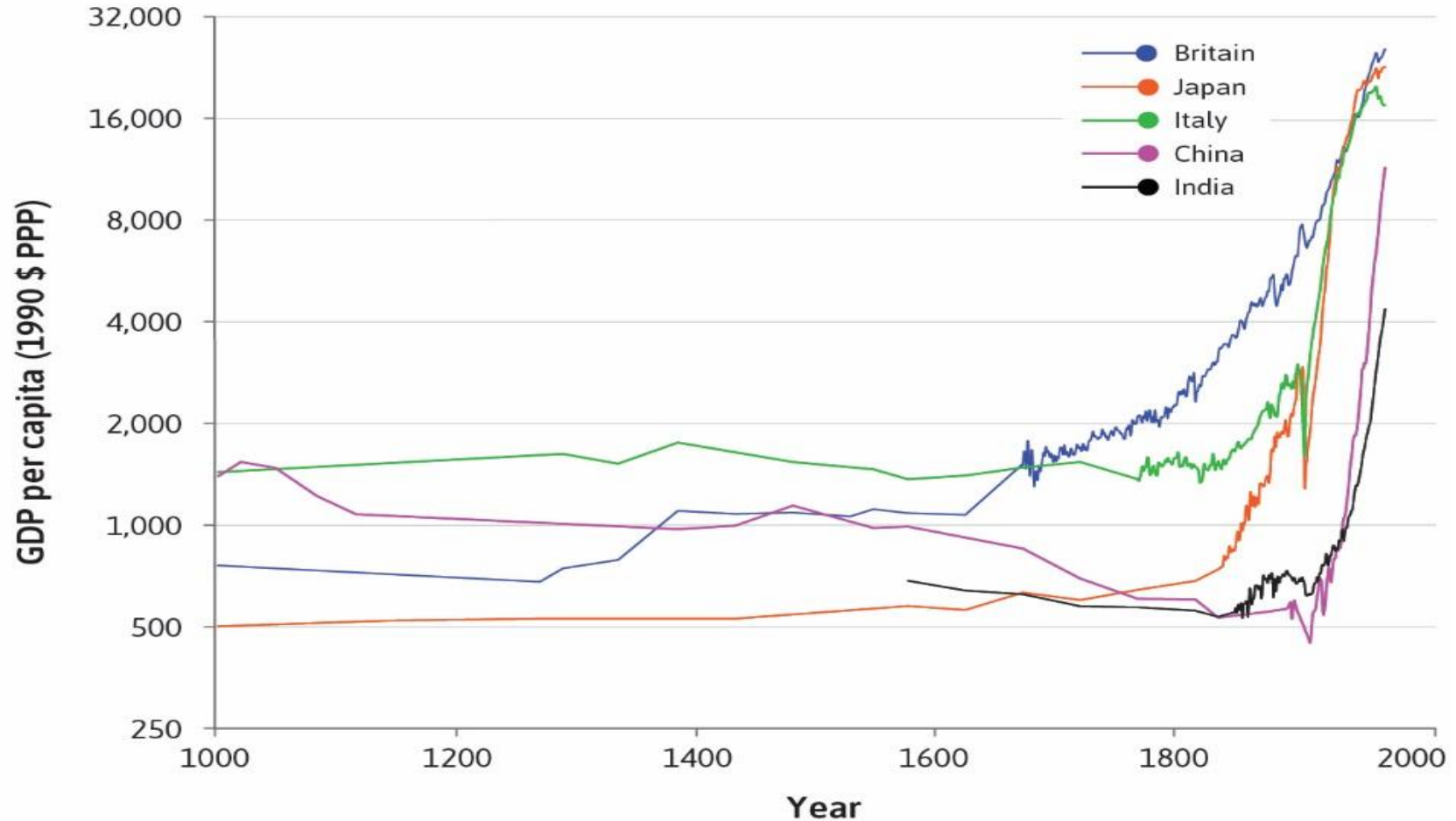
GDP per capita \neq Disposable income

Disposable income = Total income – taxes + government transfers

Both are imperfect measures of well-being

“Hockey-stick” growth

GDP growth rates



“Hockey-stick” curves represent the sustained rapid growth in GDP per capita experienced by countries worldwide.

The Technological Revolution

Technology = A process that uses inputs to produce an output.

