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Economy One Week Scanner for IAS Prelims 2015

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Author

Atul Mittal- B.Com, M.Com, CA (Rank holder), CS

He can be reached at mittalcaatul@gmail.com

Coverage: This book covers almost everything to crack IAS prelims economy questions.

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Chapter: 1 RBI

Establishment	April 1, 1935 in Calcutta but permanently moved to Mumbai in 1937
Nationalization	on 1st January, 1949 on the basis of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948
Act which governs the RBI functions	Reserve Bank of India Act, 1934
Act which governs the Financial sector	Banking Regulation Act, 1949
Financial year of RBI	July to June
Monetary policy year	April to March
Financial year of Companies	April to March

Basic objectives	<ul style="list-style-type: none"> - to regulate the issue of Bank Notes - to keeping of reserves with a view to securing monetary stability in India - to operate the currency and credit system of the country
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Functions	<ul style="list-style-type: none"> - Formulation and execution of monetary policy, - foreign exchange and reserves management, - government debt management, - financial regulation and supervision, - acting as banker to the banks and to the Government
RBI Organizational structure	Central Board of Directors Governor Deputy Governors Executive Directors Principal Chief General Manager Chief General Managers General Managers
Primary authority and responsibility for the oversight of the Reserve Bank is	Central Board
RBI chief executive	The Governor is the Reserve Bank's chief executive. The Governor supervises and directs the affairs and business of the RBI

Monetary policy	<p>refers to the use of instruments under the control of the RBI to regulate the availability, cost and use of money and credit.</p> <p>RBI Governor announces the Monetary Policy in April every year. This is followed by three quarterly reviews in July, October and January.</p> <p>RBI is the independent authority for conducting monetary policy in the best interests of the economy</p>
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Objective	Price stability, low and stable inflation, promoting growth by ensuring adequate flow of credit to the productive sectors of economy, financial stability.
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Instruments used in the formulation and implementation of monetary policy

Direct Instruments	Cash Reserve Ratio (CRR)	CRR is a certain percentage of bank deposits which banks are required to maintain with RBI in cash to ensure that banks have sufficient cash to cover customer withdrawals.
	Statutory Liquidity Ratio (SLR)	SLR is a certain percentage of bank deposits which banks are required to maintain in safe and liquid assets such as government securities, cash and gold. Higher the CRR and SLR, lower will be the liquidity in the system as Banks will have lesser money for providing loans.
Indirect Instruments	Liquidity Adjustment Facility (LAF)	Consists of daily infusion or absorption of liquidity, through repo rate (at which liquidity is injected) and reverse repo rate (at which liquidity is absorbed).
	Repo Rate	is the rate at which RBI lends to banks for short-term purposes. Reduction in Repo rate helps the banks to get money at a cheaper rate and increase in Repo rate discourages the banks.
	REVERSE REPO	is the rate at which RBI borrow s money from the banks. When RBI increases the reverse repo rate then Banks are attracted to deposit with RBI for higher return and for maintaining liquidity.
	Bank Rate	It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers(i.e. at which the Reserve Bank of India lends to banks for medium-term purposes). Increase in Bank Rate increases the cost of borrowing by banks which results into the reduction in credit volume to the banks and hence declines the supply of money. Increase in the bank rate is the symbol of tightening of RBI monetary policy. (i.e. Dearer Monetary Policy) When RBI wants to increase liquidity in the market, it reduces bank rate. When RBI wants to decrease liquidity in the market, it increases bank rate.
	Open Market Operations (OMO)	RBI purchases (or sells) government securities to the general public to control the supply of money in the economy. In case of inflation, it sells the securities to control the flow of money. It acts as a tool to determine the level of liquidity over the

		medium term.
	Marginal Standing Facility (MSF)	A facility under which banks can borrow over night from RBI at 100 basis points above the repo rate to provide a safety valve against unanticipated liquidity shocks. These are usually very short term and banks can borrow from RBI for one day period
	Market Stabilization Scheme (MSS)	For absorbing excess liquidity arising from large capital flows coming to India from abroad, treasury bills and Govt. dated securities are issued by RBI under Market Stabilization Scheme. This operation of RBI is known as sterilization . Thus RBI sterilizes the economy against adverse external shocks.

At present RBI is using tight/dearer monetary policy by keeping key policy rates unchanged to control inflation.

IF	Increase/ Decrease	Liquidity in Market	Inflation
CRR/SLR/REPO/REVERSE REPO/BANK RATE	Increases	Decreases	Decreases
CRR/SLR/REPO/REVERSE REPO/BANK RATE	Decreases	Increases	Increases

Quantitative/Qualitative tools/instruments of monetary policy

Quantitative Tools

- CRR
- SLR
- Repo rate
- Reverse repo rate
- Bank rate
- Open Market Operations (OMO)
- Marginal Standing Facility (MSF)
- Market Stabilisation Scheme (MSS)

Qualitative Tools

- Priority sector lending
- Margin requirement
- Collateral requirement
- Differentiate interest
- Credit rationing
- Moral Suasion

Sample Balance Sheet of RBI (Issue Department)

Liabilities	Rs	Assets	Rs
Notes held in the Banking Department	xx	Gold Coin and Bullion	xx
Notes in Circulation	xx	Foreign securities	xx
		Rupee Coin	xx
		Government of India Rupee Securities	xx
		Internal Bills of Exchange and other Commercial Paper	xx

High Powered Money/Reserve Money

The total liability of the RBI, is called the **monetary base or high powered money**.

<div style="border: 1px solid black; padding: 2px; display: inline-block;">Fully-owned Subsidiaries of RBI</div>	National Housing Bank (NHB), Deposit Insurance and Credit Guarantee Corporation (DICGC), Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)
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RBI also has a majority stake in the National Bank for Agriculture and Rural Development (NABARD).

Government Security

A Government security is a tradable instrument issued by the Central Government or the State Governments. It acknowledges the Government's debt obligation.

Such securities are **short term** (usually called treasury bills, with original maturities of less than one year) or **long term** (usually called Government bonds or dated securities with original maturity of one year or more).

In India, the Central Government issues both, treasury bills and bonds or dated securities while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs).

Government securities carry practically no risk of default and, hence, are called risk-free **gilt-edged securities**.

Commercial Paper (CP)

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note.

Corporates, primary dealers (PDs) and the All-India Financial Institutions (FIs) are eligible to issue CP.

CP can be issued in denominations of Rs.5 lakh or multiples thereof.

CP can be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue.

Certificate of Deposit (CD)

Certificate of Deposit (CD) is a negotiable money market instrument and issued in dematerialized form or as a Usance Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period.

CDs can be issued by (i) scheduled commercial banks {excluding Regional Rural Banks and Local Area Banks}; and (ii) select All-India Financial Institutions (FIs) that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI.

The maturity period of CDs issued by banks should not be less than 7 days and not more than one year, from the date of issue.

Minimum amount of a CD should be Rs.1 lakh

Cash Management of Government

Government's cash account is maintained with the Reserve Bank. The cash -flow mismatches of the Government are largely managed through issuance of Cash Management Bills, Treasury Bills and access to the Ways and Means Advances (WMA) facility from the Reserve Bank when in deficit and through buybacks of securities from market, auctions of its cash balance in market (through RBI) under variable rate repo and investment in Government securities held by the Reserve Bank when in surplus.

Cash Management Bills

Cash Management Bills are issued to meet the temporary cash flow mismatches of the Government.

Promissory note

is a signed document containing a written promise to pay a stated sum to a specified person or the bearer at a specified date or on demand. For example Bank note.

Ways and Means Advances (WMA)

States entrust its banking business to the RBI by voluntarily entering into an agreement including payments, receipts, collection, remittance of money, management of public debt and issue of new loans.

To tide over temporary mismatches in the cash flow of their receipts and payments, the Reserve Bank provides Ways and Means Advances (WMA) to the State Governments.

Foreign exchange reserves

The foreign exchange reserves include foreign currency assets (FCA), Special Drawing Rights (SDRs), Gold and Reserve Tranche Position (RTP) in the IMF.

Special Drawing Rights (SDRs)

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.

Zero Coupon bond

Which carry zero interest rates. These are issued at heavy discount and repayment are made at par value.

Foreign Direct Investments (FDI) and Foreign Institutional Investors (FIIs)

Foreign investment of 10 percent or more in an Indian **listed** company is treated as FDI. Investment less than 10% is treated as FII.

Foreign Investment in an **unlisted** company irrespective of threshold limit is treated as FDI.

FDI invests in new production activities hence help in economic development permanently. Whereas FIIs invest mainly in capital market for short term.

Major portion of FDI in India is from **Mauritius** as it has double taxation avoidance agreement with India. Singapore is on second position.

Sectors where foreign direct investment is prohibited:

- Lottery Business including Government /private lottery, online lotteries, etc.
- Gambling and Betting including casinos etc.
- Chit funds
- Nidhi company-(borrowing from members and lending to members only).
- Trading in Transferable Development Rights (TDRs)
- Real Estate Business (other than construction development) or Construction of Farm Houses
- Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
- Activities / sectors **not open to private sector investment** e.g. Atomic Energy and Railway Transport (other than construction, operation and maintenance of (i) Suburban corridor projects through PPP, (ii) High speed train projects, (iii) Dedicated freight lines, (iv) Rolling stock

including train sets, and locomotives/coaches manufacturing and maintenance facilities, (v) Railway Electrification, (vi) Signaling systems, (vii) Freight terminals, (viii) Passenger terminals, (ix) Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line and (x) Mass Rapid Transport Systems.)

- Services like legal, book keeping, accounting & auditing.

Chapter -2 Banking & Finance

Banking

Calcutta presidency bank was the First bank in India established by East India company in 1806.

Function of commercial banks

Primary:

Accepting deposit and Advancing loans

Secondary:

Collection and payment of various items e.g. Cheques, Bills

Purchase and sell of securities

Remittance of money

Purchase and sell of foreign exchange

Underwriting of shares

Lockers facility

Travellers cheque and letter of credit

Deposits in Bank

Saving account deposit and current account deposits are called **demand deposits** as depositor can withdraw money as and when required.

Recurring deposit and fixed deposits are called **Term deposits** as depositor can withdraw money after a certain period.

Base rate

It is the minimum rate below which banks are not permitted to lend. It has replaced Prime lending rate on July 1, 2010.

Regional Rural Banks

to develop the rural economy by providing credit and other facilities, particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs.

Non-Banking Financial Companies (NBFCs)

An NBFC is defined as a company engaged in the business of lending, investment in shares and securities, hire purchase, chit fund, insurance or collection of monies.

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:

- i. NBFC cannot accept demand deposits;
- ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
- iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Difference between Industrial banks and commercial banks

1. People cannot deposit money in industrial banks but they can do so in commercial banks
2. Industrial banks provide medium and long term loans while commercial banks provide short term loans for meeting working capital requirements.

Example of industrial banks are IDBI, SIDBI, EXIM bank, IFCI etc

Liquidity order

Currency

Demand deposits in Banks

Savings deposits in Banks

Term deposits in Banks

Loans and Advances

In order to maintain the quality of their loans and advances, the Reserve Bank requires banks to classify their loan assets as performing and non-performing assets (NPA).

Non Performing Assets (NPA)

An asset becomes non performing when it ceases to generate income for the bank i.e. when dues are not paid within 90 days. NPAs has been growing in public sector banks over the years.

The NPAs growth is **inversely** related to the GDP growth. Decline in GDP growth leads to rise in NPAs growth.

Protection of Small Depositors

The Reserve Bank has set up Deposit Insurance and Credit Guarantee Corporation (DICGC) to protect the interest of small depositors, in case of bank failure. The DICGC provides insurance cover to all eligible bank depositors upto **Rs.1 lakh** per depositor per bank.

Capital Adequacy ratio

It is the ratio that RBI uses to watch bank's health. It is a measure of how much capital has been used to support the bank's risk assets. Bank capital is divided into

Tier 1 Capital i.e. Share Capital

Tier 2 Capital i.e. Loan Capital

What is meant by Priority Sector Lending?

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.

These are small value loans to

Farmers for agriculture and allied activities,

Micro and small and medium enterprises,

Poor people for housing,

Students for **education**

Other low income groups and **weaker** sections.

Export Credit

Social Infrastructure

Renewable Energy

Banks are required to lend 40% of their loan to priority sector.

Cash credit facilities

Under this facilities, Bank sanctions credit limit on current account of customer. It is given for working capital requirements of customer.

Account holder is permitted to withdraw a certain sum called "limit" or "credit facility" in excess of the amount deposited in the account.

Land development bank

Main objective of the LDB is to promote the development of land, agriculture and increase the agricultural production.

Land development bank provides **long-term funds**.

National bank for Agriculture and Rural development (NABARD)

Highest institution for financing the Agriculture and Rural development

It provides facility of **re-financing** to regional rural banks, state cooperative banks, commercial banks etc.

Small industries development bank of India (SIDBI)

Provides finance to small scale industries

Cooperative banks

A co-operative bank belongs to its members, who are at the same time the owners and the customers of their bank.

Export-Import Bank of India (EXIM Bank)

Established in 1982 under the Export-Import Bank of India Act 1981. H.Q. is in Mumbai.

It is a premier export finance institution of the country

SBI & Associates

Pursuant to the provisions of the State Bank of India Act 1955, RBI acquired a controlling interest in the Imperial Bank of India. On 1 July 1955, the Imperial Bank of India became the State Bank of India.

Associates

1. State Bank of Bikaner and Jaipur
2. State Bank of Hyderabad
3. State Bank of Mysore
4. State Bank of Patiala
5. State Bank of Travancore

Nationalized banks in India (19 Banks at present)

14 major commercial Banks nationalized on 19th July 1969.

1. Allahabad Bank
2. Bank of Baroda
3. Bank of India

4. Bank of Maharashtra
5. Canara Bank
6. Central Bank of India
7. Dena Bank
8. Indian Bank
9. Indian Overseas Bank
10. Punjab National Bank
11. Syndicate Bank
12. UCO Bank
13. Union Bank of India
14. United Bank of India

6 more commercial Banks nationalized in 1980.

1. Andhra Bank
2. Corporation Bank
3. **New Bank of India***
4. Oriental Bank of Commerce
5. Punjab & Sindh Bank
6. Vijaya Bank

*Punjab National Bank acquired New Bank of India in 1993

Cheque Truncation System (CTS)

It is a Image-based Clearing System. An electronic image of the cheque is transmitted to the paying branch through the clearing house. This system eliminates the **physical movement** of cheques and provides a more secure and efficient method for clearing cheques.

Electronic Clearing Service (ECS)

The ‘ECS–Credit’ enables companies to pay interest or dividend to a large number of beneficiaries by direct credit of the amount to their bank accounts.

‘ECS-Debit’ facilitates payment of charges to utility services, such as, electricity bill, telephone bill, insurance premium and loan installments, directly by debit to the customer’s account with a bank.

The Real Time Gross Settlement (RTGS)

The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is Rs. 2 lakh. There is no upper ceiling for RTGS transactions.

This is the fastest possible money transfer system. Settlement in “real time” means transactions are settled as soon as they are processed. “Gross settlement” means the transaction is settled on one to one basis without bunching with any other transaction.

National Electronics Funds Transfer System (NEFT)

NEFT operates in hourly batches. The settlement takes place with all transactions received till the particular cut-off time. Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time.

There is no limit – either minimum or maximum – on the amount of funds that could be transferred using NEFT..

The Kisan Credit Card (KCC)

The Kisan Credit Card (KCC) scheme introduced in August 1998 has emerged as an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle-free manner. The scheme is being implemented in the entire country by the vast institutional credit framework involving Commercial Banks, RRBs and Cooperative banks.

LIBOR (London Inter-Bank Offered Rate)

Is a benchmark rate which world's leading banks charge to each other for short term loans in the London interbank market.

MIBOR stand for Mumbai Inter-bank Offer Rate

Basis Point

100 basis point means 1%. It is used for measuring change in interest rate.

Underwriting

The arrangement by which investment bankers undertake to acquire any unsubscribed portion of a IPO of a securities.

e.g. XYZ Ltd issued a IPO of 2,00,000 shares. XYZ limited entered into underwriting agreement with SBI for underwriting of shares. Offer from public came for 1,50,000 shares, now SBI will have to purchase unsubscribed 50,000 shares.

