AL-AMEEN COLLEGE OF LAW

MODEL ANSWER PAPER: Economics-3

IIIsem 5 yrs B.A.LL.B

ECONOMIC THEORY AND PUBLIC FINANCE

Q. No.1. **Define National Income. Explain different methods of estimation of National Income.**

The total income of the nation is called national income. The aggregate economic performance of the whole economy is measured by the national income date in fact, national income data provide a summary statement of a country's aggregate economic activity.

In real terms, national income is the flow of goods and services produced in an economy in a year or a particular period of time.

Modern economy is a money economy. Thus national income of the country is expressed in money terms. A national sample survey has therefore, defined national income as "money measures of the net aggregate of all commodities and services accruing to the inhabitants of a Community during a specific period. "National Income is not a quantum. It is heterogeneous whole. It is the expression, in monetary terms, of the variety of goods and services produced by a nation during a year.

The methods of estimating National Income are: (1) Income method.

1) In this method, the total of all money incomes such as wages, salaries, rent, profit received by persons and enterprises in the country during the year are totaled up. The following classification of incomes is considered as comprehensive a) Wages and salaries, b) Supplemental labour income, c) Earnings of self employed or professional incomes, d) Dividends, e) Undistributed Profits, f) Interest, g) Rent and h) profit of state enterprises. However, transfer payments like gifts, subsidies etc. are to be deducted from

the total of factor income. Thus National Income is equal to the factor incomes business transfer payments.

2) The expenditure or outlay method National income on the expenditure side is equal to the value of consumption Plus Investment. In this method we have to

   (i) estimate private and public expenditure on consumer goods and services,

   (ii) add the value of investment in fixed capital and stocks, with due consideration for net positive or negative inventories, and (iii) add the value of imparts. To express it is symbolic terms.

   Y = (C + I + G) + (X – M) + (R – P)

   Where

   C = Consumption expenditure

   I – Investment expenditure and

   G = Govt. Purchases.

3) The Value added Method:- In the value added method a summation of the increase in value at each separate production stage, leading to output in final form, given the value of GNP. To avoid double counting of intermediate goods, one must carefully estimate the value added at each stage of the production process. From the total value created at a given stage, we should thus substract all the cost materials and intermediate goods not produced in that stage or the value of inputs at a given stage, should be deducted from the value of output. Even the value of inputs purchased from other firm or sectors should be substracted.

Q. No. 2 Explain briefly Keynesian Theory of Employment, with effective demand.

The Classical economists assumed full employment on the basis of says market which states that supply creates its own demand. According to Keynes under employment equilibrium is normal feature. He explained his theory of employment on the basis of effective demand in his book “General theory of employment interest and Money”. His theory is based on a short run view. In the short run it is assumed that capital equipment population or man power, technical knowledge labour efficiency remain constant. Keynes theory says that the value of employment depends on the level of the national income and output. If these factors are fixed, the N. I. can be increased only by employing more labour. According to Keynes the increase in National Income would mean increase in employment. The larger the value of employment, the larger the national income. This theory of employment is based on the principle of effective demand.

Principle of effective demand – Effective demand is that aggregate supply. In other words effective demand is the point. Where aggregate demand curve and aggregate supply curve intersect. AD is the total of consumption expenditure and investment expenditure. As output income and employment increase aggregate demand also increases. For each level of output employment and income there will be a corresponding level of aggregate demand. But all the aggregate demand not effective demand. AD which is equal to aggregate supply is effective demand. Effective demand bring equal to total output as well as total expenditure is also equal to national income. He explains his principle of effective demand using aggregate demand function or price effective demand is that aggregate demand price which becomes effective, because it is equal to aggregate supply price and thus represent a position of short run equilibrium.

Aggregate Demand Function or Price: The ADF or price for the output of any given amount of employment is the total sum of money or proceed which is expected from the sale of output produced when that quantity of labour is employed. The aggregate demand Price represents the expected receipts when a given volume of employment is offered to workers.

Aggregate: Supply function orprice: - The aggregate supply price when any given number of workers is employed is the total cost of production of the output at a certain level of employment. It is the sum total of all payments made by entrepreneurs to all the factors of production producing that output. We can prepare an aggregate supply price schedule according to the total number of workers employed in the economy and we can have a corresponding aggregate supply price curve or aggregate function. The greater the amount of employment offered by the employees taken together to the workers in the economy.

Keynes General theory of employment is based on the following assumptions.

1) Perfect Competition: There is fairly high degree of competition in the markets.
2) Short Period: The time that is considered is the short period.
3) Operation of diminishing returns:- There is the operation of diminishing returns to productive resources or increasing costs.
4) Absence of govt. part in economic activity:- the Govt. plays no significant part either as a taxer or as a spender.
5) A closed economy:- There is absence of the influence of experts and imparts.
6) Static conditions:- The general theory does not trace out the effect of the future on the present economic events clearly.
7) Heroic aggregate:- The relation in aggregate like the national incomes saving and investment are better tools. In this diagram the curve AD represents ADF and the curve AS represents ASF. The two curves intersect each other at E. this is the point of effective demand. At this point

ADF and ASF are exactly balanced. ON is the employment available OM is the receipts / costs.

Q. No. 3 what do you mean by vicious circle of poverty? Explain its determinants.

Vicious circle of poverty is the great challenge for all the developing economies. Many development barriers are both a cause and consequence of poverty. Such circular relationships per perpetuate the low level of development including capital deficiency and market imperfections as characteristics of poor countries. The basic vicious circle is marked imperfections, capital deficiency, low productivity low investment, low real income, low savings. This circle emphasizes that total output is low, and that little remain as a surplus of the low level of real income the flow of saving is small. The low level of real income is due to lack of capital stock, is inturn the result of low level of real income. Thus capital deficiency and low productivity have contributed to the saying that a poor country is poor because it is poor.

In a poor country, the level of productivity and so of incomes, is very low which means a low purchasing power. Since the purchasing power of the people is low, the scope for business and industry is correspondingly limited. The inducement to invest is practically absent. The rate of investment being low, production is low and the incomes are small completing the vicious circle.

The underdeveloped countries face the vicious circle of poverty on the demand side of capital formation because the size of market is too small. The result is there is not much inducement for the businessmen and industrialist to make investment. The vicious circle of poverty also operates on the supply side.

Determinants of Vicious circle of Poverty:

1) Underdevelopment:- It is because of under development of the Indian Economy that the level of her national and per capita incomes are low. Under development is due to lack of industrialization as there are no investments as there are no savings due to low income of the people.