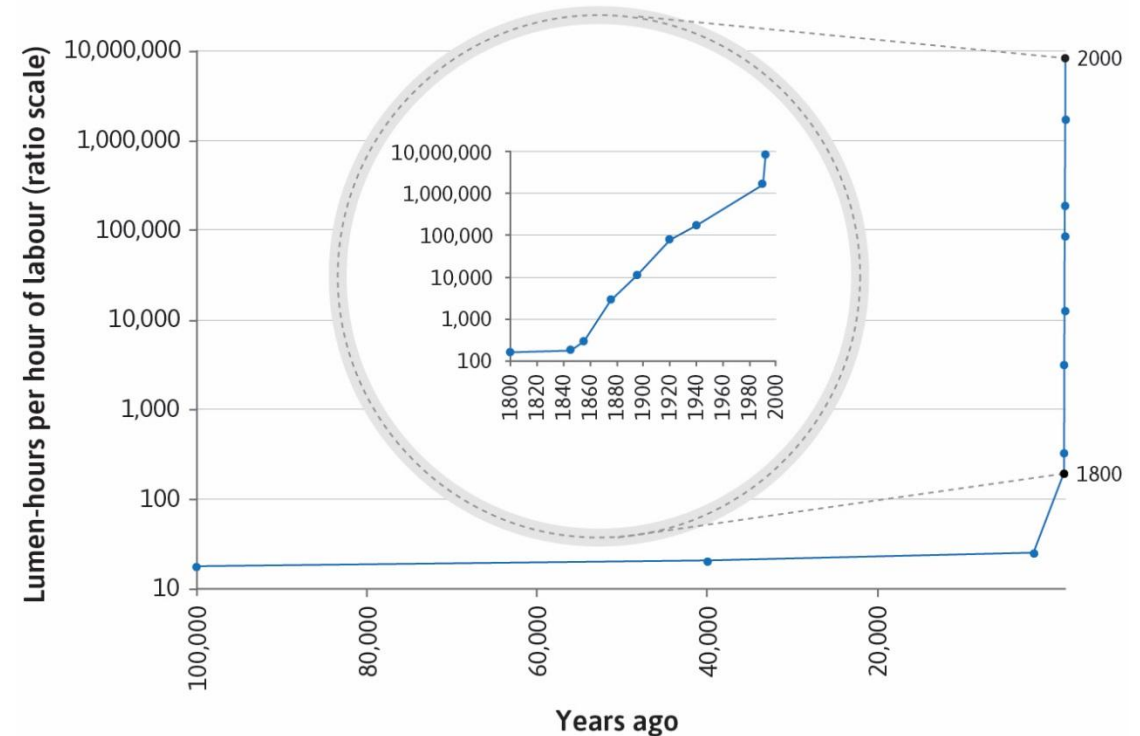
By reducing the amount of work-time it takes to produce the things we need, technological changes allowed significant increases in living standards.

Remarkable scientific and technological advances occurred more or less at the same time as the upward kink in the hockey stick in Britain in the middle of the 18th century.