Gross Domestic Savings consist of

1. Household Savings(Rank 1)
2. Private Corporate Sector Savings (Rank 2)
3. Public Sector Savings (Rank 3)

The Banking Ombudsman Scheme

The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks.

The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services.

Take Out Finance

Take-out financing is a method of providing finance for longer duration projects (say of 15 years) by banks by sanctioning medium term loans (say 5-7 years).

Bancassurance

Means selling of life assurance and other insurance products by banks.

Universal Electronic Bank Account

RBI appointed Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (Chairperson: **Dr. Nachiket Mor**) recommended that every resident above the age of 18 should receive a Universal Electronic Bank Account at the time of registering for an Aadhaar card.

Micro Finance

Providing financial services to low-income individuals or to those who do not have access to typical banking services

Reverse Mortgage

A reverse mortgage enables a **senior citizen** to receive a regular stream of income from a lender (a bank or a financial institution) against the **mortgage of his home**. The borrower (i.e. the individual pledging the property), continues to reside in the property till the end of his life and receives a periodic payment on it.

CIBIL-Credit Information Bureau (India) Limited

Credit Information Bureau (India) Limited is **India's first** Credit Information Company (CIC) founded in August 2000. CIBIL collects and maintains records of an individual's payments pertaining to loans and credit cards. These records are submitted to CIBIL by member banks and credit institutions, on a monthly basis. This information is then used to create Credit Information Reports (CIR) and credit scores which are provided to credit institutions in order to help evaluate and approve loan applications.

Core Banking Solution (CBS)

Core Banking Solution (CBS) is networking of branches, which enables Customers to operate their accounts, and avail banking services from any CBS branch of the Bank , regardless of where he maintains his account. The customer is no more the customer of a Branch. He becomes the Bank's Customer.

Letter Of Credit

A letter of credit is a document from a bank guaranteeing that a seller will receive payment in full as long as certain delivery conditions have been met.

Chapter -3 Budget

Gross Domestic Product

Gross Domestic Product means the aggregate production of **final** goods and services taking place within the domestic economy during a year.

Gross National Product (GNP)

= GDP + Factor income earned by the domestic factors of production employed in the rest of the world. (i.e. Indians or Indian companies abroad) – Factor income earned by the factors of production of the rest of the world employed in the domestic economy. (i.e. profit earned by MNCs in India e.g. Google, IBM)

Hence, $GNP = GDP + \text{Net factor income from abroad.}$

$NNP = GNP - \text{Depreciation}$

All these variables are evaluated **at market prices**. But market price **includes indirect taxes**.

Indirect taxes accrue to the government.

NNP at factor cost or National Income

= NNP at market prices – Net indirect taxes

(Net indirect taxes = Indirect taxes – Subsidies)

Revenue/Budget/Current account deficit

When a government spends more than its revenue collection, it incurs a **budget** deficit.

Or simply say **Budget** deficit = Revenue expenditure – Revenue receipts

in case of a budget deficit, i.e., when Govt. cannot meet its expenses from the tax revenue. So it borrows money by selling treasury bills or government securities to RBI, which issues currency to the government in return. The government then pays for its expenses with this money. The money thus ultimately comes into the hands of the general public.

If budget deficit is financed by raising money then **inflation** may rise.

Effective Revenue deficit

Difference between Revenue deficit and Grant for creation of capital assets

Gross Fiscal deficit

= Total expenditure – (Revenue receipts+ Non-debt creating capital receipts)

Or Gross fiscal deficit = **Market borrowings** (Govt. loans) as deficit is financed through market borrowings for economic development.

Non-debt creating capital receipts are those receipts which are not borrowings and, therefore, do not give rise to debt. For example- recovery of loans and the proceeds from the sale of PSUs.

Net Fiscal deficit

= Gross fiscal deficit – Net loans & advances

Gross Primary deficit

= Gross fiscal deficit – Interest payment

Net Primary deficit = Net **fiscal** deficit – Net interest payment

Deficit reduction

Government deficit can be reduced by an increase in taxes or reduction in expenditure. In India, the government has been trying to increase tax revenue with greater reliance on direct taxes (indirect taxes are regressive in nature – they impact all income groups equally).

Govt. is trying to raise money through the sale of shares in PSUs. However, the major thrust has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programs and better administration.

THE BALANCE OF PAYMENTS

INDIA'S OVERALL BALANCE OF PAYMENTS

A. CURRENT ACCOUNT

- 1 Exports
- 2 Imports
- 3 **Balance of Trade**(1-2)
- 4 Invisibles*: *(as no port entry like import-export)
 - a) Services (e.g. Software services)
 - b) Income (e.g. Investment income)
 - c) Transfers (e.g. Remittance, Grant)
- 5 Current Account Balance (3+4)

B. CAPITAL ACCOUNT

- 1 Foreign Investment
 - a) Direct Investment
 - b) Portfolio Investment
- 2 External Assistance
- 3 Commercial Borrowings
- 4 Short Term Credit (e.g. Supplier's credit)
- 5 Banking Capital
- 6 Rupee Debt Service
- 7 Other Capital
- 8 Total Capital Account (1 to 7)

Overall balance (A+B)

The balance of payments (BoP) record all the transactions in goods, services and assets between residents of a country with the rest of the world for a specified time period generally a year.

RBI releases data for BoP quarterly basis in Financial year. (e.g. April-June, July-Sept, Oct-Dec and Jan-Mar)

There are two main accounts in the BoP – the current account and the capital account.

BoP Surplus and Deficit

Current account balance represents deficit or surplus in the balance of payments.

The essence of international payments is just like an individual who spends more than his income must finance the difference by selling assets or by borrowing.

a country that has current account deficit must finance it by selling assets or by borrowing abroad. Thus, any current account deficit is **financed** by a net capital inflows.

India's current account deficit (CAD) is **coming down** due to fall in international crude prices translated into a sizable saving on account of petroleum oil lubricant (POL).

A current account deficit implies that a country's economy is functioning on borrowed means.

A deficit may be planned for the purpose of helping an economy's development and growth. When an economy is in a state of transition or reform, running a deficit today can provide funding for domestic consumption and investment tomorrow.

Capital & Current account convertibility

Capital account convertibility means the freedom to convert rupees into foreign currency and back for capital transactions.

India currently has **full convertibility** of the rupee in current accounts such as for exports and imports.

However, India's capital account convertibility is not full. There are ceilings on government and corporate debt, external commercial borrowings and equity.

Advantage

It can trigger stepped up inflow of foreign investment. Transactions also can become much easier, and occur at a faster pace.

Disadvantage

It could destabilize an economy especially if there is massive capital flows in and out of the country. Currency appreciation/depreciation could affect the balance of trade.

The Ministry of Finance

The Ministry of Finance comprises of the **five Departments** namely:—

- Department of Economic Affairs
- Department of Expenditure
- Department of Revenue
- Department of Disinvestment
- Department of Financial Services

Budget is prepared by the Budget Division of Department of Economic Affairs, Ministry of Finance.

KEY TO BUDGET DOCUMENTS- BUDGET 2015-2016

The Budget documents presented to Parliament comprise, besides the Finance Minister's Budget Speech, the following:

- A. Annual Financial Statement (AFS)
- B. Demands for Grants (DG)
- C. Appropriation Bill
- D. Finance Bill
- E. Memorandum Explaining the Provisions in the Finance Bill, 2015
- F. Macro-economic framework for the relevant financial year
- G. Fiscal Policy Strategy Statement for the financial year
- H. Medium Term Fiscal Policy Statement
- I. Medium Term Expenditure Framework Statement
- J. Expenditure Budget Volume-1
- K. Expenditure Budget Volume-2
- L. Receipts Budget
- M. Statement of Revenue Impact of Tax Incentives under the Central Tax System.
- N. Budget at a glance
- O. Highlights of Budget.

The documents shown at Serial A, B, C and D are mandated by Article 112,113, 114(3) and 110(a) of the Constitution of India respectively, while the documents at Serial F, G, H and I are presented as per the provisions of the **Fiscal Responsibility and Budget Management Act, 2003**. Other documents are in the nature of explanatory statements supporting the mandated documents.

A brief description of the Budget documents:

Annual Financial Statement (AFS)

It shows:

1. **Estimated** receipts and expenditure of the Government of India for 2015-16.
2. **Budgeted and revised estimates** for 2014-15
3. **Actual expenditure** for the year 2013-14.

The receipts and disbursements are shown under three parts in which Government Accounts are kept viz.,(i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Under the Constitution, Annual Financial Statement distinguishes revenue expenditure from other expenditure.

Government Budget, therefore, comprises Revenue Budget and Capital Budget.

Consolidated Fund of India (Article 266 of the Constitution)

All **revenues** received by Government, loans raised by it, and also its receipts from recoveries of loans granted by it form the Consolidated Fund.

All expenditure of Government is incurred from the Consolidated Fund of India and no amount can be drawn from the Consolidated Fund without authorization from Parliament.

Contingency Fund of India (Article 267 of the Constitution)

It is an **imprest** placed at the disposal of the President of India to facilitate Government to meet urgent unforeseen expenditure pending authorization from Parliament.

Parliamentary approval for such unforeseen expenditure is obtained, post-facto, and an equivalent amount is drawn from the Consolidated Fund to recoup the Contingency Fund.

The corpus of the Contingency Fund as authorized by Parliament presently stands at Rs.500 crore.

Public Account

Moneys held by Government in Trust as in the case of Provident Funds, Small Savings collections, income of Government set apart for expenditure on specific objects like road development, primary education, Reserve/Special Funds etc. are kept in the Public Account.

Public Account funds do not belong to Government and have to be finally paid back to the persons and authorities who deposited them.

Parliamentary authorization for such payments is, therefore, not required, **except** where amounts are withdrawn from the Consolidated Fund with the approval of Parliament and kept in the Public Account for expenditure on specific objects, in which case, the actual expenditure on the specific object is again submitted for vote of Parliament for drawal from the Public Account for incurring expenditure on the specific object.

Revenue Budget

consists of the revenue receipts and revenue expenditure of Government

Revenue receipts:

1. Tax revenues:

Corporation Tax
Taxes on Income
Wealth Tax

Customs
 Union Excise Duties
 Service Tax
 Taxes of Union Territories

2. Non tax revenues

Interest receipts
 Dividend and Profits* (* from PSU, Investments etc)
 External Grants
 Other Non Tax Revenue
 Receipts of Union Territories

Revenue expenditures are divided into Plan expenditure and Non Plan Expenditure.

Examples of revenue expenditure are normal running expenditure of Govt. Departments, Subsidies, Interest on loans etc.

Capital Budget

Consists of capital receipts and capital expenditures.

Capital receipts

A. Non-debt Receipts:

Recoveries of loans and advances
 Miscellaneous Capital Receipts

B. Debt Receipts

Market Loans
 Short term borrowings
 External Assistance
 Securities issued against Small Savings
 State Provident Fund

Capital expenditures are also divided into Plan expenditure and Non Plan Expenditure

Examples of capital expenditure are acquisition of assets like land, buildings, machinery, equipment, investments in shares, loans and advances to State and Union Territory Governments etc.

Demands for Grants

Article 113 of the Constitution mandates that the estimates of expenditure from the Consolidated Fund of India included in the Annual Financial Statement and required to be voted by the Lok-Sabha are submitted in the form of Demands for Grants.

The Demands for Grants are presented to the Lok-Sabha along with the Annual Financial Statement.

Generally, one Demand for Grant is presented in respect of each Ministry or Department.

However, more than one Demand may be presented for a Ministry or Department depending on the nature of expenditure.

In regard to Union Territories without Legislature, a separate Demand is presented for each of the Union Territories.

Appropriation Bill

Under Article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the enactment of such a law by Parliament.

After the Demands for Grants are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amounts so voted and of the amount required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill.

Finance Bill

At the time of presentation of the Annual Financial Statement before Parliament, a Finance Bill is also presented in fulfillment of the requirement of Article 110 (1)(a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget.

A Finance Bill is a Money Bill as defined in Article 110 of the Constitution.

Economic Survey

The Economic Survey highlights the **economic trends** in the country and facilitates a better appreciation of the mobilization of resources and their allocation in the Budget.

It is brought out by the Economic Division of Department of Economic Affairs, Ministry of Finance. The Economic Survey is presented to Parliament in **advance** of the Union Budget. Economic survey was presented on 27-02-2015 and Union Budget on 28-02-2015.

Highlights of Economic Survey 2014-15

Economic Survey 2014-15 discusses the “Make in India” the flagship initiative and a key policy objective of the new government. The **Survey contemplates** “What should India make? Manufacturing or Services? ” As a prelude, the Survey states that, in order to bring about expansion and structural transformation, India should utilize its dominant resource of unskilled labour.

The survey distinguishes registered manufacturing (formal sector) from the general manufacturing which covers informal sector as well. The Economic Survey recognizes registered manufacturing as having “the potential for structural transformation.” Registered manufacturing exhibits high productivity compared to other sectors of the economy.

The Economic Survey identifies **four factors** for non-development of manufacturing as an engine of economic growth –

- Distortions in Labour Market
- Distortions in Capital Market
- Distortions in Land Market
- Specialization not in line with India’s comparative advantage in unskilled labour

The Economic Survey concludes that Indian growth should balance the nation’s comparative advantage in availability of low skilled labour with skill development required by future generations to take advantage of lost opportunities.

The registered manufacturing must be expanded to take leverage of India’s abundant unskilled labour.

While “Make in India” occupies prominence as an important goal, the future trajectory of Indian Development depends on **both** “Make in India” and “Skilling India”,.

Wiping every tear from every eye’: the JAM Number Trinity Solution

Cash-based transfers based on the **JAM number trinity** – Jan Dhan, Aadhaar, Mobile – offer exciting possibilities to effectively target public resources to those who need it most.

India must meet its medium-term fiscal deficit target of 3 percent of GDP. This will provide the fiscal space to insure against future shocks.

India must move towards the golden rule of eliminating the revenue deficit and ensuring that, over the cycle, **borrowing is only for** capital formation. The way to achieve this objective should be based on firm control over expenditures, most notably by eliminating leakages in subsidies and social expenditures.

The Indian banking balance sheet is suffering from ‘**double financial repression**’. On the **liabilities side**, high inflation lowered real rates of return on deposits. On the **assets side**, statutory liquidity ratio (SLR) and priority sector lending (PSL) requirements have depressed returns to bank assets.

Banking is hobbled by policy, which creates double financial repression and impedes competition. The solution lies in a four-fold policy response captured in **4 Ds**: deregulate, differentiate, diversify, and disinter.

From Carbon Subsidy to Carbon Tax: India’s Green Actions

India has cut subsidies and increased taxes on fossil fuels (Petrol and Diesel) turning a carbon subsidy regime into one of carbon taxation. This will reduce CO2 emissions.

The move to substantial carbon taxation combined with India’s ambitious solar power program suggests that India can make substantial contributions to the forthcoming **Paris negotiations** on climate change.

The Economic Survey concludes, the **Fourteenth Finance Commission** (FFC's) Recommendations –

- Will bring about greater fiscal federalism
- Will reduce other Central transfers to states
- Will give greater autonomy to states on revenue and expenditure

Pradhan Mantri Jan Dhan Yojana launched to provide universal access to banking facilities with at least **one** basic banking account for **every household**

Private investment must remain the main engine of long-run growth. But in the short to medium term **public investment** especially by the railways, will have to play a catalytic role.

Main factors causing **moderation in inflation** include **Government measures to control food inflation and persistent decline in crude prices.**

Economic Survey says among the major economies with current account deficit, India is the **second largest** foreign exchange reserve holder after Brazil.

To improve resilience of the agricultural sector and bolster food security--including availability and affordable access, the **strategy for agriculture** has to focus on **improving yield and productivity.**

Three new schemes viz., the Swachh Bharat Mission (SBM), Heritage City Development and Augmentation Yojana (HRIDAY), and Smart City Scheme have been announced for development of urban infrastructure.

The Economic Survey emphasizes on the need for a national common agricultural market and identifies un-integrated and distortion ridden agricultural market as the one of the most striking problems in agriculture growth.

Plan and Non-Plan Expenditure

Plan Expenditure

- 1 Central Plan
- 2 Central Assistance for State and Union Territory Plans

Non Plan Expenditure

- 1 Interest Payments and Debt Servicing
- 2 Grants to State and UT Governments
- 3 Defence expenditure
- 4 Pensions
- 5 Police
- 6 Capital Outlay(excluding Defence)
- 7 Subsidies
- 8 Grants to Foreign Govt.
- 9 Grants to Central PSUs
- 10 Postal Deficit

Gender Budget

Gender Budget Statement was first introduced in Budget 2005-06.