   Hence many people are depend on agriculture, where they get meager earnings.

2) Rapid growth of population:- Over population is another important cause of he prevailing poverty in the Country when the national income is divided among too many people the per capita income is bound to be low.

3) Low Agricultural Productivity:- Carrying on cultivation by primitive techniques small size of holdings, insufficient irrigation, failure of the use of the modern agricultural inputs keep agricultural productivity in India at a very low level.

4) Unemployment and underemployment:- The existence of huge unemployment and underemployment leads for dependency. The income earner of the family has to share his income to the unemployed for their survival. This cause is import to rampant poverty in the country.

5) Inequality:- It is also another determinants. Inequality in the distribution of national income has also been a major cause of mass poverty in India. When a large chunk of national income is packeted by 5 to 10% of the population, the majority of population.

Q. No. 4 What is Public revenue? Mention the different sources of public revenue.

Public revenue refers to the income of the national through different sources. The union Govt. of India has the powers to take major decisions concerning financial matter.

Sources of Public Revenue:-

A present the central Govt. gets its revenue from three main sources. They are: 1) Tax revenues 2) Non tax revenues and 3) Capital receipts.

I Tax Revenues:- Tax is a compulsory Payment made by the people to the Govt. without expecting any quid-pro-quo relations. The Central Govt. mobilizes its tax revenues from two main sources. They are: 1) Direct Taxes and (b) Indirect Taxes.

1) Direct taxes:- Taxes levied on the Income and Wealth of the people are called direct taxes. They include personal income tax, corporation tax, wealth tax, gift tax, estate duty, interest tax, expenditure tax etc. Direct taxes bring about 48.8% of the tax revenue to the Central Govt. Direct taxes sub divides into:-

a) Income Tax:- Income Tax is a tax levied by the Central Govt on the incomes of individuals, Hindu undivided families and unregistered firms and association.

b) Corporation Tax: This tax is levied on the incomes of registered companies and corporation.

c) Wealth tax:- Wealth tax is levied on the excess of the net wealth over exemption of individuals, Hindu undivided families and companies. It was first introduced in 1957 on the recommendations of Prof. Kaldor.

d) Gift tax: This tax is levied on all donations and gifts except the ones given by the charitable institutions, Govt. companies and Private Companies.

e) Interest Tax: It is the tax levied on the gross interest earned by Commercial Banks and Individuals.

f) Expenditure Tax:- This is another types of tax levies on expenditure.

The other taxes are Banking cash transaction tax, Securities transaction tax etc.

2) Indirect Taxes:- The taxes levied on the goods and services are called indirect taxes. The sources of indirect taxes are:-

a) Central Excise Duties:- These are the taxes levied on commodities which are produced within the country etc. Sugar, Cotton, Match box, Kerosene, paper, petrol, tea, coffee, etc.

b) Customs duties:- They are the taxes levied on Commodities imported into India or those exported from India.

c) Service Tax:- Various services are brought under the tax net by the Central Govt. and it was introduced in 1994-95.

d) Taxes on Union Territories:- The taxes levied and collected from Union Territories is another source of revenue to the Govt.

II Non-Tax Revenues:- Revenues mobilized from sources other than taxes are called non-tax revenue.

1) Public Enterprises:- The Central Govt. Owns a large number of Commercial and industrial establishments. When they earn profits, it will become the revenue of the central govt.

2) Administrative Revenue:- The Central Govt. from day-to-day administration gets sizable revenue by way of fees, licence fees, fines and penalties special assessments etc.

3) Railways, post and telegraphs:- They are owned by the Central Govt. the Profit earned by these undertakings constitute the sources of revenue to the Govt.

4) Income from currency and mint:- The Union Govt of India earns revenue from currency and mint.

III Capital Receipts:- When revenue mobilized through tax and non tax sources is insufficient to meet its expenditure, the central govt. will try to mobilized income from capital receipts eg. 1) Internal and External borrowings, (2) Small savings, (3) Provident fund, (4) Loan recovery, (5) Public deposits etc.

Q. No. 5 Define deficit financing. Explain the different types of deficit.

According to the planning commission, the term deficit financing is used to denote the direct addition to gross national expenditure through budget deficits. Whether the deficit are on the revenue or capital accounts".

Deficit financing has been used by the Govt of India for mobilizing funds to finance economic development. When the govt. cannot raise enough financial resources through taxation it finances. Its expenditure through: 1) Borrowing from the market, (2) by running down its cash balances with the RBI and (3) by borrowing from RBI.

The concepts of deficit financing are:-

1) Revenue Deposit:- The concepts of revenue deficit is a simple and straight forward one Revenue deficit equals the difference between the revenue receipts and the revenue expenditure. Current revenue expenditure of the Central Govt is composed of plan and non plan expenditure of the Govt. and is met out of current revenue receipts. Thus:

   Revenue Deficit = Revenue expenditure - Revenue receipts.

2) Budget deficit:- Budget deficit occurs when total expenditure exceeds total receipts. Here total expenditure includes aggregate of both revenue expenditure and capital expenditure likewise, total receipts includes both revenue receipts and capital receipts Thus:

   Budget Deficit = Total expenditure - Total Receipts.

   The concept of budget deficit was given up by the govt of India since 1997-98.

3) Fiscal deficit:- The term fiscal deficit may be defined as budgetary deficit Plus market borrowings and other liabilities of the govt. of India. In other words fiscal deficit equals revenue receipts plus non-debt capital receipts minus total expenditure. Thus:

   Fiscal Deficit – Revenue Receipts + Non Debt capital receipts – Total expenditure.

   In the above equation non-debt capital receipts refers only to recoveries of loans and other receipts Eg. The total expenditure plan and non plan of the Union Govt. of India.

   Fiscal Deposit indicates the total borrowing requirements of the Govt. from all sources. It reflects the time extent of borrowing by the Govt. in a fiscal year.

4) Primary deposit:- In recent years, the Finance Minister has introduced one more concent of deficit known as Primary deficit. Primary deficit is determined by arriving at the gap between the Govt.'s total income and expenditure after excluding interest earnings as well as interest payments. Thus:

   Primary deficit = Fiscal deficit – Interest Payments.

   Primary Deposit can be classified into revenue and capital deficit. Primary deficit on revenue account would equal revenue deficit less net interest payments and on capital account would equal capital expenditure less loan repayment.