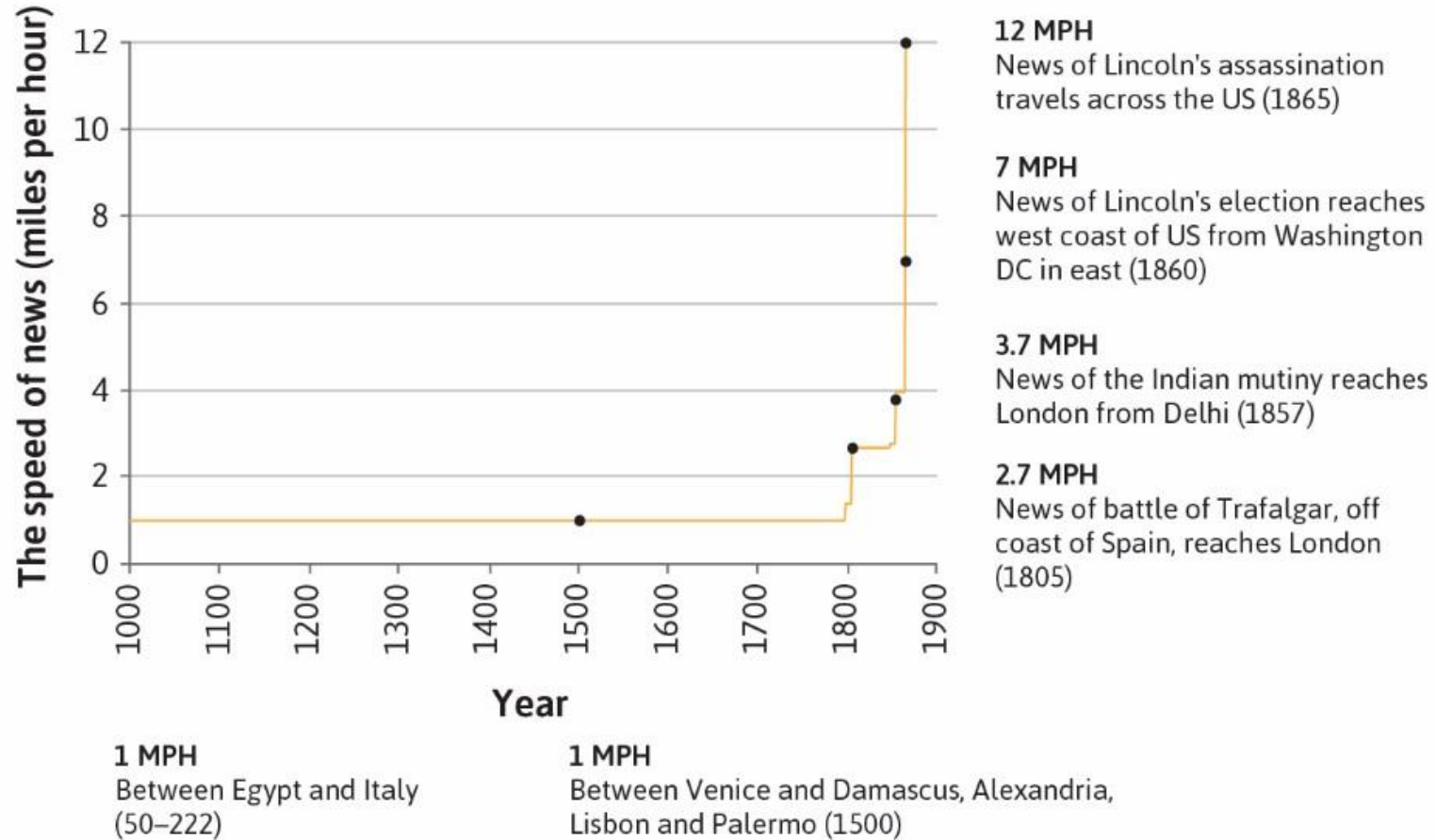
The Industrial Revolution

Industrial Revolution = a wave of technological advances starting in Britain in the 18th century, which transformed an agrarian and craft-based economy into a commercial and industrial economy.

For example, today the productivity of labour in producing light is half a million times greater than it was among our ancestors around their campfire.



A Connected World



Technological progress also greatly improved the speed at which information travels, making the world more connected.