Every year the Ministries/Departments are requested through the Annual Budget Circular to highlight the quantum of public expenditure earmarked in budget for women.

On the basis of the that information, the Gender Budget Statement is prepared.

This Statement indicates, in two parts,

Part A details schemes in which 100% provision is for women, Part B reflects schemes where the allocations for women constitute at least 30% of the provision.

The purpose of gender budgeting is to monitor expenditure and public service delivery from a gender perspective, as a means of mainstreaming women's concerns in all activities and improving their access to public resources.

Key Features of Budget 2015-2016 (February 28, 2015)

Budget 2015-16 marks the dawn of 'Co-operative federalism' and empowerment of the States. The creation of National Institution of Transforming India (NITI) and acceptance of 14th Finance Commission's (FFC) recommendation of substantially higher devolution of Union taxes to States are landmarks in this direction.

This Budget marks the beginning of the award period (2015-2020) of the FFC during which States will be devolved 42% of the divisible pool of Union taxes from existing 32%.

This is expected to bring in high growth and faster development of different regions of the country contributing to overall National growth. The idea is to build 'Team India with stronger States'.

The Government firmly believes that "India grows when States grow".

Three Key achievements:

Financial Inclusion- 12.5 crores families financially mainstreamed in 100 days.

Transparent Coal Block auctions to augment resources of the States.

Swachh Bharat is not only a programme to improve hygiene and cleanliness but has become a movement to regenerate India.

Game changing reforms on the anvil:

Goods and Service Tax (GST)

Jan Dhan, Aadhar and Mobile (JAM) - for direct benefit transfer.

State Of Economy

CPI inflation projected at 5% by the end of the year, consequently, easing of monetary policy.

Monetary Policy Framework Agreement with RBI, to **keep inflation** below 6%.

GDP growth in 2015-16, projected to be between 8 to 8.5%.

Amrut Mahotsav - The year 2022, 75th year of Independence

Vision for “Team India” led by PM

Housing for all - 2 crore houses in Urban areas and 4 crore houses in Rural areas.

To make India, the manufacturing hub of the World through Skill India and the Make in India Programmes.

Major Challenges Ahead

Five major challenges:

- Agricultural income under stress,
- increasing investment in infrastructure,
- decline in manufacturing,
- resource crunch in view of higher devolution in taxes to states,
- maintaining fiscal discipline.

To meet these challenges

- public sector needs to step in to catalyse investment,
- make in india programme to create jobs in manufacturing,
- continue support to programmes with important national priorities such as agriculture, education, health, MGNREGA, rural infrastructure including roads.

Challenge of maintaining fiscal deficit of 4.1% of GDP met in 2014-15, despite lower nominal GDP growth due to lower inflation and consequent sub-dued tax buoyancy.

Fiscal Roadmap

Government firm on journey to achieve **fiscal target** of 3% of GDP.

The fiscal deficit targets are 3.9%, 3.5% and 3.0% in FY 2015-16, 2016-17 & 2017-18 respectively.

Good governance

Need to cut subsidy leakages, not subsidies themselves. To achieve this, Government committed to the process of rationalizing subsidies.

Direct Transfer of Benefits to be extended further with a view to increase the number of beneficiaries from 1 crore to 10.3 crore.

Agriculture

Major steps take to address the **two major factors** critical to agricultural production, that of soil and water.

‘Param parag at Krishi Vikas Yojana’ to be fully supported.

‘Pradhan mantri Gram Sinchai Yojana’ to provide ‘**Per Drop More Crop**’.

Rs.5,300crore to support micro-irrigation, watershed development and the ‘Pradhan Mantri Krishi Sinchai Yojana’. States urged to chip in.

Rs.25,000crore in 2015-16 to the corpus of Rural Infrastructure Development Fund(RIDF) set up in NABARD;

Rs.15,000 crore for Long Term Rural Credit Fund;

Rs.45,000 crore for Short Term Co-operative Rural Credit Refinance Fund; and

Rs.15,000 crore for Short Term RRB Refinance Fund.

Target of Rs.8.5 lakh crore of **agricultural credit** during the year 2015-16.

Need to create a National Agriculture Market for the benefit of farmers, which will also have the incidental benefit of moderating price rises.

Government to work with the States, in NITI, for the creation of a Unified National Agriculture Market.

Funding the Unfunded

Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of Rs.20,000 crores, and credit guarantee corpus of Rs.3,000 crores to be created.

In lending, priority will be given to **SC/ST** enterprises.

MUDRA Bank will be responsible for refinancing all Micro-finance Institutions which are in the business of lending to such small entities of business through a Pradhan Mantri Mudra Yojana.

A Trade Receivables discounting System (TReDS) which will be an electronic platform for facilitating financing of trade receivables of MSMEs to be established.

Comprehensive Bankruptcy Code of global standards to be brought in fiscal 2015-16 towards ease of doing business.

Postal network with 1,54,000 points of presence spread across villages to be used for increasing access of the people to the formal financial system.

NBFCs registered with RBI and having asset size of Rs.500 crore and above may be considered for notifications as 'Financial Institution' in terms of the SARFAESI Act, 2002.

From Jan Dhan to Jan Suraksha

Pradhan Mantri Suraksha Bima Yojna to cover accidental death risk of Rs.2 Lakh for a premium of just Rs.12 per year.

Atal Pension Yojana to provide a defined pension, depending on the contribution and the period of contribution. Government to contribute 50% of the beneficiaries' premium limited to Rs.1,000 each year, for five years, in the new accounts opened before 31st December 2015.

Pradhan Mantri Jeevan Jyoti Bima Yojana to cover both natural and accidental death risk of Rs.2 lakh at premium of Rs. 330 per year for the age group of 18-50.

Unclaimed deposits of about Rs.3,000 crores in the PPF, and approximately Rs.6,000 crores in the EPF corpus. The amounts to be appropriated to a corpus, which will be used to subsidize the premiums on these social security schemes through creation of a Senior Citizen Welfare Fund in the Finance Bill.

Infrastructure

National Investment and Infrastructure Fund (NIIF), to be established with an annual flow of Rs.20,000 crores to it.

Tax free infrastructure bonds for the projects in the rail, road and irrigation sectors.

Atal Innovation Mission (AIM) to be established in NITI to provide Innovation Promotion Platform involving academicians, and drawing upon national and international experiences to foster a culture of innovation, research and development. A sum of Rs.150 crore will be earmarked.

(SETU) Self-Employment and Talent Utilization) to be established as Techno-financial, incubation and facilitation programme to support all aspects of start-up business.

Rs.1000 crore to be set aside as initial amount in NITI.

5 new Ultra Mega Power Projects, each of 4000 MW, in the Plug-and-Play mode.

Financial Market

Public Debt Management Agency (PDMA) bringing both external and domestic borrowings under one roof to be set up this year.

Forward Markets commission to be merged with SEBI.

Government to bring enabling legislation to allow employee to opt for EPF or New Pension Scheme. For employee's below a certain threshold of monthly income, contribution to EPF to be option, without affecting employees' contribution

Monetising Gold

Gold monetisation scheme to allow the depositors of gold to earn interest in their metal accounts and the jewellers to obtain loans in their metal account to be introduced.

Sovereign Gold Bond, as an alternative to purchasing metal gold scheme to be developed

Commence work on developing an **Indian gold coin**, which will carry the Ashok Chakra on its face.

Safe India

Rs.1000 crores to the **Nirbhaya Fund**.

Tourism

Visas on arrival to be increased to 150 countries in stages.

Green India

Target of **renewable energy** capacity revised to 175000 MW till 2022, comprising 100000 MW Solar, 60000 MW Wind, 10000 MW Biomass and 5000 MW Small Hydro.

Skill India

Less than 5% of our potential work force gets formal skill training to be employable. A national skill mission to consolidate skill initiatives spread across several ministries to be launched.

Deen Dayal Upadhyay Gramin Kaushal Yojana to enhance the employability of rural youth.

A student Financial Aid Authority to administer and monitor the front-end all scholarship as well Educational Loan Schemes, through the **Pradhan Mantri Vidya Lakshmi Karyakram**.

An IIT to be set up in Karnataka and Indian School of Mines, Dhanbad to be upgraded in to a full-fledged IIT.

New All India Institute of Medical Science (AIIMS) to be set up in J&K, Punjab, Tamil Nadu, Himachal Pradesh and Assam. Another AIIMS like institutions to be setup in Bihar.

A post graduate institute of Horticulture Research & Education is to be set up in Amritsar.

3 new National Institute of Pharmaceuticals Education and Research in Maharashtra, Rajasthan & Chattisgarh and one institute of Science and Education Research is to be set up in Nagaland & Orissa each.

An autonomous Bank Board Bureau to be set up to improve the governance of public sector bank.

The National Optical Fibre Network Programme (NOFNP) to be further speeded up by allowing willing states to execute on reimbursement of cost basis.

Budget Estimates

Non-Plan expenditure estimates for the Financial Year are estimated at Rs.13,12,200crore.

Plan expenditure is estimated to be Rs.4,65,277crore.

Total Expenditure has accordingly been estimated at Rs.17,77,477crore.

Gross Tax receipts are estimated to be Rs.14,49,490crore.

Devolution to the States is estimated to be Rs.5,23,958.

Share of Central Government will be Rs.9,19,842.

Non Tax Revenues for the next fiscal are estimated to be Rs.2,21,733crore.

Fiscal deficit will be 3.9 per cent of GDP and Revenue Deficit will be 2.8 per cent of GDP.

Tax Proposal

No change in rate of personal income tax.

Proposal to reduce corporate tax from 30% to 25% over the next four years, starting from next financial year.

Black Money

Acceptance or re-payment of an advance of Rs.20,000 or more in cash for purchase of immovable property to be prohibited.

PAN being made mandatory for any purchase or sale exceeding Rupees 1 lakh.

Ease of doing business – Minimum Government Maximum Governance

Simplification of tax procedures.

Monetary limit for a case to be heard by a single member bench of ITAT increase from Rs.5 lakh to Rs.15 lakh.

Central excise/Service tax assesses to be allowed to use digitally signed invoices and maintain record electronically.

Wealth-tax replaced with additional surcharge of 2 per cent on super rich with a taxable income of over Rs.1 crore annually.

Domestic transfer pricing threshold limit increased from Rs.5 crore to Rs.20 crore.

MAT rationalized for FIIs and members of an AOP.

Education cess and the Secondary and Higher education cess to be subsumed in Central Excise Duty.

Online central excise and service tax registration to be done in two working days.

Time limit for taking CENVAT credit on inputs and input services increased from 6 months to 1 year.

Service-tax plus education cesses increased from 12.36% to 14% to facilitate transition to GST.

Donation made to National Fund for Control of Drug Abuse (NFCDA) to be eligible for 100% deduction u/s 80G of Income-tax Act.

Swachh Bharat

100% deduction for contributions, other than by way of CSR contribution, to Swachh Bharat Kosh and Clean Ganga Fund.

Clean energy cess increased from Rs.100 to Rs.200 per metric tonne of coal, etc. to finance clean environment initiatives.

Enabling provision to levy Swachh Bharat cess at a rate of 2% or less on all or certain services, if need arises.

Services by common affluent treatment plant exempt from Service-tax.

Concessions on custom and excise duty available to electrically operated vehicles and hybrid vehicles extended upto 31.03.2016.

Benefits to middle class tax-payers

Limit of deduction of **health insurance** premium increased from Rs.15000 to Rs.25000, for **senior citizens** limit increased from Rs.20000 to Rs.30000.

Senior citizens above the age of 80 years, who are not covered by health insurance, to be allowed deduction of Rs.30000 towards medical expenditures.

Deduction limit of Rs.60000 with respect to specified disease of serious nature enhanced to Rs.80000 in case of senior citizen.

Additional deduction of Rs.25000 allowed for differently abled persons.

Limit on deduction on account of contribution to a pension fund and the new pension scheme increased from Rs.1 lakh to Rs.1.5 lakh.

Additional deduction of Rs.50000 for contribution to the new pension scheme u/s 80CCD.

Payments to the beneficiaries including interest payment on deposit in Sukanya Samriddhi scheme to be fully exempt.

Service-tax exemption on **Varishtha Bima Yojana**.

Yoga to be included within the ambit of charitable purpose under Section 2(15) of the Income-tax Act.

Direct tax proposals to result in revenue loss of Rs.8315 crore, whereas the proposals in indirect taxes are expected to yield Rs.23383 crore. Thus, the net impact of all tax proposals would be revenue gain of Rs.15068 crore.

Chapter-4 Money Market & Stock Market

Money

It acts as a medium of exchange.

Economic exchanges without the money are referred to as **barter** exchanges.

A **rising price level** may erode the purchasing power of money.

Money is the **most liquid** of all assets in the sense that it is universally acceptable and hence can be exchanged for other commodities very easily.

It has an **opportunity cost**. If, instead of holding a certain cash balance, you put the money in a fixed deposits you can earn interest on that money.

People desire to hold money balance broadly from two motives.

1. The transaction motive i.e. to carry out transactions.
2. **The Speculative Motive i.e.** to earn monetary returns in future.

Apart from currency notes and coins, the balance in savings or current account (i.e. Demand deposits) is also considered money since cheques drawn on these accounts are used to settle transactions.

Every currency note bears on its face a **promise from the Governor** of RBI that if someone produces the note to RBI, or any other commercial bank, RBI will be responsible for giving the person purchasing power equal to the value printed on the note. The same is also true of coins.

Currency notes and coins are therefore called **fiat money**. They do not have intrinsic value like a gold or silver coin. They are also called **legal tenders** as they cannot be refused by any citizen of the country for settlement of any kind of transaction.

Cheques drawn on savings or current accounts, however, can be refused by anyone as a mode of payment. Hence, demand deposits are not legal tenders.

Time Value of Money

Money has time value as a Rupee today is more valuable and useful than a Rupee a year later.

In an inflationary environment, a Rupee today will have greater purchasing power than after a year.

Narrow and Broad Money

The total stock of money in circulation among the public at a particular point of time is called **money supply**. RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3 and M4. They are defined as follows:

M1 = Currency notes & coins + Demand deposits held by commercial banks

M2 = M1 + Savings deposits with Post Office savings banks

M3 = M2 + Net time deposits of commercial banks

M4 = M3 + Total deposits with Post Office savings organisations (excluding National Savings Certificates)

The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply.

M1 and M2 are known as **narrow money**. M3 and M4 are known as **broad money**. These gradations are in decreasing order of liquidity. M1 is most liquid and easiest for transactions whereas M4 is least liquid of all.

Money in circulation

Coins in circulation: **50 paise**, 1, 2, 5 and 10 rupee

Notes in circulation: 5, 10, 20, 50, 100, 500 and 1000

Upto Re. 1 note and coins are issued by Govt of India (Ministry of finance). Rest are issued by RBI

As per Indian coinage act, Rupee coin 1 and above can be used to pay for any sum. 50 paise coin can be used to pay for any sum not exceeding 10 rupees.

Govt has issued **Rs. 50 coin** due to completion of 50 years of BHEL.

Bull and Bear Market

A bull market is one where prices are rising, whereas a bear market is one where prices are falling.

bull is someone who has a very optimistic view of the market; they may be stock-holders or maybe investors who aggressively buy and sell stocks quickly.

A bear investor, on the other hand, is pessimistic about the market and may make more conservative stock choices.

Money market

Controlled by RBI. Sources which meet short term requirements of money are the constituents of the money market.

Capital/Security market

Sources which meet medium and long term requirements of money are the constituents of the capital market. Controlled by SEBI.

Primary-It is a market of new issue. Since securities are new hence they create capital formation.

Secondary-It provides market ability for the securities coming for sale in stock market. There is no profit for company. When price of securities is increased, capitalization of company increased.