Q. No. 6 Distinguish between economic growth and economic development.

In general parlance, the terms economic development and economic growth are synonyms and connote the same meaning. For a long time, the terms economic development – Economic growth, Economic progress, Economic welfare, Secular change etc. were used as synonyms and were interchanged with one another. A layman may not find any difference in these terms. For him all of them would mean increase in national income, improvement in living standards, equitable distribution of income and wealth etc. But some leading economists like Mrs. Ursula Hicks, Prof. A Maddison, C. P. Kindleberger, Prof. J. A. Schumpeter and other have drawn a line of demarcation between economic development and economic growth.

According to Prof. A. Maddison, "the rising of income levels is generally called economic growth in rich countries and in the poor ones, it is called economic development. According to C. P. Kindleberger, "Economic growth means more output and economic development implied both more output and changes in the technical and institutional arrangements, by which it is produced based on the above discussion, a distinction between economic development and economic growth may further be explained by means of the table as follows:-

Sl. No.	**Economic Growth**		**Economic Development**
1	Narrow concept		Wider concept
2	A quantitative		A qualitative phenomenon
3	Measures in terms of real per capita Income		Measures in terms of real national income
4	Macro economic study		Micro economic study
5	Is an effect of development		A cause of economic growth

6	Relates to developed countries		Relates to under developed countries

7	Long period economic phenomenon		Short period economic process
8	Possible without development		Not possible without growth
9	Spontaneous		Regulated and controlled
10	Minimum Govt. interference		More Govt. interference
11	Automatic process		Induced process
12	Expansion without a change in Structure		Innovative process with structural transformation
13	Single dimension phenomenon		Multi dimension phenomena
14	Quantitative significance		Qualitative significance

Q. No. 7 Define public expenditure. Explain its items.

The expenditure made by Central Govt. on country is called as Public expenditure. The expenditure made by the Central Govt. can be broadly classified into two categories that is Plan expenditure and Non Plan expenditure.

2) Revenue expenditure and Capital Expenditure. Heads of expenditure of Central Govt.

1) **Plan expenditure**:- The expenditure made on various economic and socialservices, nation building activities and such other developmental activities is called plan expenditure. The plan outlay consists of agriculture and allied activities, rural development, irrigation and flood control energy, industry and numerals, transport etc.

   a) **Central Plan Schemes**:- In the Central Plan schemes there areeconomic, social and general services.

i) Economic Services:- Expenditure on economic services include such projects as agriculture and allied activities, rural development, industry and minerals, energy transport, science, technology, environment etc.

ii) Social Services: Expenditure on social services include such activities as education, art, and culture, health and family welfare, social welfare, nutrition, sanitation etc.

iii) General Services:- The expenditure on general services include maintenance of law and order, internal and external securities etc.

b) Central Assistance to state Plans:- India has quasi-federal form of constitution in which there is a strong central Govt. and several state Govts. The Central giving plan assistance to these state Govts. And this assistance is included in the Central Plan expenditure.

c) Central assistance for Union territory Plans:- Some territories in the country are under the direct control of the Central Govt. it gives plan assistance to these territories which are also included in the Central Plan expenditure.

2) **Non Plan Expenditure**:- Non Plan Expenditure is a term used to cover allexpenditure of the govt. not included in the plan. It includes both developmental and non-developmental expenditures. The important terms of non-plan expenditures are defence and internal security, interest payments, grants-in-aid subsidies, pensions etc.

i) Civil expenditure:- Civil expenditure refers to the expenditure of the Govt. It includes maintenance of Law and Order, Civil administration, Tax collection, Public and Internal security, Judiciary Pension etc.

ii) Defence expenditure:-Defence expenditure is the most important item of expenditure of Central Govt. production of arms and ammunitions, purchase of costly defence equipment, salary, pension and training to defence personnel etc.

iii) Interest payments:- The biggest item in the Central Govt expenditure is the interest payments made on the internal and external borrowings.

iv) Subsidies:- Another important item of the Central Govt. non-plan expenditure is subsidies for food, fertilizers and export promotion.

v) Grand-in-aid:- The Central Govt. gives grant-in-aid to the state Govts. And union territories.

vi) Loans and advances:- The Central Govt. also gives loans and advances to state and Union territories.

vii) Miscellaneous expenditure:- Reliefs given at the time of floods, droughts, earth quakes and such other natural calamities, rehabilitation expenditure, aid to backward regions etc. are other items of non-plan expenditure.

Write Short Notes on:-

a) **Big push theory of Growth**.

The theory of Big Push is associated with the name of Professor Paul N Rosenstein Rodan. The big push or a large comprehensive programme highlights the need for tremendous efforts which are required o take the underdeveloped economies out of stagnation and vicious circle of poverty. The development process is a series of discontinuities jumps and growth activities are full of lumps and discontinuities. To overcome the discontinuities of development process and making the developing economies more on higher production a big Push is needed Rodan suggest three kinds of indivisibilities and external economies. They are:

(i) Indivisibility in the Production function,

(ii) Indivisibility of demand and

(iii) Indivisibility in the supply of

savings.

(i) According to Rosenstein Rodan, indivisibilities in production function refer to the indivisibilities of inputs, outputs and processes, that lead to increasing returns by raising output, income and employment and lowering he capital output ratios. He regards social overhead capital that is power, transport, communication housing etc. as the most important instance of indivisibility and hence of external economies on the supply side.

(ii) Indivisibility of Demand:- According to Rosenstein Rodan the importance of indivisibility of demand lies in the expansion of market size. The small markets in underdeveloped countries carpeted by the low per capita income and purchasing power of the general wall of people. he agrees that a single factor even if it uses modern methods of production is likely to jail if set up on its own because of the smallness of the market output for its output. So, the indivisibility of demand requires simultaneous setting up of a large number of industries.

(iii)Indivisibility in the supply of savings:- Substantial investment requires for starting of industries at one hand and at the same time requires high volume of savings. This is too difficult to achieve in underdeveloped countries because of low level of income. To raise the level of savings, it is imperative that a gap between income and expenditure should be created and savings should be steeped up.

b) **Budget**

Budget is an important document of present Socio-economic system. It reflects economic and social policies of the Govt. it is a master plan and policy instrument of the Govt.

Meaning of Budget:- An estimate of all anticipated revenue and expenditure of the Govt. for the ensuing financial year is called as budget. This is known as the annual financial statement.

Types of Budget:- There are thrice types of budgets they are:

1) Balanced Budget:- A budget is said to be balanced when its tax revenue and expenditure are equal.