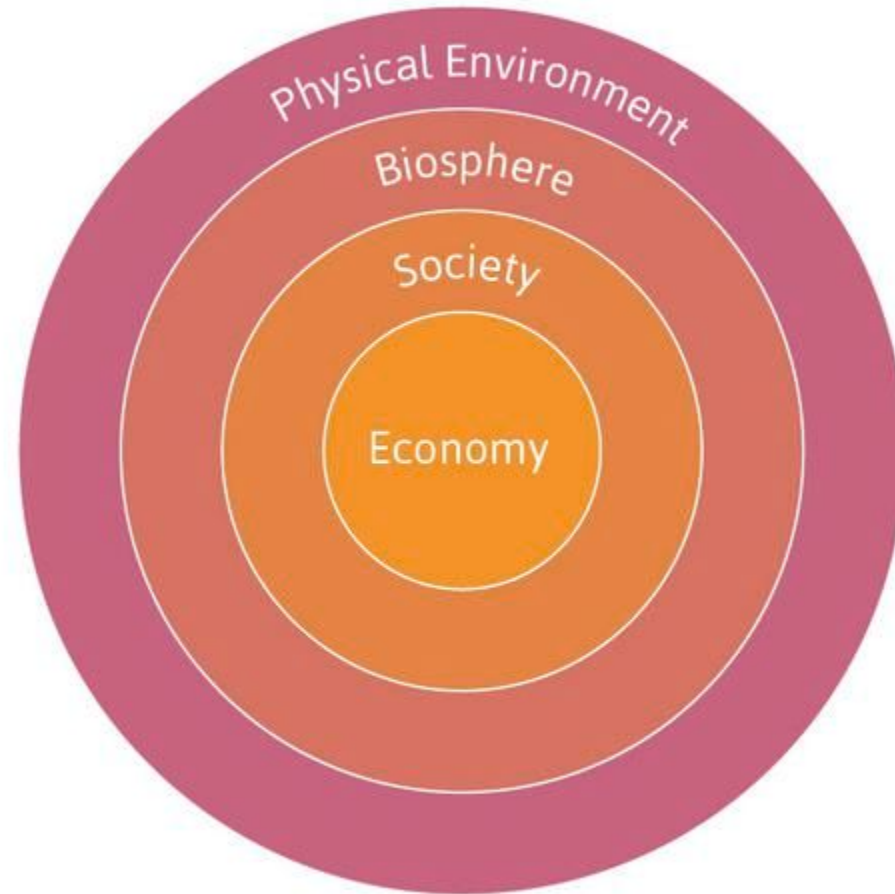
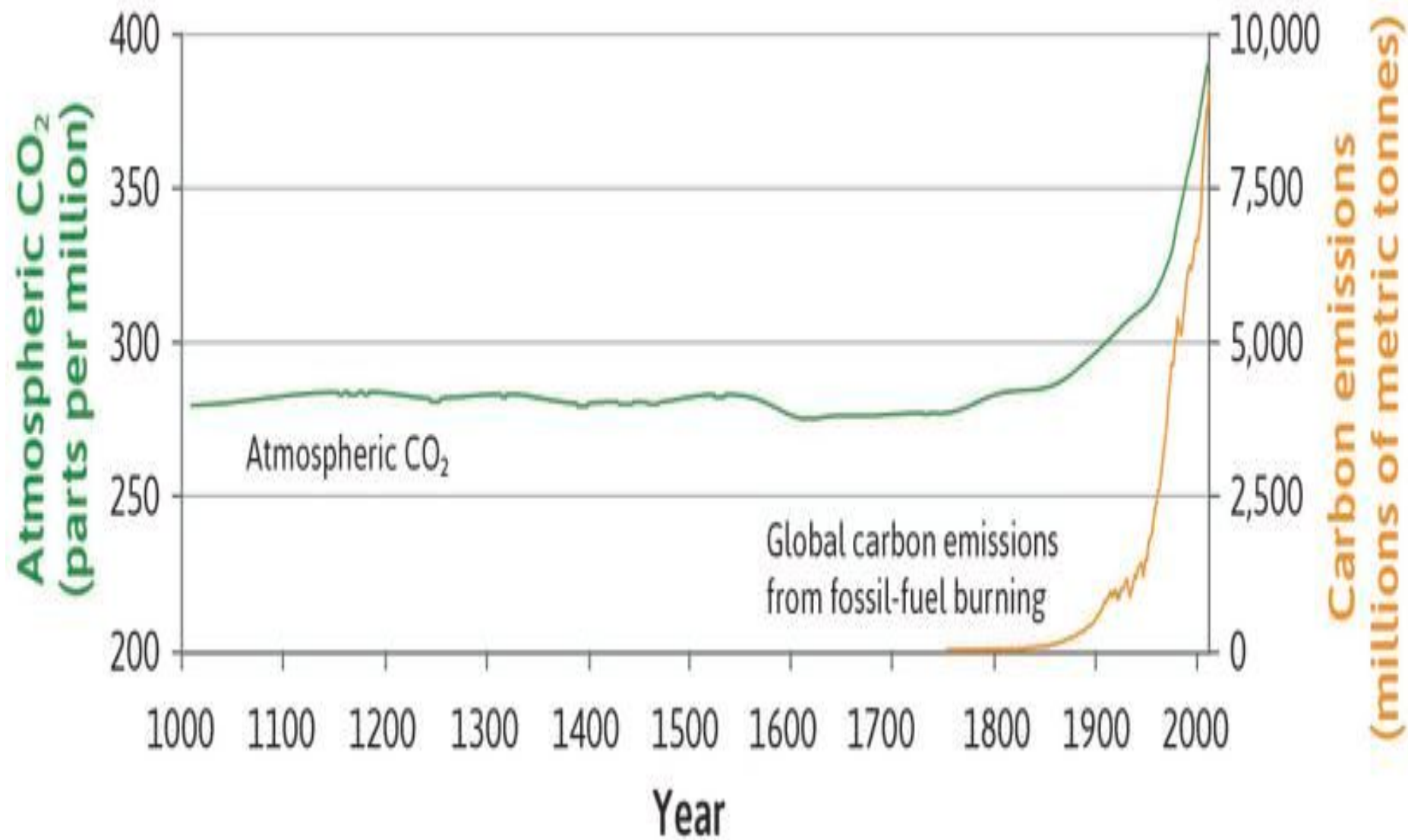
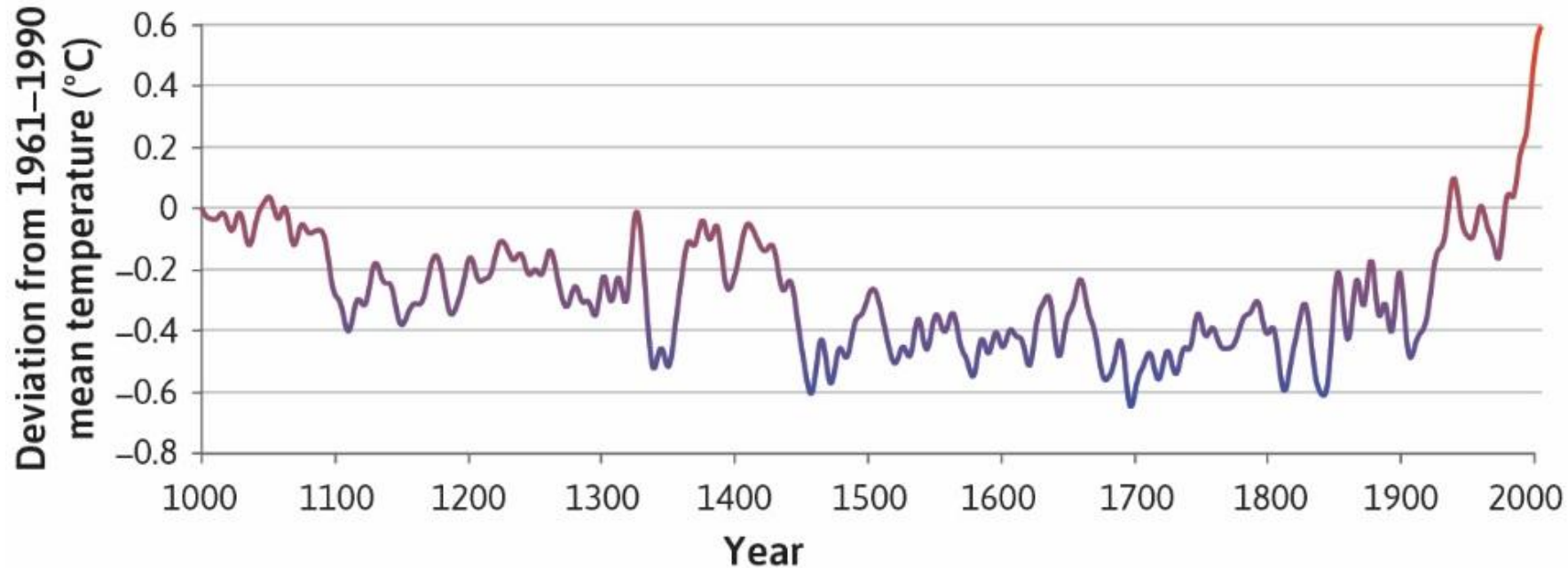