Derivatives

Which derive their value from underlying asset. E.g. money, share

Major stock exchanges of world

Country	Stock Exchange	Indices
India	Bombay Stock Exchange.	SENSEX (30 companies)
India	National Stock Exchange of India.	NIFTY (50 companies)
Japan	Tokyo stock exchange	NIKKEI
US	New York Stock Exchange (NYSE)	NYSE Composite, Dow Zones, S&P 500
US	NASDAQ	NASDAQ Composite, Dow Zones, S&P 500
UK	London stock exchange	FTSE 100
China	Shanghai stock exchange	SSE Composite
China	Hong Kong stock market	Hang Seng
China	Shenzhen stock exchange	SZSE component
Singapore	Singapore stock market	Straits Times STI
Pakistan	Karachi Stock Exchange	KSE 100
Brazil	Sao Paulo stock exchange	IBOVESPA
Korea	Korea Stock exchange	KOSPI
Germany	German stock exchange	DAX
France	French stock market	CAC 40

The Securities and Exchange Board of India (SEBI)

SEBI was enacted on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

Basic functions of the SEBI are **"to protect the interests of investors in securities and to promote the development of, and to regulate the securities market"**

Chairman-Shri U K Sinha

HQ in Mumbai.

IPO- Initial Public Offering

Is a stock market launch of securities of a company to Public

Bonus Issue

free securities given to current shareholders in a company,

Right Issue

A rights issue is an issue of rights to the company's existing security holders to buy additional securities.

Insider trading

Insider trading is the trading of a company's securities by individuals with access to nonpublic information about the company. It is illegal everywhere and India also. SEBI has made "SEBI (Prohibition of Insider Trading). Regulations, 2015"

Chapter 5 Micro Economy

Adam Smith is regarded as the **founding father** of modern economics.

Central Problems of an Economy

1 **What is** produced and in what quantities?

Every society must decide on how much of each of the many possible goods and services it will produce. Whether to produce more agricultural goods or industrial products and services.

2 **How are** these goods produced?

How much of which of the resources to use. Whether to use more labour or more machines.

3 **For whom** are these goods produced?

How should the produce of the economy be distributed among the individuals in the economy?

Thus, every economy faces the problem of allocating the **scarce** resources to the production of different possible goods and services and of distributing the produced goods and services among the individuals within the economy.

Production possibility set

Resources of an economy as a whole are always **limited**. The collection of all possible combinations of the goods and services that can be produced from available amount of resources is called the **production possibility set** of the economy.

Type of Economy

The Centrally Planned Economy

In a centrally planned economy, the government or the central authority plans **all the important activities** in the economy.

The Market Economy

In a capitalist economy, all the central problems are solved with the help of price mechanism. The basis of price mechanism is that every commodity or service has a price which is determined with the help of supply and demand.

If the buyers demand more of a certain good, the price of that good will rise. This will send a signal to the producer of that good that the society as a whole wants more of that good and the producers of the such good, are likely to increase their production.

In this way, prices of goods and services send important information to all the individuals across the market and help achieve coordination in a market system.

Mixed economies

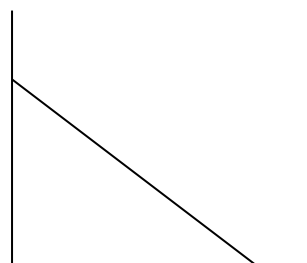
In reality, all economies are **mixed economies** where some important decisions are taken by the government and the economic activities are by and large conducted through the market.

Law of Demand:

a consumer's demand for a good is inversely related to the price of the good.

e.g. if price is high, demand will be low. Demand curve can be drawn as follows:

Price



Quantity

Substitutes and Complements

Goods which are consumed **together** are called **complementary** goods. E.g. tea and sugar, pen and ink.

Since tea and sugar are used together, an increase in the price of sugar is likely to decrease the demand for tea and a decrease in the price of sugar is likely to increase the demand for tea.

Hence, the demand for a good moves **in the opposite direction of the price of** its complementary goods.

Goods like tea and coffee are not consumed together. They are **substitutes** for each other.

Since tea is a substitute for coffee, if the price of coffee increases, the consumers can shift to tea. On the other hand, if the price of coffee decreases, the consumption of tea is likely to go down.

Thus demand for a good usually moves **in the direction of the price of** its substitutes.

Elasticity of Demand

As stated earlier, The demand for a good moves in the opposite direction of its price. e.g. if price is high, demand will be low.

Demand for **food** does not change much even if food prices go up. On the other hand, demand for **luxuries** can be very responsive to price changes. In general, demand for a **necessity** is likely to be price inelastic while demand for a luxury good is likely to be price elastic.

Cartel

A cartel is an agreement between competing firm to control price or exclude entry of a new competitor in a market.

Break even point

is the point at which cost and revenue is equal i.e. there is no loss or profit. Sales above the BEP will generate profit to the firm. Sales below BEP will lead to loss to the firm.

Shut down point

When firm is incurring losses but can cover its variable cost from its revenue then it should continue the production as fixed cost will always be incurred whether to continue the production or not.

when revenue received cannot even cover the variable costs of production. Then At this point, firm should shut down the production.

The law of diminishing marginal product

It says that if we keep on increasing the input, with other inputs fixed, eventually a point will be reached after which the resulting addition to output (i.e., marginal product of that input) will start falling.

Law of diminishing marginal utility

It means that the first unit of consumption of a good or service yields more utility than the second and subsequent units, with a continuing reduction.

For example, say you go to a buffet and the first plate of food you eat is very good. Now your hunger has been somewhat controlled, but you get another full plate of food. Since you're not as hungry, your enjoyment rates will decrease. Now you go back to eat a third full plate of food and

your utility drops even more. If you kept eating, you would eventually reach a point at which your eating makes you sick, providing dissatisfaction, or 'dis-utility'.

How does a firm decide how much to produce?

a firm is a profit maximiser. So, the amount that a firm produces and sells in the market is that which maximizes its profit.

Objectives of the consumers are to maximise their respective preference and that of the firms are to maximise their respective profits.

In equilibrium, the aggregate quantity that all firms wish to sell equals the quantity that all the consumers in the market wish to buy; in other words, market supply **equals** market demand.

The price at which equilibrium is reached is called **equilibrium price** and the quantity bought and sold at this price is called **equilibrium quantity**.

Whenever market supply is not equal to market demand, and hence the market is not in equilibrium, there will be a tendency for the price to change.

If demand increases and supply remains the same then price of good will rise.

If supply increases and demand remains the same then price will fall.

Monopoly & Oligopoly

A market structure in which there is a single producer of a particular commodity; no other commodity works as a substitute for this commodity, is called **monopoly**.

If the market of a particular commodity consists of more than one seller but the number of sellers is few, the market structure is termed **oligopoly**.

The special case of oligopoly where there are exactly two sellers is termed **duopoly**.

Economic wealth of a country does not depend on mere possession of resources

It is not that countries which are endowed with a bounty of natural wealth – minerals or forests or the most fertile lands – are naturally the richest countries. In fact the resource rich Africa and Latin America have some of the poorest countries in the world, whereas many prosperous countries have scarcely any natural wealth.

Economic wealth, or well-being, of a country thus does not necessarily depend on the mere possession of resources; the point is how these resources are used in generating a flow of production and how, as a consequence, income and wealth are generated from that process.

Final Good

An item that is meant for final use and will not pass through any more stages of production or transformations is called a final good.

Intermediate goods

Which are used as raw material or inputs for production of other commodities. These are not final goods.

Why are we measure final goods only?

Value of the final goods already includes the value of the intermediate goods that have entered into their production as inputs. Counting them separately will lead to the error of double counting.

Gross investment

Part of our final output that comprises of capital goods constitutes gross investment of an economy

Net Investment = Gross investment – Depreciation

Four factors of production

Production of goods and services is a result of joint efforts of four factors of production.

- (i) Land (i.e. natural resources)- remuneration for which is called rent.
- (ii) Labour- remuneration for which is called wages
- (iii) Capital- remuneration for which is called interest
- (iv) Entrepreneurship- remuneration of which is profit

Chapter -6 International market

Foreign exchange market

The market in which national currencies are traded for one another. The **major participants** in this market are commercial banks, foreign exchange brokers and other authorised dealers and the monetary authorities.

Exchange rate

The price of one currency in terms of the other is known as the exchange rate.

The nominal exchange rate

is the price of one unit of foreign currency in terms of domestic currency.

The real exchange rate

is the relative price of foreign goods in terms of domestic goods.

When the real exchange rate is **equal** to one, the two countries are said to be in purchasing power parity. This means that goods cost the same in two countries.

If the real exchange **rises** above one, this means that goods abroad have become more expensive than goods at home. It measures the international competitiveness of a country in international trade.

Exchange rate regime

Fixed exchange rate- when exchange rate is determined by Govt (e.g. China)

Floating- when exchange rate is determined by demand and supply in market (e.g. US)

Managed-When demand and supply force in market are independent and Govt. also give direction.(e.g. India)

US dollar is the principal currency for the RBI transactions

Purchasing Power Parity (PPP) theory

According to the theory, as long as there are no barriers to trade like tariffs (taxes on trade) and quotas (quantitative limits on imports), exchange rates should eventually adjust so that the same product costs the same whether measured in rupees in India, or dollars in the US, yen in Japan and so on, except for differences in transportation.

According to the PPP theory, differences in the domestic inflation and foreign inflation are a major cause of adjustment in exchange rates. If one country has higher inflation than another, its exchange rate should be depreciating.

Open economy v/s Closed economy

Open economy- which has economic relations with the rest of the world.

Most countries of the world are open economy.

In an **open** economy, exports constitute an additional source of demand for domestic goods and services.

In an open economy, the demand for domestic goods is equal to the domestic demand for goods (consumption, investment and government spending) plus exports minus imports.

Closed economy- which has no economic relations with the rest of the world. Example of closed economy is difficult to find in present day world.

In a **closed economy**, there are three sources of demand for domestic goods –Consumption, government spending, and domestic investment.

An essential **difference between** a closed economy and an open economy is that while in a closed economy saving and investment must always be equal, in an open economy, they can differ.

Exchange Rate Changes:

A depreciation of the rupee will raise the cost of buying foreign goods and make domestic goods less costly. This will raise net exports and therefore increase aggregate demand. Conversely, a currency appreciation would reduce net exports and, therefore, decrease aggregate demand.

Meltdown

when downfall in share price

Recession

when downfall in growth rate.

a recession abroad would reduce domestic exports and cause a trade deficit. Thus, booms and recessions in one country tend to be transmitted to other countries through international trade in goods and services.

Slowdown

when downfall in GDP

Debt trap

A country is said to be a debt trap when it has to borrow for making interest payment on outstanding loan.

India's Top Export Destinations-FY 2015, Ranks

1. USA
2. UAE
3. Hong Kong
4. China
5. Saudi Arabia
6. Singapore
7. UK
8. Germany
9. Sri Lanka
10. Netherlands

India's Top Import Sources-FY 2015, Ranks

1. China
2. Saudi Arabia
3. UAE
4. Switzerland
5. USA
6. Indonesia
7. Qatar
8. Iraq
9. Nigeria
10. South Korea

India's Top Export Items-FY 2015, Ranks

1. Petroleum Products
2. Pearls, prec. & semi-prec. Stones
3. Gold, other prec. metal jewellery
4. Drug formulations, biological
5. RMG cotton incl accessories
6. Iron and steel
7. Products of iron and steel
8. Motor vehicle/cars

9. Aircraft, spacecraft and parts
10. Cotton fabrics, madeups

India's Top Import Items-FY 2015, Ranks

1. Petroleum: crude
2. Gold
3. Pearl, prec., semi-prec. Stones
4. Petroleum products
5. Coal, coke and briquettes
6. Telecom instruments
7. Iron and steel
8. Organic chemicals
9. Vegetable oils
10. Plastic raw materials

Return on equity (ROE)

Return on Equity (ROE) is a ratio relating net profit to shareholders' equity. Here the equity refers to share capital plus reserves and surplus

Composition of India external debts

1. Multilateral
2. Bilateral
3. IMF
4. Export Credit
5. Commercial Borrowings
6. NRI Deposits
7. Rupee Debt
8. Total Long Term Debt (1 to 7)
9. Short Term Debt
10. Grand Total (8+9)

Credit rating agencies

India's sovereign debt is usually rated by six major Sovereign Credit Rating Agencies (SCRAs) viz. Moody's Investor Services, Standard and Poor's (S&P), Dominion Bond Rating Service (DBRS), Fitch Ratings, Japanese Credit Rating Agency (JCRA) and Rating and Investment Information (R&I).

Methods of accessing funds from abroad as debts:

External commercial borrowings (ECB)

Foreign currency convertible bonds (FCCBs)

Foreign currency exchangeable bonds (FCEB)

Preference shares (i.e. non-convertible, optionally convertible or partially convertible)

FCCB and FCEB both expressed in foreign currency and principle and interest is payable in foreign currency.

FCCB is convertible into equity shares of issuing company.

FCEB is exchangeable into equity shares of issuing company

G-8

Established with 6 developed countries (France, Germany, Japan, Italy, USA, UK). Later on Canada was included. Lastly Russia. **Russia was suspended** in 2014.

BRICS

An association of five major emerging economies:

Founding Member: Brazil, Russia, India, China. Earlier known as BRIC. **South Africa joined** later in 2010 then called as BRICS.

First BRIC summit was held in Yekaterinburg, Russia, on 16 June 2009

6thBRICS summit at Fortaleza, Brazil: **Announcement of** The New Development Bank and Contingent Reserve Arrangement.

The **7th BRICS** summit held in July 2015 in Ufa, Russia. Its theme was "BRICS Partnership –a Powerful Factor of Global Development".

India will host the **8th BRICS** Summit in 2016 (New Delhi)

The New Development Bank BRICS (NDB BRICS)

The New Development Bank BRICS (NDB BRICS), formerly referred to as the BRICS Development Bank, is multilateral development bank operated by the BRICS states as an alternative to the existing US-dominated World Bank and International Monetary Fund.

Together, the four original BRIC countries comprise in 2014 more than 3 billion people or 41.4 percent of the world's population, cover more than a quarter of the world's land area over three continents, and account for more than 25 percent of global GDP.

It will be **headquartered** in Shanghai, China. Unlike the World Bank, which assigns votes based on capital share, in the New Development Bank each participant country will be assigned **one vote**, and none of the countries will have veto power.

President of the NDB BRICS - Mr. K. V. Kamath (India)

Decision for NDB was taken in the fourth BRICS Summit in New Delhi in 2012 and subsequently announced in the fifth BRICS Summit in Durban in 2013. Agreement was made in 2014 in Fortaleza, Brazil.(6th Summit)

Purpose and Functions

The Bank shall mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development.

the membership shall be open to members of the United Nations.

The New Development Bank shall have an initial **subscribed capital** of US\$ 50 billion and an initial **authorized capital** of US\$ 100 billion. The initial subscribed capital shall be equally distributed amongst the founding members.

BRICS Contingent Reserve Agreement (CRA)

The BRICS CRA proposes to provide **short-term liquidity** support to the members through currency swaps to help mitigating **BOP crisis** situation. The Arrangement totals \$100 billion, with **China's share** at \$41 billion, South Africa's share at \$5 billion, and Brazil, India's and Russia's shares at \$18 billion each.

Asian Development bank

The Asian Development Bank aims for an Asia and Pacific free from poverty. founded in 1966. Headquarters in Manila, Philippines
President Takehiko Nakao
India is a **founder** member of ADB.

Asian Infrastructure Investment Bank (AIIB)

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank (MDB) conceived for the 21st century. AIIB will complement and cooperate with the existing MDBs to jointly address the daunting infrastructure needs in Asia. Its HQ is likely to be in Beijing, China.

India is one of the **founding members** of the Bank.

The Bretton Woods conference (US)

The Bretton Woods Conference held in 1944 set up the International Monetary Fund (IMF) and IBRD which is today part of World Bank group and re-established a system of fixed exchange rates.

It was held to regulate the international monetary and financial order after the conclusion of World War II.

International Monetary Fund

India joined the IMF on December 27, 1945, as one of the IMF's **original** members.

The International Monetary Fund (IMF) is an organization of 188 countries. It was Created in 1945. Head Office is situated in Washington DC.

The IMF's fundamental mission is to ensure the stability of the international monetary system. It does so in **three ways**:

Surveillance

The IMF oversees the international monetary system and monitors the economic and financial policies of its 188 member countries. the IMF highlights possible risks to stability and advises on needed policy adjustments.

Lending

A core responsibility of the IMF is to provide loans to member countries experiencing actual or potential balance of payments problems. Unlike development banks, the IMF does not lend for specific projects.