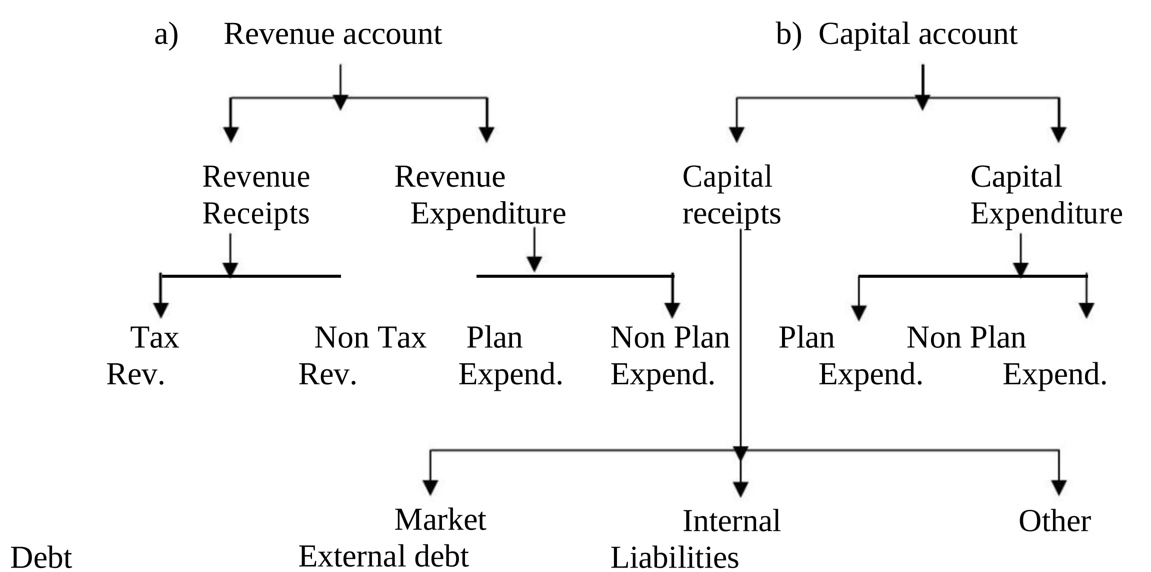
2) Surplus budget:- When the anticipated revenue exceeds expenditure an imbalance is created in the budget. This kind of a budget is called surplus budget.

3) Deficit budget:- Deficit budget is one which the anticipated expenditure is more than the anticipated revenue. At present, most of the Govts. In the world present deficit budget.

The budget of the Indian Govt. gives a complete picture of the estimated receipts and expenditures of the govt. it gives three sets of figures, that is (i) Actual figures for the proceeding, (ii) Revised estimates for the current year and (iii) Budget estimates for the following year.

The union budget of the govt. of India is prepared for the financial year, commencing on 1st April and ending on 31st March.

Parts of Union Budget:-



c) **Trade Cycle**

Business or Trade cycles are a prominent features of the capitalist economies. They refer to the regular fluctuations in aggregate economic activity. They appear in regular intervals “A trade cycle is a purely monetary phenomenon.

In Keynes words:- A business cycle is composed of periods of good trade characterized by rising Prices and low employment percentage attempting with periods of bad trade characterized by falling prices and high unemployment percentage.

Characteristics of Trade Cycle:-

1. A business cycle shows a ware like variation in economic activity.
2. A business cycle is an economy – wide phenomenon when it sets in the industrial sector, soon its spread and other sectors.
3. Business fluctuations trend to occur. They appear again and again after the lapse of sometime.
4. Trade cycles are self-reinforcing cumulative on the cyclical movement starts in one direction its tends to feed on itself and passes through its stages.

<u>Stages of business cycle</u>

1. Depression or stump:- It has described as a state of affairs in which real income consumed or volume production per head and the rate of employment are falling and are sub-normal in the sense that these are idle resources and unused capacity especially unused labour. This characterized with mass unemployment, falling prices, falling profit low wages etc.
2. Recovery (Revival) Recovery shows the upturn of the output and employment of the economy from the state of depression. During this phase there is slight improvement in economic activity, improvement in business activity. Industrial production picks up slowly and gradually, volume of employment increases prices slow rises etc.
3. Boom or prosperity:- According to Haborler Prosperity is a state of affairs in which the real income consumed, real income produced and the level of employment are high or rising and there are no idle resources or unemployment, income rises faster than before demand increases etc.

4. Recession:- With great demand for factors of production during boom their prices increases, but the quality available is inferior has efficient workers have to be taken on higher wages. As a consequence costs take an upward swing than starts the downward. This leads to crisis and finally assumes the shape of depression.

8. Explain the Characteristics of a good tax system

1) Maximum Social Benefit:- According to Dr. Dalton that system of taxation is the best which is based on the principle of maximum social advantage.

2) Equality in the distribution of tax burden:- There is those who are better off should pay more taxes and they should bear a great burden of taxation.

3) Multi Taxation System:- The tax system in which taxes are levied on should be divers, tied instead of being concentrated in one or two taxes.

4) Productivity of the tax system:- The tax system should give the maximum possible encouragement to the productive capacity of the country.

5) Rights of tax payers: - A sound tax system will have to safeguard the interest of the tax payers. In a democratic set up, the rights of tax payers have to be continuously kept in mind.

6) Universal application of Taxes:- Each individual should pay according to his ability to pay, and the individuals possessing the same ability to pay should contribute the same amount by way of taxes without any discrimination.

7) Elasticity:- The taxation system should provide to the govt. increased income with the increase in the national income of the country. The taxation system should also yield more income when the govt. expenditure goes up.

8) Convenience:- The govt. should keep in view the convenience of the tax payer while devising the taxation system of the country. Since the tax payers make sacrifices when they pay the taxes, it is essential for the govt. to see that they are not put any avoidable inconvenience.

a) Absence of the tax evasion:- The tax system of the country should be so devised as to leave no scope for tax evasion on the part of the tax payers. To achieve this objective there should be proper blending of all sorts of commodity and personal taxes. This will reduce the scope for tax evasion to the minimum.

9.Explain Critical minimum Effort thesis

The theory is associated with the name of Harvey Leibenstein. The theory is based on the relationship between three factors viz. Per capita income population growth and investment. Leibenstein identifies population as an income depressing factor, whereas investment is an income generating factor. Growth in an economy is possible only when the income generating factors turn out to be more powerful than the income depressing factor. A critical minimum effort in Leibenstein's opinion is necessitated by the following factors.

Firstly, some of the factors of production are indivisible so that unless they are used in full or in minimum amount, they will lead to internal diseconomies. To overcome these diseconomies, some minimum critical investment may be necessary.