Figure 1.5 The economy is part of society, which is part of the biosphere.



Environmental consequences



Increased production and population growth affects the environment

- Global impacts – climate change
- Local impacts – pollution in cities, deforestation

Technology may provide the solution

Environmental consequences

These effects are results of both

- the expansion of the economy (illustrated by the growth in total output)
- the way the economy is organized (what kinds of things are valued and conserved, for example).

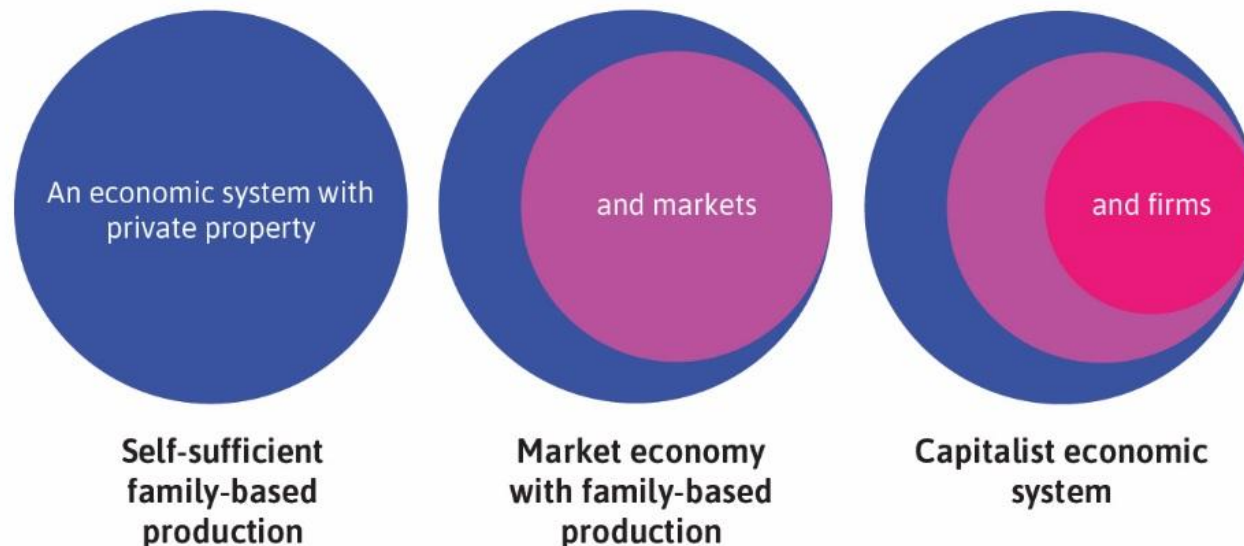
The permanent technological revolution may also be part of the solution, by making it possible to use less resources to produce more output.