Technical Assistance

The IMF helps its member countries design economic policies and manage their financial affairs more effectively by strengthening their human and institutional capacity through technical assistance and training.

Publication: World Economic outlook report, Global financial stability report, Fiscal monitor

Christine Lagarde is a **Managing Director** of IMF.

World Bank Group

It was established in 1944. Head Office is situated in Washington DC

World bank group consist of **five** organizations.

International Bank for Reconstruction and Development (IBRD)

International Development Association (IDA)

International Finance Corporation (IFC)

Multilateral Investment Guarantee Agency (MIGA)

International Centre for Settlement of Investment Disputes (ICSID)

India is a member of 4 of the 5 constituents of world bank group.

India is not a member of ICSID.

The World Bank Group has set **two goals** for the world to achieve by 2030:

End extreme poverty

Boost shared prosperity

The World Bank is a vital source of financial and technical assistance to developing countries around the world.

Jim Yong Kim is a **President** of World Bank Group.

World Trade Organization

The World Trade Organization (WTO) is the only global international organization dealing with the **rules of trade** between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.

Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

Location: **Geneva**, Switzerland

Established: 1 January 1995 **replacing** General Agreement on Tariffs and Trade (GATT, 1948).

Created by: Uruguay Round negotiations (1986-94)

Head: Roberto Azevêdo (**Director-General**)

Members: 161 countries on 26 April 2015 (India is a member since inception)

Key Publication- World trade report, International trade statistics

The Trade Facilitation Agreement of WTO (Bali conference-Indonesia)

It contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.

Why is India opposed to TFA?

The problem with TFA runs in a clause that says farm subsidies cannot be more than 10 percent of the value of agricultural production. If the cap is breached, other members can challenge it and also go on to impose trade sanctions on the country.

The developing countries would have a problem as without the subsidies the food security of the developing nations could be seriously harmed

10% cap is calculated based on **1986-88 prices** when the prices of food grains were much lower. So the cap has to be updated taking into account the present prices of food grains.

India's Food Security Act, which is binding on the government by law now, implies that the government will provide very cheap food to the most vulnerable part of the population at extremely low prices. It also provides subsidies to the producers of food grains.

India demands permanent solution on public food stockpile which is necessary for the food security program.

Most-favoured-nation (MFN): treating other people equally

Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members. Now MFN is no longer a rule. It is almost an exception. e.g. Regional and Bilateral free trade areas, miscellaneous trade deals.

A country grants this status to another country if it is interested in increasing trade with that country. Countries achieving most favored nation status are given specific trade advantages such as reduced tariffs on imported goods

India has already granted MFN status to Pakistan in 1996. **Pakistan** has yet to grant the most favoured nation (MFN) status to India

South Asian Association for Regional Cooperation (SAARC)

Established on 8th December 1985 Dhaka, Bangladesh (First Summit)

Founding Members: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

Afganistan joined later at 14th SAARC summit in 2007 .

Head Office: Kathmandu, Nepal

It is a organization of eight countries that are primarily located in South Asia. Afghanistan is a **Central Asian** country.

18th SAARC Summit was held in Kathmandu in November 2014. Theme of the summit was “Deeper Integration for Peace and Prosperity”

Pakistan will host the **19th summit** of SAARC in Islamabad in 2016.

ASEAN-Association of Southeast Asian Nations

established on 8 August 1967 in Bangkok, Thailand.
it has 10 members.

India is in South Asia. It is **not a member** of ASEAN.

United Nations (UN)

The United Nations is an international organization founded in 1945. It is currently made up of 193 Member States. The mission and work of the United Nations are **guided by** the purposes and principles contained in its founding Charter.

Due to the powers vested in its Charter and its unique international character, the United Nations can take action on the issues confronting humanity in the 21st century, such as peace and

security, climate change, sustainable development, human rights, disarmament, terrorism, humanitarian and health emergencies, gender equality, governance, food production, and more.

2015, marks the **70th anniversary** of the United Nations

The UN's Chief Administrative Officer is the **Secretary-General**. Presently Ban Ki -moon

HQ in New York city-USA

Main organs of the UN are the General Assembly, the Security Council, the Economic and Social Council, the Trusteeship Council, the International Court of Justice, and the UN Secretariat. All were established in 1945 when the UN was founded.

General Assembly

The General Assembly is the **main deliberative**, policymaking and representative organ of the UN.

All 193 Member States of the UN are represented in the General Assembly, making it the only UN body with universal representation.

Each year, in September, the full UN membership meets in the General Assembly Hall in New York for the annual General Assembly session, and general debate, which many heads of state attend and address.

Decisions on important questions, such as those on peace and security, admission of new members and budgetary matters, require a two-thirds majority of the General Assembly. Decisions on other questions are by simple majority.

The General Assembly, each year, elects a GA President to serve a one-year term of office.

UN Security council

The Security Council has primary responsibility, under the UN Charter, for the maintenance of international peace and security. It has 15 Members (5 permanent and 10 non-permanent members). Each Member has one vote.

As per UN charter, every permanent member of UN security council can exercise VETO power and disapprove any decision.

Five permanent members are US, UK, France, China and Russia.

International Court of Justice

The International Court of Justice is the principal judicial organ of the United Nations. Its seat is at the Peace Palace in the Hague (Netherlands).

It is the only one of the six principal organs of the United Nations not located in New York (United States of America).

The Court's role is to settle, in accordance with international law, legal disputes submitted to it by States and to give advisory opinions on legal questions referred to it by authorized United Nations organs and specialized agencies.

United Nations Development Programme (UNDP)

HQ in New York, USA
established in 1965 by the General Assembly of the United Nations.

work is concentrated on four main focus areas:

Poverty Reduction and Achievement of the Millennium Development Goals (MDGs)
Democratic Governance
Crisis Prevention and Recovery
Environment and Energy for Sustainable Development

Human Development Report is UNDP's flagship independent publication.

Helen Clark, UNDP Administrator

Human development Indices under Human Development Report issued by UNDP

Human Development index

A composite index measuring average achievement in three basic dimensions of human development

- 1 (i) Mean years of schooling: Average number of years of education received by people ages 25 and older,
 - (ii) Expected years of schooling: Number of years of schooling that a child of school entrance age can expect
2. Gross national income per capita in purchasing power parity terms
3. Life expectancy at birth

It was created by **Indian economist Amartya Sen** and Pakistani economist Mahbub ul Haq in 1990

Human development report 2014: "Sustaining Human progress: Reducing vulnerability and building resilience"

India's ranking is 135. **India is in medium** human development category.

Countries have been divided in 4 categories- If HDI index is:

More than 0.8 - Very high human development
 0.7 to 0.8- High human development
 0.55 to 0.7 - Medium human development
 Less than 0.55- Low human development

Gender Inequality Index (GII)

A composite measure reflecting inequality in achievement between women and men in three dimensions: reproductive health, empowerment and the labour market.

The value of GII range between 0 to 1, with 0 being 0% inequality, indicating women fare equally in comparison to men and 1 being 100% inequality, indicating women fare poorly in comparison to men.

Gender Development Index (GDI)

A composite measure reflecting disparity in human development achievements between women and men in three dimensions—health, education and living standards

Multi-dimensional Poverty Index (MPI)

measure deprivations in the three HDI dimensions health, education and living standards

Inequality-adjusted Human Development Index

contains two related measures of inequality—the IHDI and the loss in HDI due to inequality.

Millennium Development Goals (MDGs)

In September 2000, world leaders came together at the United Nations **Headquarters** in New York to adopt the United Nations Millennium Declaration.

The Declaration committed nations to a new global partnership to reduce extreme poverty, and set out a series of eight time-bound targets - with a deadline of 2015 - that have become known as the **Millennium Development Goals (MDGs)**.

The 8 MDG Goals are

- 1 Eradicate extreme poverty and hunger
- 2 Achieve universal primary education
- 3 Promote gender equality and empower women
- 4 Reduce child mortality
- 5 Improve maternal health
- 6 Combat HIV/AIDS, malaria and other diseases
- 7 Ensure environmental sustainability
- 8 Develop a global partnership for development

In **September, 2015** world leaders will gather at the United Nations in New York to adopt a new agenda for sustainable development. This is also the year when they will reach a global agreement on climate change at the **Paris Climate Conference**.

These **new global Sustainable Development Goals** (SDGs) will guide policy and funding for the next 15 years, beginning with a historic pledge to end poverty. Every where. Permanently.

the SDGs must finish the job that the MDGs started.

Classification of countries

Developed Countries: where share of Service sector is very high, industry sector is medium and agriculture sector is minimum.

Undeveloped Countries: where share of Service sector is minimum, industry sector is medium and agriculture sector is very high.

Developing Countries: where share of Service and industry sector is gradually increasing, and agriculture sector is gradually decreasing.

Gini coefficient

It is a measure of the deviation of the distribution of income among individuals or households within a country from a perfectly equal distribution. A value of **0 represents** absolute equality i.e. where everyone has the equal income, a value of 100 represents absolute inequality.

World Largest Economy-Gross domestic product 2014 (World Bank report)

Ranking	Economy	(millions of US dollars)
1	United States	17,419,000
2	China	10,360,105
3	Japan	4,601,461
4	Germany	3,852,556
5	United Kingdom	2,941,886
6	France	2,829,192
7	Brazil	2,346,118
8	Italy	2,144,338
9	India	2,066,902

India may become third largest economy by 2030 as per various reports.

India is a **Asia's third-largest** economy

Eurozone crisis

The eurozone is made up of 17 European countries that use the euro. The European debt **crisis grew** out of the U.S. financial crisis of 2008-2009. Several countries in the eurozone have borrowed and spent too much since the global recession began, causing them to lose control of their finances. These states (Greece, Portugal, Ireland, Spain, Cyprus) were unable to repay or refinance their government debt.

Greece became the **first developed country** to default on the International Monetary Fund.

Why the oil price is falling

Demand is low because of weak economic activity, increased efficiency, and a growing switch away from oil to other fuels.

Second, turmoil in Iraq and Libya—two big oil producers has not affected their output.

Thirdly, America has become the world's largest oil producer. Though it does not export crude oil, it now imports much less, creating a lot of spare supply.

Finally, the Saudis and their Gulf allies have decided not to sacrifice their own market share to restore the price.

Chapter 7 Miscellaneous Topics

Corporate governance

Corporate Governance may be defined as a set of systems, processes and principles which ensure that a company is governed in the best interest of all stakeholders.

Industrial policy in India

1948

1956 based upon **Mahalanobis** model,

1991

Financial motivators

e.g. reduce the tax rates, increase the govt. expenditures. Due to financial motivators, purchasing power of people increases and therefore demand for the goods and services also increases. Financial motivators are used during recession time.

Demographic dividend

refers to a period – usually 20 to 30 years – when a greater proportion of people are young and in the working age-group. This cuts spending on dependents, spurring economic growth. Because people of this age group are productive. **India is counted** as demographic dividend country.

India should encourage the **skill development** for achieving the complete benefit of demographic dividend.

Disinvestment Policy

The salient features of the Policy are:

- (i) Citizens have every right to own part of the shares of Public Sector Undertakings
- (ii) Public Sector Undertakings are the wealth of the Nation and this wealth should rest in the hands of the people
- (iii) While pursuing disinvestment, Government has to retain majority shareholding, i.e. at least 51% and management control of the Public Sector Undertakings

Main objectives of disinvestment :

- To reduce the financial burden on the Government
- To improve public finances
- To introduce, competition and market discipline
- To fund growth
- To encourage wider share of ownership
- To depoliticize non-essential services

Disinvestment also assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of value of the public assets making it critical to disinvest early to realize a high value.

Capital gain

When amount realised on sale of capital asset exceeds the purchase price.

Five year plans in India

First five year plan was implemented in the Soviet union in 1920.

Plans	Year	Remarks/Objectives	Target Growth rate	Achieved G/R
Ist	1951-1956	Focus on development of the primary sector, Based on the Harrod-Domar model	2.1%	3.6%
2 nd	1956-1961	Followed the Mahalanobis model, Focus on public sector & heavy industries	4.5%	4.27%
3 rd	1961-1966	Focus on agriculture, India-china war in 1962, Drought in 1965, war with Pakistan in 1965-66	5.6%	2.4%
Three Annual Plans	1966-67, 1967-68, 1968-69	Due to miserable failure of the Third Plan the government was forced to declare "plan holidays"		
4 th	1969-1974	Indira Gandhi-PM, Nationalization of banks, India-Pak war in 1971, Green revolution (self reliance), Nuclear test in 1974	5.6%	3.3%
5 th	1974-1979	Employment & poverty alleviation (Garibihatao), Emergency	4.4%	3.8%
Rolling plan	1978-1980	In 1978 Janata Party Govt- Morarji Desai-PM rejected the 5 th plan and introduced a new Sixth Five-Year Plan. This plan was again rejected by the Congress Government in 1980		
6 th	1980-1985	Beginning of economic liberalisation, End of nehruvian socialism, Family planning scheme	5.2%	5.4%
7 th	1985-1990	Improving the productivity level of industries by upgrading of technology.	5%	6.01%
Annual plans	1990-1992	Crisis of foreign exchange, Beginning of privatization and liberalization in India.		

8 th	1992-1997	India became member of WTO in 1995, Agricultural development led growth	5.6%	6.78%
9 th	1997-2002	Objective: Growth with social justice and equity	7.1%	6.8%
10 th	2002-2007	Employment generation and Poverty Reduction, Export led growth	8 %	7.6%
11 th	2007-2012	Objective: Inclusive growth	9%	7.9%
12 th	2012-2017	Objective: Faster, More Inclusive and Sustainable Growth	8.2%	

Sustainable development

is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs."

Eco Mark Scheme

Eco-Mark is an eco-labeling scheme which was launched by the Government of India in 1991 for easy identification of environment-friendly products. It is issued by the **Bureau of Indian Standards**. Its logo is given below.



High capital output ratio

High capital output ratio is the reason of low growth despite the high savings and capital formation.

Major sector of economy

Primary sector- which makes direct use of natural resources. This includes agriculture, forestry, fishing and mining.

Secondary sector, produces manufactured goods, and

The Tertiary sector, produces services.

The primary sector is usually most important in less developed countries, and typically less important in industrial countries.

Inflation

is a **sustained increase** in the **general price level** of goods and services in an economy over a period of time.

Inflation reflects a reduction in the purchasing power per unit of money.

Inflation provide **benefits** to debtors.

Generally Limited inflation is good for growth in developing country.

Parallel economy

Economy controlled by the black money is called is called Parallel economy.

Parallel economy, based on the black money or unaccounted money, is a big menace to the Indian economy. It is also a cause of big loss in the tax-revenues for the government

Deflation

is a decrease in the **general price level** of goods and services. Deflation occurs when the inflation rate falls below 0% (a negative inflation rate).

A subsistence economy

is a non-monetary economy which relies on natural resources to provide for basic needs, through hunting, gathering, and subsistence agriculture.

Micro and Macro economics

Micro means small. Micro economics is the study of particular markets, and segments of the economy.

Macro means large. Macro economics is the study of the whole economy. It looks at 'aggregate' variables, such as aggregate demand, national output and inflation.

Stagflation

a situation where the inflation rate is high, the economic growth rate slows down, and unemployment remains steadily high.

An exclusive economic zone (EEZ)

is a sea zone prescribed by the United Nations Convention on the Law of the Sea over which a state has special rights regarding the exploration and use of marine resources, including energy production from water and wind. It stretches from the baseline out to **200 nautical miles** from its coast.

Special economic zone (SEZ)

Special Economic Zones (SEZs) Policy was announced in April 2000. This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations.

The Special Economic Zones Act, 2005

Main objectives of the SEZ Act are:

- (a) generation of additional economic activity
- (b) promotion of exports of goods and services;
- (c) promotion of investment from domestic and foreign sources;
- (d) creation of employment opportunities;
- (e) development of infrastructure facilities;

Export Processing Zone (EPZ)

Asia's first EPZ set up in Kandla in 1965

Green accounting or environment accounting

Green accounting is a type of accounting that attempts to factor environmental costs into the financial results of operations

Green GDP = GDP - waste/degradation of natural resources

Minimum support price

Minimum Support Price (MSP) is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices.