Secondly, there is a sort of mutually and inter dependence between a number of firms and industries. As these develop, there emerge external economies. Apparently, these economies can be reaped only when there are at least that minimum number of industries operating, which make these economies possible. In their absence these economies may not arise at all.

Thirdly, at any time the economy may be subjected to autonomously generated income – depressing factors and at the same time be subject to depressants induced by some aspects of the process of growth. A certain minimum investment is necessary to overcome them and to initiate sustained growth.

Finally, there are some attitudes which are to be developed for growth.
They are:

a) Western market incentives,

b) A willingness to accept entrepreneurial risks,

c) An eagerness to be trained for industry,

d) An eagerness to promote scientific and technical process.

10. Critically explain Says of Law of market

Says law of markets was rooted in the mainstream of supply oriented classical economics. J. B. Say, a French economist of the 19th Century, asserted that, supply creates its own demand. This appears to be a simple proposition, but has had many different meanings. Basically, says law contends that the product of output in itself generates purchasing power, equal to the value of that output. Supply creates its own demand. It is argued that, production increases not only the supply of goods but, by virtue of the requisite cost payments to the factors of production, also creates the demand to purchase these goods.

Assumption underlying say's law:-

1. Optimum Allocation of Resources:- There is optimum allocation of resources as they are allocated to different channels of production in terms of proportionately and equality of marginal products.

2. Perfect equilibrium:- Commodity prices and factor prices are determined in perfect equilibrium of their demand and supply.

3. Perfect competition:- There is perfect competition prevailing in the commodity market as well as factor market. Thus commodity prices are equal to average costs and factor prices are equal to marginal productivities.

4. Market Economy:- There is free enterprise economy.

5. Elastic Market:- The size of the market has no limits. Thus there is automatic expansion of the market with an increase in output offered for sale.

Implications of say's law:-

1. Automatic attainment of full employment:- In the long run, free economy automatically attains equilibrium at full employment level. Keynes held that say's law is equivalent to the proposition that there is no obstacle to full employment.

2. There can be no deficiency of Aggregate demand:- Since supply, automatically creates its own demand, there is no deficiency of Aggregate demand:- Since supply, automatically creates its own demand there is no possibility of any general over production. Thus say's law is a denial of the possibility of deficiency in aggregate demand.

3. No problem of general unemployment:- When there is no general over production, than there can be problem of general unemployment in the long run and the economy tends to remain at full employment equilibrium level.

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PREPARATORY EXAMINATION, Dec -2018

III sem 5 yrs B.A.LL.B

Model Answer

ECONOMICS – 4

ECONOMIC DEVELOPMENT OF INDIA

Q. No.1. Define Planning? Explain the achievements and failures of Indian Planning System?

Planning may be defined as the conscious and deliberate choice of economic priority by some public authorities.

Achievements of the planning:

a) Growth in national income and per capita income – An important objective of planning is to increase output of all goods and services i.e. to increase national income. As a direct result of planning, India's National Incomer and Per Capital Income went up.

b) Progress in Agriculture:- As a result of this plan expenditure of 22% on agriculture and irrigation agricultural production increased considerably. The area and product of all the crops had more than doubled or even trebled since 1966 the main emphasis has been on the introduction of new technology for raising the agricultural productivity. This work was first undertaken under the intensive.

   Agricultural Area Programme: This was followed by the Hyvprogramme.

c) Progress in industry:- More impressive the growth of agriculture has been the increase in the field of industry. The growth of steel, aluminium, engineering goods, chemicals, fertilizers and petroleum products is specially important with the growth these industries many other industries started.

d) Growth of Public Sector:- The Public Sector in this country with all its limitations has reached the commanding weights and thus contributes a lot to economic growth. At the time of independence its size was quite small. During the planning period approximately 45% of the total investments have been made in the public sector.

Failures of Planning in India:-

a) Failure to Abolish Poverty:- The growth of per Capital Income is very low. The impact of the plan on reduction of poverty was only marginal. Though the percentage of people living below poverty line had come down, there is still more than 26% under poverty line.

b) Failures in providing employment:- Unemployment is on the increase despite planning programmes. The number of unemployed persons was over 5 million at the end of the First Plan and now it is 10.6 millions in the Ninth Plan.

c) Failure in the reduction of inequalities of Income and Wealth:- During the last five decades of planned economic development, inequalities of income have increased, redistribution of income in favour of the less privileged classes has not taken place. The rich are clearly becoming richer, there is growing of income and wealth in hands of the propertied classes.

d) Failure of Land Reforms:- The decision to fix ceiling of land holdings and transfer surplus land to small peasantry has not been properly implemented. The rich and unsaddle formers have become very powerful by using all the benefit that govt. has provided them. Under the plans – as for Eg. The irrigation facilities, the improved seeds, the subsidized fertilizers etc.

Q. No. 2 What is Agricultural Productivity? Explain its causes and measures of the low productivity in India?

Agricultural Productivity relates to land productivity, i.e. yield per hectare. It is expressed in physical production rather than on value concept. We take into account the quality of the produce and not its value causes:-

a) Overcrowding in agriculture:- Indian agriculture is overcrowded by the people. This had led to decline in the per capita land area. Subdivision and fragmentation of land holdings distinguished unemployment and negative marginal productivity.

b) Lack of finance, storage and marketing facilities:- Agricultural Productivity in India has suffered in the initial stages due to the non-availability of finance, storage and marketing facilities. The provisional made under planning are inadequate.

c) Lack of improved seeds, manure and plant protection:- The Indian farmers selects his seeds indiscriminately and often hastens to buy them from the grocer's shop when the sowing season is on. Poor quality of Crops. Failure of applying the chemical fertilizers and applying the pesticides at proper time in the cause for the low productivity.

d) Weaknesses in policy perceptions:- Recent research studies have drawn attention to this factor. Owing to a number of economic and political compulsions, the Indian strategy for agricultural growth remained preoccupied.

e) Uneconomical size of holdings:- India is a poor country consisting of small farmers. Every farmer, owns a bund. More than 70% of the total land holdings are small in size. Not only the land holding are small, but they are scattered. The application of modern science and technology to agriculture has becomes a difficult task. The small size of holdings has contributed to the low productivity of agriculture.

f) Poor technique of production:- Primitive and poor techniques of production, inadequate and obsolete nature of implements and failure to apply modern science and technology to our agriculture have been the contributory factors for the low productivity of agriculture in India. Our farmers having been entangled by the victions circle of poverty have continued agricultural operations with old methods.

g) Lack of Research:- Low level of research is also one of the factors responsible for the low productivity of agriculture in India.