Capitalism

Capitalism

Institutions are the laws and social customs governing the production and distribution of goods and services.

Capitalism = an economic system where the main institutions are private property, markets, and firms.



The Capitalist Revolution

Capitalism led to growth in living standards because of:

- impact on technology: firms competing in markets had strong incentives to adopt and develop new technologies
- specialization: the growth of firms and the expansion of markets linking the entire world allowed historically unprecedented specialization in tasks and production

Together with the technological revolution, this increased worker productivity.

The gains from specialization

Specialization increases productivity of labour because we become better at producing things when we each focus on a limited range of activities

- learning by doing
- taking advantage of natural differences in skill and talent
- economies of scale

People can only specialize if they have a way to acquire the other goods they need. In a capitalist society, this is done via markets.

- Adam Smith begins *The Wealth of Nations* with the following sentence:
 - *The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement with which it is anywhere directed, or applied, seem to have been the effects of the division of labour.*
- Division of Labour is Limited by the Extent of the Market', in which Smith explains:
 - *When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for.*

Comparative advantage

	Production if 100% of time is spent on one good
Greta	1250 apples or 50 tonnes of wheat
Carlos	1000 apples or 20 tonnes of wheat

- Greta has **absolute advantage** in production of both crops
- Greta has a comparative advantage in wheat
- Carlos has a **comparative advantage** in apples = he is least disadvantaged in production of apples.

		Self-sufficiency	Complete specialization and trade				
			Production		Trade		Consumption
		1	2		3		4
Greta	Apples	500	0				600
	Wheat	30	50	=	15	+	35
Carlos	Apples	300	1,000	=	600	+	400
	Wheat	14	0				15
Total	Apples	800	1,000		600		1,000
	Wheat	44	50		15		50