Sacrifice ratio

A sacrifice ratio measures the costs of lower economic production as a percentage of the change in inflation.

if inflation is becoming a problem, central banks will try to cool economic growth in a bid to reduce inflationary pressures. However, this reduction in output costs the economy in the short term, and the sacrifice ratio tries to measure that cost.

Sacrifice ratio = growth rate / inflation rate

Sacrifice ratio means proportionate value of reduction in growth rate due to reduction in inflation.

It indicate that if inflation comes down then growth rate will also fall.

Balance sheet of a company

It depicts position of assets and liabilities of companies

When net worth (Asset- liabilities) of a company is positive then it is called Pink Balance sheet

When net worth (Asset- liabilities) of a company is negative then it is called Red Balance sheet

When net worth (Asset- liabilities) of a company is Zero then it is called Black Balance sheet

When Balance sheet of a company is Red from the last one year then it is called weak company.

If it is red for the last 3 years then it is called Sick company.

Profit and Loss account of company

It depicts profit and loss earned by a company during the given period

top line refers to a company's gross sales or revenues. Therefore, when people comment on a company's "top-line growth", they are making reference to an increase in gross sales or revenues.

bottom line is a company's income after all expenses have been deducted from revenues.

Bottom line describes how efficient a company is with its spending and operating costs and how effectively it has been controlling total costs. Top line, on the other hand, only indicates how effective a company is at generating sales and does not take into consideration operating efficiencies which could have a dramatic impact on the bottom line

Round – Tripping

Black money generated in India coming back to India as foreign investment. It increases inflation

Methods of taxation

Regressive tax system-If tax rate is gradually reduced due to increase in income

Proportional tax system-When tax rate remain constant

Progressive tax system-If tax rate is gradually increased due to increase in income (India)

Laffer curve

It says, Higher tax rate discourage the production. Consequently, revenue decreases.

The Constitution (122nd Amendment) (GST) Bill, 2014

- The Bill amends the Constitution to introduce the goods and services tax (GST).
- Parliament and state legislatures will have concurrent powers to make laws on GST. Only the centre may levy an integrated GST (IGST) on the interstate supply of goods and services, and imports.
- **Alcohol** for human consumption has been **exempted** from the purview of GST. GST will apply to five petroleum products at a later date.
- The GST Council will recommend rates of tax, period of levy of additional tax, principles of supply, special provisions to certain states etc. The GST Council will consist of the Union Finance Minister, Union Minister of State for Revenue, and state Finance Ministers
- The Bill empowers the centre to impose an additional tax of up to 1%, on the inter-state supply of goods for two years or more. This tax will accrue to states from where the supply originates.
- Parliament may, by law, provide compensation to states for any loss of revenue from the introduction of GST, up to a five year period.
- It intends to create a harmonised system of taxation by subsuming **all indirect taxes by CG & SG under one tax**. It seeks to address challenges with the current indirect tax regime by broadening the tax base, eliminating cascading of taxes, increasing compliance, and reducing economic distortions caused by inter-state variations in taxes.
- It is to be implemented in India from **01-04-2016**.

National AYUSH (Ayurveda, Yoga, Unani, Siddha, Homeopathy) mission

Objective-to address the gaps in health services through supporting the efforts of State/UT Governments for providing AYUSH health services/education in the country, particularly in vulnerable and far-flung areas.

Devaluation

means reduction in value of money

Benefits -Export increases

Economic growth

Means continuous increase in total volume of production over a long period.

National Income Index measures the rate of economic growth

Economic development

is nothing but economic growth plus qualitative changes in the economy. Qualitative changes refer to improvement in living standards, reduction in inequality of income and no of poor people, increase in per capita income, development of technology etc.

Per capita income index measures/indicates the rate of economic development

Price index is a measure of cost of living.

Base Year of Various Index

Consumer Price Index for industrial workers (Base year 2001=100) (Monthly issued)

CPI-combined (Base year 2012= 100) (Monthly issued)

Wholesale Price Index (Base year 2004-05=100) (Monthly issued)

Index of Industrial Production (IIP)(Base 2004-05 =100) (Monthly issued)

Marginal cost

Means additional cost incurred on additional unit of production. It is dependent on the variable cost only as fixed cost remains constant on every additional production.

Output	total cost	marginal cost
0	60	0
1	80	20
2	105	15

Venture Capital Fund

A fund set up for the purpose of investing in startup businesses..

Direct Tax

When a person bears the burden as well as makes payment to the government.

1. Corporation tax :.
2. Income tax :
3. Interest tax :
4. Expenditure tax :.
5. Wealth tax :
6. Gift tax :
7. Estate Duty
8. Land revenue
9. Agriculture tax
10. Hotel receipts tax

Indirect Tax

When a seller collects the tax from the buyer first and then pays the same to the government.

In other words, it is the buyer who indirectly pays sales tax to the government.

1. Customs duties: These are taxes on imports and exports.
2. Union excise duties: These are taxes on manufacturing goods imposed by the Union government
3. Service tax: It is a tax on rendering of services
4. Sales tax: It is a tax on sales.
5. State excise duty
6. Stamp & Registration fees
7. Entertainment tax
8. Taxes on Vehicles, Goods & Passengers, Electricity, Purchase of sugarcane

VAT, Taxes on Land and Buildings, Agriculture income, Mineral rights, Liquors, sale of Electricity, Tolls, Stamp duty, Entertainment tax, Professional tax, Vehicle tax etc. are imposed by State Govt.

Maharatna PSU

1. Coal India Limited
2. Indian Oil Corporation Limited
3. NTPC Limited
4. Oil & Natural Gas Corporation Limited
5. Steel Authority of India Limited
6. Bharat Heavy Electricals Limited
7. GAIL (India) Limited

First five PSU became Maharatna in 2010. **BHEL and GAIL** joined in 2013

Navratna PSU

1. Bharat Electronics Limited
2. Bharat Petroleum Corporation Limited
3. Container Corporation of India Limited
4. Engineers India Limited
5. Hindustan Aeronautics Limited
6. Hindustan Petroleum Corporation Limited
7. Mahanagar Telephone Nigam Limited
8. National Aluminium Company Limited
9. National Buildings Construction Corporation Limited
10. NMDC Limited
11. Neyveli Lignite Corporation Limited

12. Oil India Limited
13. Power Finance Corporation Limited
14. Power Grid Corporation of India Limited
15. RashtriyaIspat Nigam Limited
16. Rural Electrification Corporation Limited
17. Shipping Corporation of India Limited

Tax planning

Means save tax legally by availing all the exemption, deductions & rebate under income tax act.

Tax avoidance

Means making use of the loopholes in the tax law. It is also legal. However not advisable as it defeats the intention of law maker.

Tax evasion

using illegal means to avoid tax payment. e.g. A person illegally reduces his income or inflates his expenses to reduce tax burden.

Technology transfer method

Joint venture
Licensing
Franchising
Turnkey contract
Greenfield projects

VAT (Value Added Tax)

VAT is a state subject under entry 54* of List II (state list) 7th schedule of constitution.

*Tax on sale or purchase of goods **within** a state.

Vat applicable in all states/UTs except Andaman nikobar & Lakchdeep.

CST (Central Sales Tax)

Entry 92A of list-1 (Union list) empower CG to impose tax on **inter-state** sale of goods. Though the CST act 1956 is a central act, the state collect and appropriate the proceeds of CST as per article 269 of constitution.

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

it shall come into force from **01-04-2016**.

Undisclosed foreign income or assets shall be taxed at the flat rate of 30 percent. No exemption or deduction or set off of any carried forward losses which may be admissible under the existing Income-tax Act, 1961, shall be allowed.

The penalty for non-disclosure of income or an asset located outside India will be equal to three times the amount of tax payable thereon, i.e., 90 percent of the undisclosed income or the value of the undisclosed asset. This is in addition to tax payable at 30%.

Penalty for non furnishing the return of foreign income or assets is Rs.10 lakh.

Prosecution under the act is six months to seven years imprisonment.

failure to report bank accounts with a maximum balance of upto Rs.5 lakh at any time during the year will not entail penalty or prosecution.

The Bill also provides a **one time compliance opportunity** for a limited period to persons who have any undisclosed foreign assets . Such persons may file a declaration before the specified tax authority within a specified period (**30-09-2015**), followed by payment of tax at the rate of 30 percent plus an equal amount by way of penalty.

Such persons will not be prosecuted under the stringent provisions of the new Act

Sweated labour

Those who are employed for long hours, at low pay and in poor working conditions. This can be common for workers in many poor countries. consumers in developed countries today want to know that the products they buy were not produced by developing-world sweated labour.

7th Pay commission

Chairman- Justice Shri Ashok Kumar Mathur

Its recommendations are likely to be implemented with effect from **January 1, 2016**.

Dumping

Dumping" is a kind of predatory pricing, especially in the context of international trade. It occurs when manufacturers export a product to another country at a price either below the price charged in its home market or below its cost of production

Anti dumping

Anti dumping is a measure to rectify the situation arising out of the **dumping** of goods. Thus, the purpose of **anti dumping** duty is to rectify the trade distortive effect of **dumping** and re-establish fair trade.

Arbitrage

simultaneous buying and selling of securities, currency, or commodities in different markets in order to take advantage of prices difference for the same asset.

DIN

Stand for Director Identification Number

One Person Company

The concept of One Person Company [OPC] is introduced by The Companies Act, 2013. Now Entrepreneur(s) carrying on Sole-Proprietor business can enter into a Corporate Framework and enjoy corporate benefits.

National Institution for Transforming India (NITI Aayog)

NITI Aayog was established on 01-01-2015 through a **cabinet resolution**. The NITI Aayog is the successor in interest to the Planning Commission. Planning Commission was set up on 15-03-1950 through a Cabinet resolution.

Chairperson-Shri Narendra Modi, Hon'ble Prime Minister

Vice Chairperson-Shri Arvind Panagariya

Unique Identification Authority of India (UIDAI) and National Institute of Labour Economics Research and Development (NILERD) is a part of NITI Aayog.

Micro, Small & Medium Enterprises (MSME)-Definition under MSMED act, 2006

In case enterprise engaged in the manufacturing or production of goods:

- (i) A **micro** enterprise where investment in plant and machinery does not exceed Rs. **50 lakh**;
- (ii) A **small** enterprise where the investment in plant and machinery is more than Rs. 50 lakh but does not exceed Rs. **10 crore**; and
- (iii) A **medium** enterprise where the investment in plant and machinery is more than Rs.10 crore but does not exceed Rs.**30 crore**.

In case enterprises engaged in providing or rendering of services:

- (i) A micro enterprise where the investment in equipment does not exceed Rs. 20 lakh;
- (ii) A small enterprise where the investment in equipment is more than Rs.20 lakh but does not exceed Rs. 5 crore; and
- (iii) A medium enterprise where the investment in equipment is more than Rs. 5 crore but does not exceed Rs. 15 crore.

Participatory notes

Participatory Notes commonly known as P-Notes or PNs are instruments issued by registered foreign institutional investors (FII) to overseas investors, who wish to invest in the Indian stock markets without registering themselves with the market regulator, SEBI

Financial Inclusion

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The **Committee on Financial Inclusion**, Chairman: Dr. C. Rangarajan)

Foreign Trade Policy 2015-2020

introduces **two** new schemes, namely "Merchandise Exports from India Scheme (MEIS)" and "Services Exports from India Scheme (SEIS).

India 2020: A Vision for the New Millennium

is a book, written by late former President of India Dr. **A P J Abdul Kalam**, before his tenure as the President, and Y S Rajan.

In his book India:2020 Kalam strongly advocates an action plan to develop India into a strong nation by the year 2020.

Rangarajan committee report on poverty estimates

Findings of the Rangarajan panel report on poverty estimates states that **three** out of 10 people in India are poor. The report has hiked the poverty limit to **Rs 47** per day in cities (Tendulkar committee Rs.33), stating that people spending below that would be considered poor.

The Rangarajan report also states that those spending less than **Rs 32** per day in rural areas (Tendulkar committee Rs 27)would be considered poor.

Dadabhai Naoroji's theory of the Drain of Wealth

Dadabhai Naoroji was the **first man** to say that internal factors were not the reasons of poverty in India but poverty was caused by the colonial rule that was draining the wealth and prosperity of India. In 1867, Dadabhai Naoroji put forward the 'drain of wealth' theory in which he stated that the Britain was completely draining India. He mentioned this theory in his book **Poverty and Un-British Rule in India**.

The Consumer Protection Act, 1986

Consumer Disputes Redressal Agencies

District Forum-to be established by State Government in **each** district

State Commission- to be established by State Government

National Commission- to be established by Central Government

District Forum shall have jurisdiction to entertain complaints where the value of the goods or services and the compensation, if any, claimed "does not exceed rupees **twenty lakhs**.

State Commission shall have jurisdiction—

(a) to entertain—

- (i) complaints where the value of the goods or services and compensation, if any, claimed exceeds rupees **twenty lakhs** but does not exceed rupees **one crore**; and
- (ii) appeals against the orders of any District Forum within the State;

National Commission shall have jurisdiction—

(a) to entertain—

- (i) complaints where the value of the goods or services and compensation, if any, claimed exceeds rupees **one crore**; and
- (ii) appeals against the orders of any State Commission

Great depression

Start of the Great Depression is attributed to the sudden devastating **collapse of US stock market** on October 29, 1929, known as Black Tuesday.

4-coloured revolution in India

Fours colour representing the Indian flag - **saffron, white, green and blue**.

Saffron is a colour of energy, and we must have an energy revolution in India

white revolution-increasing milk production.

green revolution - improving agricultural productivity,

blue revolution-blue water and skies (Development of Fisheries)

Commission for Agriculture costs and prices (CACP)

Govt price policy for major agriculture commodities has twin objectives:

To ensure remunerative price for produce to encourage higher investment and production.

To safeguard the interest of consumers by ensuring supplies at reasonable price.

For that, Commission for Agriculture costs and prices (CACP) recommends **minimum support price** based on certain economic criteria.

Rupee Appreciation & Depreciation

Rupee depreciated sharply due to concern about the widening current account and fiscal deficit. Global uncertainty also added the pressure.

Rupee appreciation can be mainly attributed to improved market sentiments on the back of various policy measures announced by RBI and Govt. and measure taken to moderate CAD.

Type of Unemployment

Seasonal unemployment-when people are unemployed at particular times of the year. E.g. off season in winter on Hill station.

Structural unemployment

unemployment caused by a mismatch between the skills that workers in the economy can offer, and the skills demanded of workers by employers (also known as the skills gap)

Disguised unemployment

When more people are engaged in some activity than the required. For example : An agricultural land require 2 labourers but people engaged in this activity is 5 then this unemployment for 3 labours is called disguised unemployment. Their marginal productivity, i.e., the addition to the production will be zero.

Cyclical unemployment

When there is lack of aggregate demand for goods and services. This type of unemployment increases during a recession and decreases during an expansion.

Demographic transition (DT)

refers to the transition from high birth and death rates to low birth and death rates as a country develops from a pre-industrial to an industrialized economic system.

Miscellaneous

1. RBI has granted **banking licence** to Bandhan Bank and IDFC bank limited.
2. Global 2008 financial crisis was created by **sub prime** mortgage.
3. An increase in foreign income leads to increased exports and increases domestic output. It also improves the trade balance.
4. Trade deficits need not be alarming if the country invests the borrowed funds yielding a rate of growth higher than the interest rate.
5. India's **GDP growth** is largely driven by the Service sector
6. when the economy has both trade deficit and budget deficit, it is said to be facing twin deficits
7. RBI Governor **Raghuram rajan** - world economy may be slipping into 1930 great depression
8. India's **first** Semi high speed Gatiman express train Delhi to Agra
9. India's inflation rate falling because of lower food and fuel prices
10. Foreign economic agents accept a national currency only if they are convinced that the currency will maintain a stable purchasing power.
11. when the supply of money remain same, if demand of money increases then interest rate will increase.
12. Capital formation increase economic growth in country.
13. For a given period, National income is equal to monetary value of final produce of all goods and services.
14. The Forward Markets Commission (FMC) is the chief regulator of commodity futures markets in India. stock market is regulated by SEBI.
15. Purpose of reduction in excise duty is to encourage growth in export.
16. Taxes on share market and commodities market are levied by Central govt.
17. Level of **per capita income** has been regarded as a summary indicator of the economic well being of the country.
18. In India, Direct tax collection is **higher** than the indirect tax collection.
19. Production, consumption and investments are the three basic economic activities in an economy. These are interrelated and interdependent. These three economic activities are responsible for generating the income flows in the economy.