Remedial Measures:

a) Programme for the balanced regional development.

b) Vitalize and modernize the motives of rural people.

c) Improving the agricultural practices.

d) Effective and proper implementation of land reforms policy.

e) Encouragement for adult literacy programme.

f) Foster collective bargaining among farmers.

g) Supply of Hyv seeds, chemical fertilizers etc.

Q. No. 3 Define industrialization? Explain the industrial policy 1991?

Industrialization means development of industries, mining, power, plants transport etc. it is a continuous process of creation and growth of factories, mills, mines, power plants etc.

The new industrial policy was announced on July 24, 1991. It has been designed to achieve the following objectives.

a) To correct distortions in the pattern of industrial growth.

b) To maintain a sustained growth in productivity and employment.

c) To attain technological dynamism and international competitiveness. The salient features of the industrial policy 1991 are;

1) Abolition of Industrial Licensing:- The Industrial licensing will be abolished for all projects except for those, which are important for security, strategic, social and environmental reasons and items of elite consumption, with this almost 85% of industry has been taken out of the licensing compulsory. There are coal, alcohol, petroleum, sugar, cigarettes hazardous chemicals, dungs and

pharmaceuticals, asbestos, paper and newsprint, plywood and other based products, entertainment electronics animals fats and oils tanned or dressed fur skins, electronics etc.

2) Automatic Clearance of imparts of capital goods:- If the foreign exchange availability is ensured through foreign equality or f CIF value of imported capital goods is less than 25% of the total value of plant and equipment up to a maximum value of 2 crores,, the automatic clearance of import of capital goods will be given.

3) Abolition of registration schemes:- All existing registration schemes such as relicensed registration, exempted industries registration will be abolished.

4) Automatic approval for foreign investment:- Approval will be given for direct foreign investment up to 51% foreign equity in 34 high priority industries provided foreign equity covers the foreign exchange requirements of capital goods.

5) Public Sector role deluted:- The number of industries reserved for the public sector since 1956 was I7. This number has now been reduced to 6 (1) arms and ammunitions, defence aircrafts and worship (2) Atomic energy, (3) Coal and lignite, (4) mineral oils, specified to the atomic energy, (5) minerals, (6) rail transport.

6) Industrial location policy liberalized:- In a departure from the prevailing location policy for industries, the new industrial policy provides that in locations other than 23 cities of more than 1 million population. There will be no requirement of obtaining industrial approvals from the centre, except for industries to compulsory licensing.

7) MRTP limit goes:- Under the MRTP Act, all firms with assets above a certain size were classified as MRTP firms. Such firms were permitted to enter selected industries only.

Q. No. 4 What is Foreign Trade? Explain the composition and Direction of India's foreign trade?

The Trade which is carried on within a nation is called internal trade. But foreign trade means the trade between different nations of the world. It is the exchange of goods and services between different sovereign nations.

Composition of experts:-

a) Increased in manufactured items and broad based expansion:- The very special feature of increase in our experts is that the exports of unconventional goods, etc.

b) Primary commodities:- They consist of agricultural and allied products and ores and minerals. They include coffee, tea, oil cake, tobacco, cashew, kernels, species, sugar etc.

c) Manufactured goods:- the manufactured goods have become very important items of India's experts in recent years cotton yarn, readymade garments, coir yarn, leather and leather goods, jute etc.

d) The other Principal experts are textile fabrics engineering goods. Handicrafts, jute items, chemicals etc.

Direction of India's exports:-

Before independence Britain had a major share. But now India is exporting goods to developed nations such as America, Japan, Russia, West and Eastern European countries and also various countries of Asia and Africa. Major part of our experts go to a few countries. Nearly half of our exports are made to Asia and other oceanic countries. The second most important source of export is Western European region and third important source is American Countries.

Composition of Imports:-

a) Industrial Imports:- India's imports are of two types: 1) Developmental imports and 2) Maintenance Imports.

b) Capital intensive goods:- After Independence India is importing several goods such as non-electrical machinery. Equipments, electrical machinery metal manufacturing goods etc.

c) Petroleum Products:- Petroleum Products are eating away major share of our foreign exchange in the list of our imports. They are imported on a large scale in order to meet internal demand.

d) Capital goods, pearls and precious metals fertilizers, edible oils etc. are our other imports.

e) Other items:- The other important items are medicines, chemicals, different metals, paper, crude oil, raw cotton bronze, newsprint, raw rubber etc.

Direction of Imports:-

a) Large source of imports:- Since independence the number of countries from which we are importing has been increasing significantly. In the beginning our imports were only with few countries including Britain. But after independence there is a drastic change. India is having the trade relation with countries like America, Japan, West Germany and Britain.

The first important source of our imports is the Asia and Oceanic region. The second important source of our imports is the European region. The next place in our imports goes to American nations.

Q. No. 5What is Public Debt? Explain the causes and measures of public debt?

Public debt refers to all types of borrowings by the govt. from among the institutions organizations and the public.

Causes of Public Debt:

a) Development Plans:- After Independence India implemented economic plans to accelerate the growth rate of economy. The govt. is required to invest huge amount of capital to implement development plans. But, the financial resources mobilized through tax sources is insufficient. Therefore, the govt. is forced to borrow heavily.

b) Removal of temporary deficit:- When the expenditure of the govt. exceeds its revenue temporary deficit may arise. To remove this temporary deficit the govt. is forced to borrow as a result, public debt mounts up.

c) Limits of taxation:- Taxes are our important source of revenue to the Govt. but taxes are to be levied in such a way as to avoid any burden on the people. the taxable capacity of the people in India is very low.

d) Control of Inflation:- In India, public debt is used as tool to control inflationary trends in the economy. Due to larger investment and money supply the prices are increasing.

e) Low taxable capacity:- As stated above the taxable capacity of the people in India is very low. The govt. cannot mobilize required funds through taxation consequently, the govt. is forced to borrow from the public.

f) Higher govt. interference:- In a socialistic pattern of society the govt. is expected to promote social welfare an work for the well of the people. Due to the increased govt. interference in economic matters. The expenditure has increased.

g) Mounting defence expenditure:- The defence expenditure of the country has increased over the years. The growing defence expenditure could not be met out of normal revenues. The central Govt. as a result is forced to resort to heavy public borrowing.