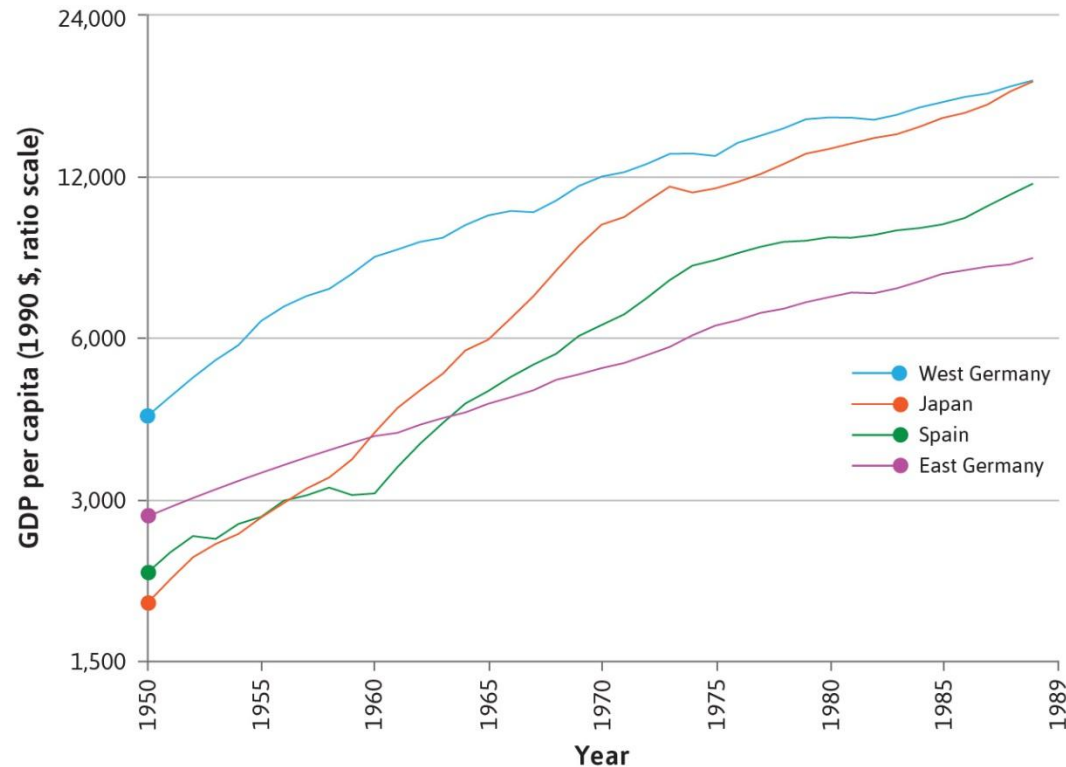
Comparative advantage

All producers can benefit by specializing and trading goods, even when this means that one producer specializes in a good that another could produce at lower cost.

Markets contribute to increasing the productivity of labour by allowing people to specialize.

Did capitalism *cause* the hockey-stick growth?

Natural experiment: the division of Germany at the end of World War II into two separate economic systems, capitalist in the west and centrally planned in the east.



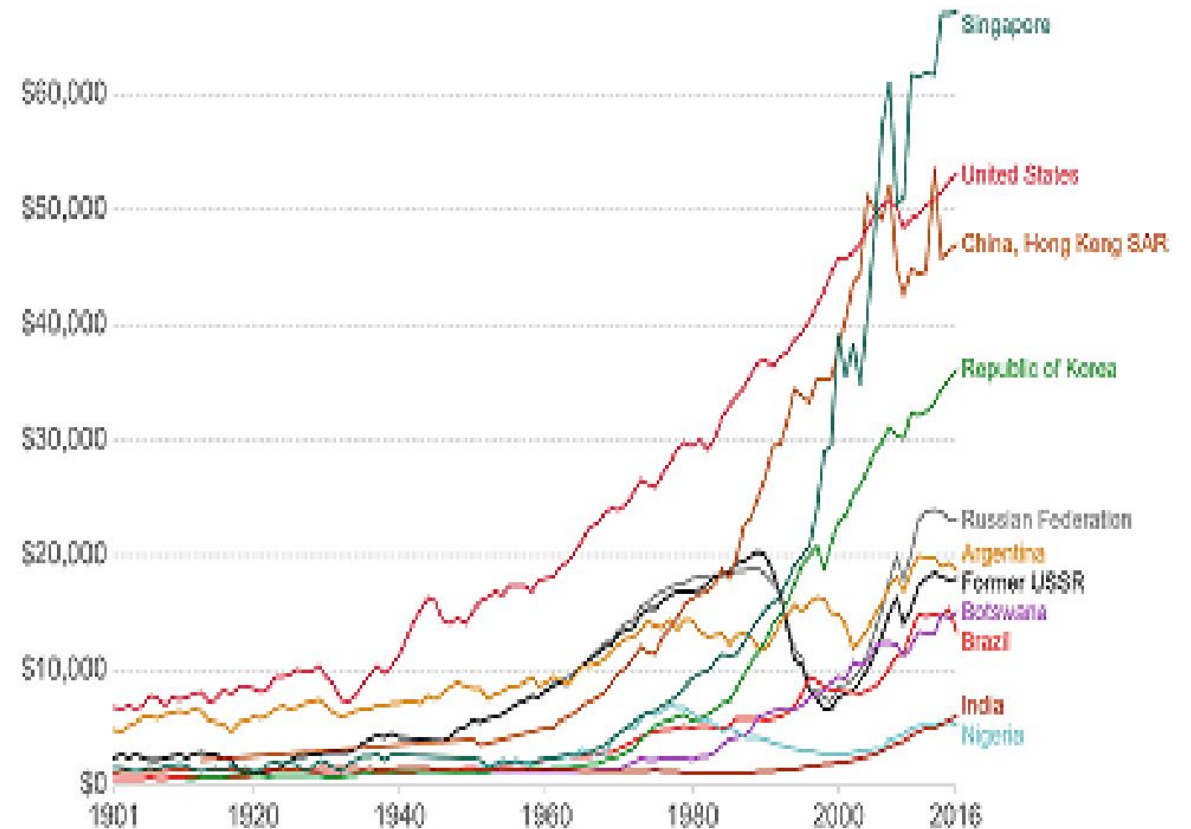
Divergence in growth

Not all capitalist economies are equally successful

- economic conditions: firms, private property, or markets may fail
- political conditions: capitalist institutions are regulated by the government
- the government also provides essential goods and services (infrastructure, education)

Divergence of GDP per capita among latecomers to the capitalist revolution (1800–2016)

Unit 1 'The capitalist revolution' Section 1.10 'Varieties of capitalism: Institutions, government and the economy' in The CORE Team, The Economy. Available at: <https://tinycore.net/27937150> [Figure 1.11]



Source: Maddison Project Database (2018)
Note: The units of measurement is '2011 US dollar'.