20. Comprehensive employment data are made available once in five years by the national sample survey organization (NSSO).
21. Securities Transaction Tax (STT) is levied on securities and commodity transaction tax (CTT) is levied on non agriculture commodities trade.
22. STT and CTT is allowed as deduction from such business income.
23. a rise in the interest rates at home often leads to an appreciation of the domestic currency. Because foreign investment will come and demand for domestic currency will rise.
24. When income increases, consumer spending increases. Spending on imported goods is also likely to increase. Then there is a depreciation of the domestic currency.

25. Basic exemption limit under Income tax act

For Super senior citizens (80 years or more)	Rs. 5 lacs
For Senior citizens (60 years or more but less than 80 years)	Rs. 3 lacs
Others Individuals	Rs. 2.5 lacs

UPSC PREVIOUS YEARS EXAMINATION QUESTIONS

IAS Prelims 2014

Q. 1 The terms 'Marginal Standing Facility Rate' and 'Net Demand and Time Liabilities', sometimes appearing in news, are used in relation to

- A. banking operations
- B. communication networking
- C. military strategies
- D. supply and demand of agricultural products

Ans: A

Q. 2 What is/are the facility/facilities the beneficiaries can get from the services of Business Correspondent (Bank Saathi) in branchless areas?

- 1. It enables the beneficiaries to draw their subsidies and social security benefits in their villages.
- 2. It enables the beneficiaries in the rural areas to make deposits and withdrawals.

Select the correct answer using the code given below.

- A. 1 only
- B. 2 only
- C. Both 1 and 2
- D. Neither 1 nor 2

Ans: C

Q.3 In the context of Indian economy; which of the following is/are the purpose/purposes of 'Statutory Reserve Requirements'?

- 1. To enable the Central Bank to control the amount of advances the banks can create
- 2. To make the people's deposits with banks safe and liquid
- 3. To prevent the commercial banks from making excessive profits
- 4. To force the banks to have sufficient vault cash to meet their day-to-day requirements

Select the correct answer using the code given below.

- A. 1 only
- B. 1 and 2 only
- C. 2 and 3 only
- D. 1, 2, 3 and 4

Ans: A

Q.4 If the interest rate is decreased in an economy, it will

- A. decrease the consumption expenditure in the economy
- B. increase the tax collection of the Government
- C. increase the investment expenditure in the economy
- D. increase the total savings in the economy

Ans :C

Q. 5 With reference to Union Budget, which of the following, is/are covered under Non-Plan Expenditure?

- 1. Defence expenditure
- 2. Interest payments
- 3. Salaries and pensions
- 4. Subsidies

Select the correct answer using the code given below.

- A. 1 only
- B. 2 and 3 only
- C. 1, 2, 3 and 4
- D. None

Ans :C

Q. 6 The main objective of the 12th Five-Year Plan is

- A. inclusive growth and poverty reduction
- B. inclusive and sustainable growth
- C. sustainable and inclusive growth to reduce unemployment
- D. Faster, sustainable and more inclusive growth.

Ans: D

Q. 7 What does venture capital mean?

- A. A short-term capital provided to industries
- B. A long-term start-up capital provided to new entrepreneurs
- C. Funds provided to industries at times of incurring losses
- D. Funds provided for replacement and renovation of industries

Ans: B

Q.8 With reference to Balance of Payments, which of the following constitutes/constitute the Current Account?

- 1. Balance of trade
- 2. Foreign assets
- 3. Balance of invisibles
- 4. Special Drawing Rights

Select the correct answer using the code given below.

- A. 1 only
- B. 2 and 3
- C. 1 and 3
- D. 1, 2 and 4

Ans: C

Q.9 Which of the following organizations brings out the publication known as 'World Economic Outlook'?

- A. The International Monetary Fund
- B. The United Nations Development Programme
- C. The World Economic Forum
- D. The World Bank

Ans:A

Q. 10 With reference to a grouping of countries known as BRICS, consider the following statements:

1. The First Summit of BRICS was held in Rio de Janeiro in 2009.
2. South Africa was the last to join the BRICS grouping.

Which of the statements given above is / are correct?

- A. 1 only
- B. 2 only
- C. Both 1 and 2
- D. Neither 1 nor 2

Ans B

Q. 11 The sales tax you pay while purchasing a toothpaste is a

- (a) tax imposed by the Central Government
- (b) tax imposed by the Central Government but collected by the State Government
- (c) tax imposed by the State Government but collected by the Central Government
- (d) tax imposed and collected by the State Government

Ans: d

IAS PRELIMS 2013

Q.12 An increase in the Bank Rate generally indicates that the

- a. Market rate of interest is likely to fall
- b. Central Bank is no longer making loans to commercial banks
- c. Central Bank is following an easy money policy
- d. Central Bank is following a tight money policy

Ans : d

Q. 13 The Reserve Bank of India regulates the commercial banks in matters of

1. liquidity of assets
2. branch expansion
3. merger of banks
4. winding-up of banks

Select the correct answer using the codes given below.

- a. 1 and 4 only
- b. 2, 3 and 4 only
- c. 1, 2 and 3 only
- d. 1, 2, 3 and 4

Ans : d

Q. 14 Which of the following grants/ grant direct credit assistance to rural households?

1. Regional Rural Banks
2. National Bank for Agriculture and Rural Development
3. Land Development Banks

Select the correct answer using the codes given below:

- a. 1 and 2 only
- b. 2 only
- c. 1 and 3 only
- d. 1, 2 and 3

Ans : c

Q. 15 Consider the following liquid assets:

1. Demand deposits with the banks
2. Time deposits with the banks
3. Savings deposits with the banks
4. Currency

The correct sequence of these assets in decreasing order of liquidity is

- a. 1-4-3-2
- b. 4-3-2-1
- c. 2-3-1-4
- d. 4-1-3-2

Ans : d

Q.16 In the context of Indian economy, Open Market Operations refers to

- a. borrowing by scheduled banks from the RBI
- b. lending by commercial banks to industry and trade
- c. purchase and sale of government securities by the RBI
- d. None of the above

Ans : c

Q. 17 Priority Sector Lending by banks in India constitutes the lending to

- a. agriculture
- b. micro and small enterprises
- c. weaker sections
- d. All of the above

Ans : d

Q. 18 Supply of money remaining the same when there is an increase in demand for money, there will be

- a. a fall in the level of prices
- b. an increase in the rate of interest
- c. a decrease in the rate of interest
- d. an increase in the level of income and employment

Ans : b

Q. 19 The balance of payments of a country is a systematic record of

- a. all import and export transactions of a country during a given period of time, normally a year
- b. goods exported from a country during a year
- c. economic transaction between the government of one country to another
- d. capital movements from one country to another

Ans: a

Q. 20 Which of the following constitute Capital Account?

1. Foreign Loans
2. Foreign Direct Investment
3. Private Remittances
4. Portfolio Investment

Select the correct answer using the codes given below.

- a. 1, 2 and 3
- b. 1, 2 and 4
- c. 2, 3 and 4
- d. 1, 3 and 4

Ans : b

Q. 21 Which one of the following groups of items is included in India's foreign-exchange reserves?

- a. Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries
- b. Foreign-currency assets, gold holdings of the RBI and SDRs
- c. Foreign-currency assets, loans from the World Bank and SDRs
- d. Foreign-currency assets, gold holdings of the RBI and loans from the World Bank

Ans : b

Q. 22 Consider the following statements:

1. Inflation benefits the debtors.
2. Inflation benefits the bond-holders.

Which of the statements given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Ans : a

Q. 23 A rise in general level of prices may be caused by

1. an increase in the money supply
2. a decrease in the aggregate level of output
3. an increase in the effective demand

Select the correct answer using the codes given below.

- a. 1 only
- b. 1 and 2 only

- c. 2 and 3 only
- d. 1, 2 and 3

Ans : d

Q. 24 Which one of the following is likely to be the most inflationary in its effect?

- a. Repayment of public debt
- b. Borrowing from the public to finance a budget deficit
- c. Borrowing from banks to finance a budget deficit
- d. Creating new money to finance a budget deficit

Ans : d

Q. 25 The national income of a country for a given period is equal to the

- a. Total value of goods and services produced by the nationals
- b. sum of total consumption and investment expenditure
- c. sum of personal income of all individuals
- d. money value of final goods and services produced

Ans : d

Q. 26 Disguised unemployment generally means

- a. large number of people remain unemployed
- b. alternative employment is not available
- c. marginal productivity of labour is zero
- d. productivity of workers is low

Ans : c

Q. 27 Economic growth in country X will necessarily have to occur if

- a. there is technical progress in the world economy
- b. there is population growth in X
- c. there is capital formation in X
- d. the volume of trade grows in the world economy

Ans : c

Q. 28 In India, deficit financing is used for raising resources for

- a. economic development
- b. redemption of public debt
- c. adjusting the balance of payments
- d. reducing the foreign debt

Ans: a

Q. 29 To obtain full benefits of demographic dividend, what should India do?

- a. Promoting skill development
- b. Introducing more social security schemes
- c. Reducing infant mortality rate
- d. Privatization of higher education

Ans : a

IAS PRELIMS 2012

Q. 30 Which of the following would include Foreign Direct Investment in India?

1. Subsidiaries of foreign companies in India
2. Majority foreign equity holding in Indian companies
3. Companies exclusively financed by foreign companies
4. Portfolio investment

Select the correct answer using the codes given below:

- a) 1, 2, 3 and 4
- b) 2 and 4 only
- c) 1 and 3 only
- d) 1, 2 and 3 only

Ans: d

Q. 31 The Reserve Bank of India (RBI) acts as a bankers' bank. This would imply which of the following?

- 1 Other bank retains their deposits with the RBI.
- 2 The RBI lends funds to the commercial banks in times of need.
- 3 The RBI advises the commercial banks on monetary matters.

select the correct answer using the codes given below:

- a) 2 and 3 only
- b) 1 and 2 only
- c) 1 and 3 only
- d) 1, 2 and 3

Ans: d

Q. 32 Under which of the following circumstances may 'capital gains' arise?

1. when there is an increase in the sales of a product
- 2 .when there is a natural increase in the value of the property owned.
3. when you purchase a painting and there is a growth in its value due to increase in its popularity.

Select the correct answer using the codes given below:

- a) 1 only
- b) 2 and 3 only
- c) 2 only
- d) 1, 2 and 3

Ans: b

Q. 33 Which of the following measures would result in an increase in the money supply in the economy?

1. Purchase of govt securities from the public by the central bank
2. Deposit of currency in commercial banks by the public
3. borrowing by the govt. from the central bank
4. Sale of govt. securities to the public by the central bank

Select the correct answer using the codes given below:

- a) 1
- b) 2 and 4 only
- c) 1 and 3
- d) 2, 3 and 4

Ans: c

Q. 34 Consider the following statement:

The price of any currency in international market is decided by the

1. World Bank
2. Demand for goods/services provided by the country concerned
3. Stability of the government of the concerned country
4. Economic potential of the country in question.

Which of the statements given above are correct ?

- a) 1, 2, 3 and 4
- b) 2 and 3 only
- c) 3 and 4 only
- d) 1 and 4 only

Ans: b

Q.35 The basic aim of Lead Bank Scheme is that

- a) big banks should try to open offices in each district
- b) there should be stiff competition among the various nationalized banks
- c) individual banks should adopt particular districts for intensive development
- d) all the banks should make intensive efforts to mobilize deposits.

Ans: C

Q. 36 Which of the following can be said to be essentially the parts of 'Inclusive Governance'?

1. Permitting the Non-Banking Financial Companies to do banking
2. Establishing effective District Planning Committees in all the districts
3. Increasing the government spending on public health
4. Strengthening the Mid-day Meal Scheme

Select the correct answer using the codes given below:

- a. 1 and 2 only
- b. 3 and 4 only
- c. 2,3 and 4 only
- d. 1, 2, 3 and 4

Ans: c

Q. 37 The Multi-Dimensional Poverty Index developed by Oxford Poverty and Human Development Initiative with UNDP support covers which of the following?

1. Deprivation of education, health, assets and services at household level
2. Purchasing power parity at national level
3. Extent of budget deficit and GDP growth rate at national level

Select the correct answer using the codes given below:

- a) 1 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Ans: a

Q. 38 Which of the following is/are among the noticeable features of the recommendations of the Thirteenth Finance Commission?

1. A design for the Goods and Services package linked to adherence to the proposed design.
2. A design for the creation of lakhs of jobs in the next ten years in consonance with India's demographic dividend
3. Devolution of a specific share of central taxes to local bodies as grants

Select the correct answer using the codes given below:

- a) 1 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Ans: c

Q. 39 What is/ are the recent policy initiative(s) of Government of India to promote the growth of manufacturing sector?

1. Setting up of National Investment and Manufacturing Zones
2. Providing the benefit of 'single window clearance'
3. Establishing the Technology Acquisition and Development Fund.

Select the correct answer using the codes given below:

- a) 1 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Ans: d

Q. 40 Consider the following specific stages of demographic transition associated with economic development:

1. Low birth rate with low death rate
2. High birth rate with high death rate
3. High birth rate with low death rate

Select the correct order of the above stages using the codes given below:

- a) 1, 2, 3
- b) 2, 1, 3
- c) 2, 3, 1
- d) 3, 2, 1

Ans: c

IAS PRELIMS 2011

Q. 41 India has experienced persistent and high food inflation in the recent past. What could be the reasons ?

1. Due to a gradual switchover to the cultivation of commercial crops, the area under the cultivation of food grains has steadily decreased in the last five years by about 30%.
2. As a consequence of increasing incomes, the consumption patterns of the people have undergone a significant change.
3. The food supply chain has structural constraints.

Which of the statements given above are correct ?

- (a) 1 and 2 only.
- (b) 2 and 3 only.
- (c) 1 and 3 only.
- (d) 1, 2, and 3.

Ans: b

Q.42 In terms of economy, the visit by foreign nationals to witness the XIX common wealth games in India amounted to ?

- (a) Export.
- (b) Import.
- (c) Production.
- (d) Consumption.

Ans: a

Q.43 Which one of the following statements appropriately describes the “fiscal stimulus” ?

- (a) It is a massive investment by the government in manufacturing sector to ensure the supply of goods to meet the demand surge caused by rapid economic growth.
- (b) It is an intense affirmative action of the government to boost economic activity in the country.
- (c) It is government’s intensive action on financial institutions to ensure disbursement of loans to agriculture and allied sectors to promote greater food production and contain food inflation.
- (d) It is an extreme affirmative action by the government to pursue its policy of financial inclusion

Ans: b

Q.44 Consider the following actions which the government can take :

1. Devaluing the domestic currency.
2. Reduction in the export subsidy.
3. Adopting suitable policies which attract greater FDI and more funds from FIIs.

Which of the above action/actions can help in reducing the current account deficit ?

- (a) 1 and 2 .
- (b) 2 and 3 .
- (c) 3 only.
- (d) 1 and 3.

Ans: a

Q.45 A rapid increase in the rate of inflation is sometimes attributed to the “base effect”. What is “base effect” ?

- (a) It is the impact of drastic deficiency in supply due to failure of crops.
- (b) It is the impact of the surge in demand due to rapid economic growth.
- (c) It is the impact of the price levels of previous year on the calculation of inflation rate.
- (d) None of the statements (a), (b) and (c) given above is correct in this context.

Ans: c

Q.46 India is regarded as a country with “Demographic Dividend”. This is due to ?

- (a) Its high population in the age group below 15 years.
- (b) Its high population in the age group of 15-64 years.
- (c) Its high population in the age group above 65 years.
- (d) Its high total population.

Ans: b

Q.47 Which one of the following is not a feature of “value added tax” ?

- (a) It is multi-point destination-based system of taxation.
- (b) It is a tax levied on value addition at each stage of transaction in the production-distribution chain.
- (c) It is a tax on the final consumption of goods or services and must ultimately be borne by the consumer.
- (d) It is basically a subject of the central government and the state governments are only a facilitator for its successful implementation.

Ans: d

Q.48 A “closed economy” is an economy in which ?

- (a) The money supply is fully controlled.
- (b) Deficit financing takes place.
- (c) Only exports take place.
- (d) Neither exports nor imports take place.