Measures or repayment of debt:-

a) Repudiation of debt:- It means simply that the govt. does not recognize its obligations and refuses to pay the interest as well as the principle. Normally a govt. does not repudiate its debt.

b) Conversion of loans:- The govt. convert an old loan into a new loan.

c) Serial bond redemption:- The govt. may decide to pay every year a Certain portion of the bonds issued previously. This system enables a portion of the debt to be paid off every year.

d) Buying up loans:- The govt. may redeem its debts through buying up loans from the market.

e) Sinking Fund:- The Govt. creates the sinking fund and contributes to that fund every year to repay back the debts every year from that fund.

Q. No. 6 What is balance of payment? Explain the causes and measures of disequilibrium in B.O.P?

Balance of payments is an important concept in international trade. It refers to the difference between total value of visible and invisible exports and the total value of visible and invisible imports in a given period of time.

Causes of adverse balance of payments:-

a) Despite an encouraging rate of growth of exports the pressure on the balance of payments has increased since we started with a large volume of imports, even a smaller percentage growth of imports was able to asset a larger growth rate of exports and thus the deficit in balance of trade n absolute terms because higher.

b) A major factor responsible for larger in flow of imports is due to the policy of import liberalization introduced by the Govt. By Rajiv Gandhi.

c) There has been an increase in import intensity due to the pattern of industrial development promoted during the seventh plan which catered to the demands thrown up by the upper income groups of the population.

d) The relative steep depreciation of the rupee, other currencies also led to an increase in the value of imports.

e) Lastly, the Gulf war was responsible for the sharp declaration of inward remittance of Indian's working in the Gulf region.

Methods of solve:-

a) Export promotion measures:- The govt. of India has tried to increase India's exports both in traditional items and in new items. The govt. has set up institution to boost exports, such as export promotion councils for different commodities, Trade Development Authority etc.

b) Restrictions of imports:- There are strict import controls in the country to prevent and even ban the imports of no essential items or those goods which are being produced within the country.

c) Foreign exchange Control:- The govt. has been enforcing strict exchange controls even from the beginning of second world war. The Govt. encourages the earnings of foreign exchange, it puts all types of restrictions on Indian Nationals in spending foreign currencies.

d) Encouragement to inward remittances:- Known as inward remittances, started picking up in a significant manner only from the middle of 1970s when the govt. tightened its control on foreign exchange operators and smugglers.

Q. No. 7 Define Poverty? Explain the poverty alleviation and employment generation programs in India.

Poverty may be defined as the inability to secure the minimum consumption requirements for life, health and efficiency. It is the hopelessness resulting from an acute lack of life's necessities. The major poverty alleviation and employment generation programmes are:

a) PradhanMantriGramodayaYojana PMGY was launched 2000-01 in all states and union territories in order to achieve the objective of sustainable human development at the village level. PMGY had five components that is primary health, primary education, rural shelter, rural drinking water and nutrition.

b) SwarajayantiGramswarozgarYojana:- SGSY was launched n 1999 and is the only self employment program currently being implemented. The schemes are being implemented on a 75:25 cost sharing between center and states.

c) SampoornaGrammenRozgarYojana:- The SGRY was launched in Sept. 2001. The objective of the programme is to provide additional wage employment in the rural areas as also food security along with the creation of durable community, social and economic infrastructure in rural areas.

d) PradhanMantri Gram SadakYojana:- The PMGSY was launched in Dec. 2000 to provide road connectivity to 1.6 lakh unconnected habitations with population of 500 persons or more in rural areas by the end of the Tenth Plan Period. it is being executed in all the states and six union territories.

e) Antyodaya Anna Yojana:- AAY was launched in Dec. 2000. Under the scheme 1 crore of poorest among the BPL families covered under the targeted public distribution system are identified. 25 kilograms of food grains were made available to each eligible family at a highly subsidized rate of Rs.2 per kg. wheat and 3 per kg for rice.

f) ValmikiAmbedkarAwasYojana:- VAMBAY was launched in Dec. 2001. The scheme has the primary objective of facilitating the construction and upgradation of dwelling units, for slum dwellers and providing healthy and enabling urban environment through community toilets under Nirmal Bharat Abhiyan a component of the scheme.

Short Notes:-

a) **EXIM Policy**

The govt announced the Exim policy for the 5 year period on 2002-07 and 2004-09, which aimed at doubling of India's percentage share in global merchandise trade. For this purpose, India's exports should grow at the annual average growth rate of 26%. Key strategies to achieve the object :

i) Unshackling of controls.

II) Creating an atmosphere of limit and transparency.

iii) Simplifying procedures and bringing down transactions costs.

iv) Adopting fundamental principle that duties and levies should not be exported.

Special focus Initiatives:-

1) Handlooms and Handicrafts:- A new handicraft special economic zone shall be established. Duty free imports of handlooms and handicrafts sectors has been increased to 5%.

2) Gems and Jewellery:- Import of gold of 18 carrot and above shall be allowed under the replenishment scheme.

3) Leather and Foot war:- Duty free import of specified items for leather goods sector increased to 5%.

4) Export promotion scheme:- A new scheme to accelerate growth of exports called Target plus has been introduced.

5) Service exports:- For service exports which ear foreign exchange of Rs.10 lakh would be eligible for duty free credit entitlement of 10% of total foreign exchange earned by them.

6) Duty fee import under export promotion capital goods:- Capital goods imported under EPCG for agriculture would be permitted to be installed anywhere in agri export zone.

7) Export Oriented Untis:- They shall be exempted from service tax in proportion to their exported goods in and services.

8) Bio technology Parks:- They would be granted all facilities of 100% EOUS.

9) Import of second hand capital goods:- Import of second hand capital goods shall be permitted without any age restriction.

10) Free trade and ware housing zone:- A new scheme to establish free trade and warehousing zone has been introduced to create trade related infrastructure to facilitate the import and export of goods and services with freedom to comp oil trade transaction in free currency.

b)Industrial Disputes

If there are conflicts or disputes between the employers and the workers in industries, the conflicts are known as industrial disputes.

Causes of industrial disputes;-

1) Demand for higher wages and allowances:- This has been a major cause of industrial disputes especially because of continuously rising prices, the purchasing power of wages falls, lower the standard of living of workers etc.

2) Demand for bonus:- This is another major cause of industrial disputes. Labour naturally wants to have a share in the profits to which they feel they have contributed.

3) Victimization:- The employers sometimes adopt a vindictive attitude and punish demote or dismiss some leaders of workers. This is resented and leads to a strike.

4) Long working day:- The workers demands for shortening working hours and the same is resisted by the employers and thus arise a dispute.

5) Question of leave:- Question of leave and holiday sometimes creates trouble and leads to strike.