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Political systems

Capitalism coexists with many political systems.

A **political system** determines how governments will be selected, and how those governments will make and implement decisions.

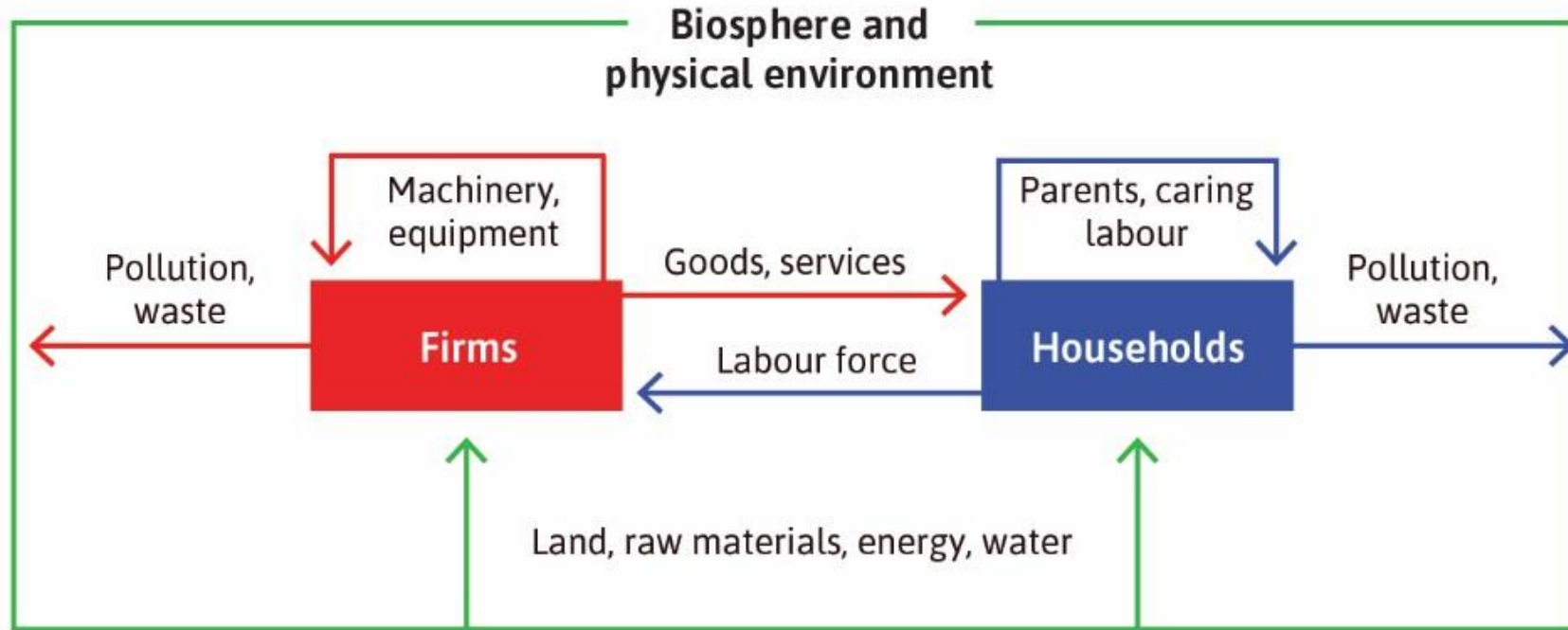
In most countries today, capitalism coexists with **democracy**

- individual rights of citizens (e.g. freedom of speech)
- fair elections

But capitalism has coexisted with non-democratic systems, too.

Economics

What is Economics?



Economics is the study of how people interact with each other and with their natural surroundings in producing their livelihoods, and how this changes over time.

Summary

1. Important trends in economic variables over time
 - Income inequality across regions has increased a lot over time
 - “Hockey-stick” growth in GDP, and its negative consequences
 - **Technological progress** helped bring about these trends
2. The adoption of capitalism was another key factor
 - **Capitalism = Private property + Markets + Firms**
 - Failure of these institutions can explain divergence in economic growth across countries
 - Political systems and the role of government also determine the type of capitalist society