Ans: d

Q.49 Both foreign direct investment (FDI) and foreign institutional investor (FII) are related to investment in a country. Which one of the following statements best represents an important difference between the two ?

- (a) FII helps bring better management skills and technology. While FDI only brings in capital.
- (b) FII helps in increasing capital availability in general, while FDI only targets specific sectors.
- (c) FDI flows only into the secondary market, in general, while FII targets primary market.
- (d) FII is considered to be more stable than FDI.

Ans: b

Q.50 With what purpose is the government of India promoting the concept of “ Mega food parks” ?

1. To provide good infrastructure facilities for the food processing industry.
2. To increase the processing of perishable items and reduce wastage.
3. To provide emerging and eco-friendly food processing technologies to entrepreneurs.

Select the correct answer using the codes given below :

- (a) 1 only.
- (b) 1 and 2 only.
- (c) 2 and 3 only.
- (d) 1,2 and 3.

Ans: d

Q.51 Microfinance is the provision of financial services to people of low-income groups. This includes both the consumers and the self-employed. The service/services rendered under micro-finance is/are :

1. Credit facilities.
2. Savings facilities.
3. Insurance facilities.
4. Fund transfer facilities.

Select the correct answer using the codes given below the lists ?

- (a) 1 only.
- (b) 1 and 4 only.
- (c) 2 and 3 only.
- (d) 1,2 ,3 and 4.

Ans: d

Q.52 With reference to the Finance Commission of India, which of the following statements is correct ?

- (a) It encourages the inflow of foreign capital for infrastructure development
- (b) It facilitates the proper distribution of finances among the Public Sector Undertakings
- (c) It ensures transparency in financial administration
- (d) None of the statements (a), (b) and (c) given above is correct in this context

Ans: d

Q.53 Regarding the international monetary fund, which one of the following statements is correct ?

- (a) It can grant loans to any country.
- (b) It can grant loans to only developed countries.
- (c) It grants loans to only member countries.
- (d) It can grant loans to the central bank of a country.

Ans: c

Q.54 Why is the offering of “teaser loans” by commercial banks a cause of economic concern ?

1. The teaser loans are considered to be an aspect of sub-prime lending and banks may be exposed to the risk of defaulters in future.
2. In India, the teaser loans are mostly given to inexperienced entrepreneurs to set up manufacturing or export units.

Ans: a

Q.55 In India, which of the following have the highest share in the disbursement of credit to agriculture and allied activities ?

- (a) Commercial banks.
- (b) Cooperative banks.
- (c) Regional rural banks.
- (d) Microfinance institutions.

Ans: a

Q.56 Which of the following can aid in furthering the government’s objective of inclusive growth ?

1. Promoting self-help groups.
2. Promoting micro, Small and medium enterprises.
3. Implementing the right to education act.

Select the correct answer using the codes given below :

- (a) 1 only.
- (b) 1 and 2 only.
- (c) 2 and 3 only.
- (d) 1,2 and 3

Ans: d

Q.57 Why is the government of India disinvesting its equity in the central public sector enterprises (CPSEs) ?

1. The government intends to use the revenue earned from the disinvestment mainly to pay back the external debt.
 2. The government no longer intends to retain the management control of the CPSEs.
- Which of the statements given above is/are correct ?

- (a) 1 only.
- (b) 2 only.
- (c) Both 1 and 2.
- (d) Neither 1 nor 2.

Ans: d

Q.58 Economic growth is usually coupled with ?

- (a) Deflation.
- (b) Inflation.
- (c) Stagflation.
- (d) Hyperinflation.

Ans: b

Q.59 The lowering of bank rate by the reserve bank of India leads to ?

- (a) More liquidity in the market.
- (b) Less liquidity in the market.
- (c) No change in the liquidity in the market.
- (d) Mobilization of more deposits by commercial banks.

Ans: a

UPSC Combined Defence Service Exam (from 2011 to 2015)

Q.60 Which of the following statements about India's unorganized sector are true?

- 1. Labour is more in number than that in the organized sector.
- 2. Job security and work regulation are better in unorganized sector.
- 3. They are usually not organized into trade unions.
- 4. Workers are usually employed for a limited number of days.

Select the correct answer using the code given below.

- (a) I, 2 and 4
- (b) I, 3 and 4
- (c) 3 and 4 only
- (d) 1 and 3 only

Q.61 The concept which tries to ascertain the actual deficit in the revenue account after adjusting for expenditure of capital nature is termed as

- (a) revenue deficit
- (b) effective revenue deficit
- (c) fiscal deficit
- (d) primary deficit

Q.62 Which one among the following is a fixed cost to a manufacturing firm in the short run ?

- (a) insurance on buildings
- (b) overtime payment to workers
- (c) cost of energy
- (d) cost of raw materials

Q.63 Which of the following are included in the category of direct tax in India ?

1. corporation tax
2. tax on income
3. wealth tax
4. customs duty
5. excise duty

(a) 1, 2 & 3

(b) 1,2,4 & 5

(c) 2 & 3 only

(d) 1,3,4 & 5

Q.64 'Population dividend' refers to

(a) total number of population

(b) youthful age structure of a population

(c) relatively high proportion of experienced aged people

(d) migration from richer region to poorer region

Q.65 'Inclusive growth' is a phrase used in India's

1. 9th Plan

2. 10th Plan

3. 11th Plan

4. 12th Plan

Select the correct answer using the code given below.

(a) 1, 2 and 3

(b) 2 and 4

(c) 3 and 4

(d) 4 only

Q.66 Which one among the following may be considered a reason for India having 'high dependency' ratio?

(a) High rate of population growth

(b) Large section of population is in the age group of 0-14 years

(c) High percentage of population in the age group of 15-59 years

(d) Low pace of human resource Development

Q.67 The main functioning of the banking system is to :

(a) accept deposits and provide credit

(b) accept deposits and subsidies

(c) provide credit and subsidies

(d) accept deposits, provide credit and Subsidies

Q.68 Which bank is limited to the needs of agriculture and rural finance ?

- (a) SBI
- (b) **NABARD**
- (c) IFC
- (d) RBI

Q.69 The value of money varies:

- (a) directly with the interest rate
- (b) directly with the price level
- (c) directly with the volume of employment
- (d) **inversely with the price level**

Q.70 Corporation tax is imposed by :

- (a) State Government
- (b) **Central Government**
- (c) Local Government
- (d) State as well as Central Government

Q.71 In India, the price of petroleum products has been deregulated mainly to :

- (a) **reduce the burden of subsidies given to the oil companies**
- (b) discourage the exploration of oil reserves in the country
- (c) discourage the demand for private vehicles
- (d) curb the use of black money in the Economy

Q.72 Which of the following statements is / are correct?

1. **High growth will lead to inflation.**

2. High growth will lead to deflation.

Select the correct answer using the code given below :

- (a) **1 only**
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Q.73 In the parlance of financial investment, the term 'bear' denotes

- (a) **an investor who feels that the price of a particular security is going to fall**
- (b) an investor who expects the price of a particular share to rise
- (c) a shareholder who has an interest in a company, financially or otherwise
- (d) any lender, whether by making a loan or buying a bond

Q.74 Which one among the following is an appropriate description of 'deflation'?

- (a) It is a sudden fall in the value of a currency against other currencies
- (b) It is a persistent recession in the economy
- (c) **It is a persistent fall in the general price level of goods and services**
- (d) It is a fall in the rate of inflation over a period of time

Q.75 In India, the 'effective literacy rates' are calculated from

- (a) total population
- (b) child population
- © adult population
- (d) **population above 7 years of age**

Q.76 Which of the following measures should be taken when an economy is going through inflationary pressures?

- 1. The direct taxes should be increased.
- 2. The interest rate should be reduced.
- 3. The public spending should be increased.

Select the correct answer using the code given below:

Code:

- (a) **1 only**
- (b) 2 only
- (c) 2 and 3
- (d) 1 and 2

Q.77 Which of the following statements is/are, correct?

- 1. If a country is experiencing increase in its per capita GDP, its GDP must necessarily be growing.
- 2. If a country is experiencing negative inflation, its GDP must be decreasing.

Select the correct answer using the code given below :

Code:

- (a) **1 only**
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Q.78 National income ignores

- (a) sales of a firm
- (b) salary of employees
- (c) exports of the IT sector
- (d) **sale of land**

Q.79 Which of the following statements is/ are correct?

- 1. NIFTY is based upon 50 firms in India.
- 2. NIFTY is governed and regulated by the Reserve Bank of India.
- 3. NIFTY does not trade in mutual funds.

Select the correct answer using the code given below

Code':

- (a) **1 only**
- (b) 2
- (c) 3 only
- (d) 1 and 3

Q.80 When the productive capacity of the economic system of a State is inadequate to create sufficient number of job's, it is called

- (a) seasonal unemployment
- (b) **structural unemployment**
- (c) disguised unemployment
- (d) cyclical unemployment

Q.81 Which one among the following is not a Millennium DevelopmentGoal of the. United Nations'?

- (a) Eradicate extreme poverty
- (b) **Reduce birth rate and death rate**
- (c) Improve maternal health
- (d) Promote gender' equality

Q.82. Fiscal policy in India is formulated by

- (a) the Reserve Bank of India
- (b) the Planning Commission
- © **the Finance Ministry**
- (d) the Securities and Exchange Board of India

Q.83 Special Drawing Rights (SDRs) relate to

- (a) the World Bank
- (b) the Reserve Bank of India
- (c) the World Trade Organization
- (d) the **International Monetary Fund**

Q.84 The 'Nehru-Mahalanobis strategy of development guided the planning practice in India from the

- (a) First Five-Year Plan to the Sixth Five-year Plan'
- (b) Fourth Five-Year Plan to theEighth Five-Year' Plan
- (c) **Second Five-year Plan to theSeventh Five-Year Plan**
- (d)First Five-Year Plan to theEighth Five-Year Plan

Q.85 A market in which there are large numbers of sellers of a particular product, but each seller sells somewhat differentiated but close products is termed as

- (a) Perfect competition
- (b) Monopoly
- (c) **Monopolistic competition**
- (d) Oligopoly

Q.86 Which of the following statements are correct ?

1. .When marginal revenue is positive, total revenue increases with increase in output.
2. When marginal revenue is zero, total revenue is maximum.
3. When marginal revenue becomes negative, total revenue falls with increase in output. "

Select the correct answer using the code given below:

- (a) 1 and 2 only

- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) **1, 2 and 3**

Q.87 National product at factor cost is equal to

- (a) Domestic product + Net factor income from abroad
- (b) **National product at market prices indirect taxes + subsidies**
- (c) Gross domestic product - depreciation
- (d) National product at market prices + Indirect taxes + subsidies

Q.88 Which one among the following is not a source of tax revenue for the Central Government in India?

- (a) Income tax
- (b) Customs duties
- (c) Service tax
- (d) **Motor Vehicle tax**

Q.89 Which of the following does not form part of current account of Balance of Payments ?

- (a) Export and import of goods
- (b) Export and import of services
- (c) Income receipts and payments
- (d) **Capital receipts and payments**

Q.90 Eco-Mark is given to an Indian product which is

- (a) rich in protein
- (b) **environment-friendly**
- (c) economically viable
- (d) pure and unadulterated

Q.91 Along with goods manufactured using child labour, some of the developed countries have started to boycott goods manufactured in developing countries using 'sweat labour'. 'Sweat labour' implies goods produced by

- (a) female labourers at a very low wage
- (b) labourers working in inhuman/unhealthy working conditions
- (c) **labourers working for more than eight hours a day without any break**
- (d) labourers where there is a wage discrimination between male and female labourers

Q.92 Brent index is associated with

- (a) **crude oil prices**
- (b) copper future prices
- (c) gold future prices
- (d) shipping rate index

Q.93 According to Goldman Sachs' review of emerging economies, by 2050 which one of the following would be the order of the largest economies in the world?

- (a) **China-USA-India-Brazil-Mexico**
- (b) USA-China-India-Brazil-Mexico
- (c) China-USA-Brazil-India-Mexico
- (d) USA-Mexico-China-India-Brazil

Q.94 The term 'demographic gap' signifies the difference

- (a) in sex ratio
- (b) in age
- (c) in child/woman ratio
- (d) **between the birth and the death rate**

Q.95 Consider-the following statements:

1. In India the minimum denomination coin acceptable for transaction is 50 paise.
2. Coins below 50 paise is not a legal tender for payment.

Which of the statements given above is/ are correct? I

- (a) 1 only
- (b) 2 only
- (c) **Both 1 and 2**
- (d) Neither 1 nor 2

Q.96 Consider the following statements about Sinking Fund:

1. It is a method of repayment of public debt.
2. It is created by the government out of budgetary revenues every year.

Which of the statements given above is/are correct ?

- (a) 1 only
- (b) 2 only
- (c) **Both 1 and 2**
- (d) Neither 1 nor 2

Q.97 Consider the following statements about World Trade Organization :

1. It oversees financial institutions and regulations that act at the international level
2. It was set up as the successor to the General Agreement on Trade and Tariff (GATT)

Which of the statements given above is/are correct?

- (a) 1 only
- (b) **2 only**
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Q.98 Special Drawing Rights (SDR), the currency of IMF, is in the form of

- (a) Paper currency
- (b) **Book-keeping entry only**
- (c) Gold
- (d) PPP-Dollar

Q.99 Which of the following statements about ASEAN is not correct?

- (a) **India is a founder member of ASEAN**
- (b) Its objectives were primarily to accelerate 'economic and social progress and cultural development'
- (c) It is committed primarily to promote regional peace and stability
- (d) It encourage negotiation over conflict in the region

Q.100 The M Narasimham Committee Report relates to

- (a) Insurance sector reform
- (b) **Banking sector reform**
- (c) Agricultural sector reform
- (d) Industrial sector reform

Q.101 India is represented at the IMF by an Executive Director. He also represents :

1. Bangladesh
2. Sri Lanka
3. Bhutan
4. Pakistan

Select the correct answer using the code given below :

- (a) 1 only
- (b) 3 and 4 only
- (c) **1, 2 and 3 only**
- (d) 1, 2, 3 and 4

Q.102 In the Union Budget of India, all revenues received by the Government and loans raised by it form part of

- (a) **Consolidated Fund of India**
- (b) Contingency Fund of India
- (c) Public Accounts
- (d) Balance of Payments

Q.103 Match List I with List II and select the correct answer using the code given below the Lists:

List I

List II

(Five Year Plan)

(Basic Strategy)

- | | |
|----------------------------|--|
| A. Eighth Five Year Plan | 1. Export-led growth |
| B. Ninth Five Year Plan | 2. Agricultural development led growth |
| C. Tenth Five Year Plan | 3. Equity and Social Justice |
| D. Eleventh Five Year Plan | 4. Faster and Inclusive growth |

Code:

- | | A | B | C | D |
|-----|----------|----------|----------|----------|
| (a) | 4 | 3 | I | 2 |
| (b) | 4 | 1 | 3 | 2 |
| (c) | 2 | 1 | 3 | 4 |
| (d) | 2 | 3 | I | 4 |

Q.104 At present the Wholesale Price Index (WPI) for all commodities including manufactured products is released on a

- (a) weekly basis
- (b) **monthly basis**
- (c) bi-weekly basis
- (d) quarterly basis

Q.105 Consider the following statements about the achievements of growth rate in India's Five Year Plans:

1. GDP grew less than the target during the Eleventh Plan
2. GDP grew more than the target during the Tenth Plan
3. GDP grew less than the target during the Ninth Plan

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 1 and 2
- (c) **1 and 3**
- (d) 2 and 3

Q.106 Demand for a commodity refers to

- (a) Desire for that commodity
- (b) Need for that commodity
- (c) Quantity demanded of that commodity
- (d) **Quantity demanded at certain price during any particular period of time**

Q.107 When two goods are interchangeable, they are

- (a) **Perfect substitutes**
- (b) Perfect complements
- (c) Giffen goods
- (d) Veblen goods

Q.108 Rise in the price of a commodity means

- (a) rise in the value of currency only
- (b) fall in the value of currency only
- (c) rise in the value of commodity only
- (d) **fall in the value of currency and rise in the value of commodity**

Q.109 Which of the following statements with regard to the proposed Asian Infrastructure Investment Bank is/are correct ?

1. India is one of the founding members of the Bank.
2. The Bank is to be headquartered in Shanghai.

Select the correct answer using the code given below:

- (a) **1 only**
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2