6) Demand for better working conditions:- Facilities such as more safety measures in the factory, canteen facilities, holidays and leave etc. is another cause of industrial disputes.

7) Refusal to recognize a Union:- Some times, a strike may ensue because the management refuses to give recognition or dilly – dallies in giving recognition to the trade union formed by workers.

8) Opposition to rationalization:- The workers resist rationalization of the union being attended by the management.

9) Political reasons:- Strikes of political nature are also not unknown.

c }Green Revolution

Green Revolution in India contributed for the commercialization of agriculture. It contributed for the increase of the agricultural output, which leads for marketable surplus.

Green revolution in India refers to the technological break through in Indian agriculture by the development and use of high yielding varieties of seeds, minor irrigation, use of fertilizers, regular plant protection and mechanization of agriculture.

Green revolution is resulted from the application of modern technology. The modern technology is based on a package of improved inputs. The technological lead forward in the country's agriculture is composed of a package. Chiefly of four improvements, improved variety of seeds, increased use of fertilizers, improved water supply and better cultural practices.

The main features are:-

1) The high yielding varieties:- The HYV programmes has accelerated the green revolution improved strain of seeds are essential for increasing agricultural production.

2) Multiple cropping:- The new multiple cropping plan was taken up in 1967-68. It aims at the development of short duration varieties of rice, wheat, maize, jawar, bajra, barley, ragi oil seeds potato and vegetables for new crop rotations.

3) Minor irrigation:- It also constitutes an important component of the new strategy of agricultural development. It ensures better use of land and ground water through multiple cropping pattern.

4) Use of fertilizers:- The increase in the consumption of fertilizers is more significant. The use of chemical fertilizers is now widely accepted as one of the key elements in the strategy for accelerating the growth of agricultural output, especially in the short run.

5) Plant protection:- Another important aspect of green revolution is plant protection by using pesticides and other such devices.

6) Other features of green revolution are modern equipment and machinery support prices, processing, storage and marketing facilities, improved credit policy.

8. Explain the Demographic features of Indian Economy.

The demographic features of Indian Economy are:

1) Density of population:- The density of population refers to the average number of persons per square kilometer. The figure of the density is arrived at by dividing the total population of a country by its area. It refers to the land-man ratio. In the international sphere, India is a country with the medium density of population. Density of

population that can be supported in any country depends upon the availability of natural resources and the extent of the use of technology to exploit the resources.

2) Sex composition of Population;- The number of females per 1000 males is called sex ratio. It is generally adverse to women in India. It has also declined over the years except in 1981 there has been a fall by 7 points and in 2001 there has been a rise by 6 points by raising to 933 from 927 in 1991. In India, the state of Kerala has a higher number of females than males, 1058 females for thousand males. A sex ratio of 950 and above can be considered favourable to females in India. Even though biologically women are more showing to withstand diseases than men, in India there is the predominance of the male population.

3) Age composition:- The age composition of the population helps us to find out the dependency ratio in the population of a country. It is expressed in terms of the percentage of the young population and the old population to the active working population of the country. The working population consists of the people in the age group of 15 to 60. This is also called workforce of the country.

4) Rural – Urban composition:- The rural Urban Composition of India's population reflects on the pattern of living of the country's population. As a matte rof fact, the ratio of rural urban population of a county is an index of the level industrialization of that country. As the industries get momentum, ratio of urban population go on increasing. As India is predominantly agricultural country, ratio of urban population is less as compared to rural population.

9. What is agricultural Marketing? Explain the defects of agricultural Marketing in India?

Marketing is a process of bringing together the producer and the buyer and is essential to complete the process of production.

Defects:-

1) Lack of organization among Farmers:- The farmers do not have their own collective organization or association to facilitate them to sell their produce.

2) Forced sale:- The Indian farmers are forced to sell their produce at an unfavourable time and place and get unfavourable price. They sell their produce immediately after harvesting because of poverty and indebtedness.

3) Poor shortage facilities in Villages:- The Indian farmer does not have facilities to store his produce properly.

4) Poor Transport conditions:- The transport conditions in rural areas are so bad that even rich farmers who have large amounts of surplus produced may not always be interested in going to the mandies.

5) Existence of too many middlemen:- The number of intermediates and middlemen between the farmers and the final consumer of Farm produce are too many and the margin going to them is too large.

6) Lock of adequate information:- The farmers do not ordinary get information about the ruling prices in the big markets. They have no idea about marketing conditions and bout the possible prices in the future.

7) Fraudulent Practices in the market:- In the irregulated markets, many malpractices are common such as arbitrary deductions from sale proceeds, discriminatory marketing charges etc.

8) Multiplicity of Weights and measures:- There was no common measure, throughout the country. There is a great scope for creating the farmers.

9) Absence of grading and standardization of agricultural produce:- In a country where there is excessive adulteration. On common simply think of the system of grading and standardization.

10) Lack of financial facilities:- For the finance required for agricultural operation the farmer has to depend upon the village traders. Because of the heavy indebtedness and high rate of interest, the farmers mortgages his crop in advance of production to the village traders. Because of the heavy indebtedness and high rate of interest, the farmers mortgages his crop in advance of production to the village trader for lower price.

10. Define SSUS? Explain the importance of SSUS?

Small scale units here defined by the Govt. as those units which employed less than 50 workers which using power or less than 100 workers without using power.

Importance:-

a) Employment Generation:- A small scale industries are labour intensive they reduce the incidence of unemployment and underemployment. These industries provide the maximum employment per unit of capital invested. It is estimated that there are about two crore persons engaged in collage industries.

b) Capital Saving:- Small scale industries need smaller amount of capital, as they require tools and small machinery. They make possible economical in the use of capital.

c) Decentralization:- The small scale industries can be dispersed over all the country very easily and will bring about dispersal or decentralization of industries and will this promote the object of balanced regional development.

d) Better distribution of income and wealth:- They enable people living in different parts of the country to increase. Their income and standard of living. They check the evils of Urbanization and localization. They conform to ideal society, equal distribution of income among all people and absence of exploitation of man by man.

e) Mobilization of entrepreneurial skill:- A number of entrepreneurs are spread over small towns and villages of the country. Small scale industry provides industrial experience and serves as a training ground for a large number o small scale managers.

f) Harmonious social relations:- The relations between the employers and employees in small scale unit seem to be harmonious. In the case of small scale industries, the question of disputes does not arise at all since the main form of labour in those industries is family labour.

g) Overcoming territorial immobility by carrying the job to the worker. Small scale industries can overcome the difficulties of territorial immobility.

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