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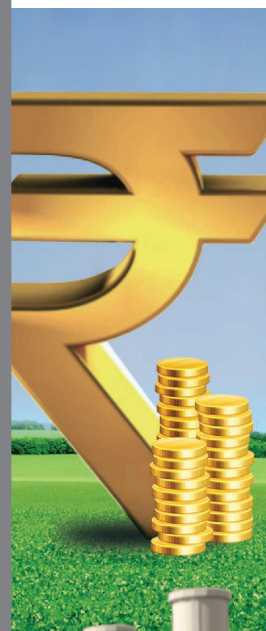
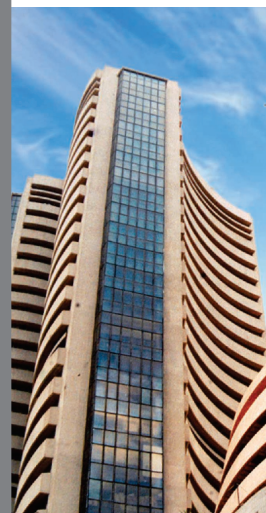


NCERT NOTES

Indian Economy

Class 9-12 (Old+New)

Highly Useful for
UPSC, State PSCs
and Other Competitive Exams



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Indian Economy

Class 9-12 (Old+New)

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BEFORE ANYTHING ELSE, PREPARATION IS THE KEY TO SUCCESS.

Civil Services Examinations are the most prestigious and coveted examinations in India. Due to the power, authority, reputation, this career attracts every aspirant to hold the post and become IAS/IPS officer. Union Public Service Commission (UPSC) and State Public Service Commission (SPSC) conduct this examination every year and lakhs of aspirants across the country toil for years together to crack this distinguished exam in the country.

Being the toughest exam, it automatically consists of a vast and a detailed syllabus. Aspirants often find it difficult to cover the entire syllabus and lack a right direction for a proper and a systematic study for the exam.

The most important aspect of this preparation journey are the NCERT books. Every year approximately 35-40 questions directly come from NCERT books.

NCERT books also play a key role in understanding the Basic Concepts; so that aspirants can easily form the basic foundation of the entire syllabus. But due to the demand for many NCERT books which are required for study, it becomes exhausting to cover each and every NCERT book.

NCERT NOTES SERIES presented by Arihant Publications covers complete text from Class 9th to 12th NCERT books (both Old & New) in a comprehensive manner. The series is extremely useful for UPSC and State PSC examinations. The chapter-wise presentation of NCERT text is given in the heading cum-pointer format for quick grasping. The theory in each chapter is facilitated with charts, tables, etc. to make the preparation easy and convenient. Exam focused last minute revision topics are also covered in the appendix.

The book is adorned with questions prepared by a team of experts along with a vital role played by the Project Management team with members: Mona Yadav (Project Manager), Divya Gusain (Project Coordinator), Shivani Dixit, Ayush Rajput (Proof readers), Vinay Sharma, Kamal Kishor, Sonu Kumar (DTP coordinators), Shanu and Ankit Saini (Cover and Inner designer).

We hope this book will help the aspirants to achieve their goals of clearing UPSC as well as State PCS exams. Your valuable suggestions have always inspired us to strive for useful, authentic and more trustworthy publications. So your inputs and suggestions are welcomed for subsequent editions.

We wish you all the very best for your preparation and journey!!

Authors

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Economy : An Introduction

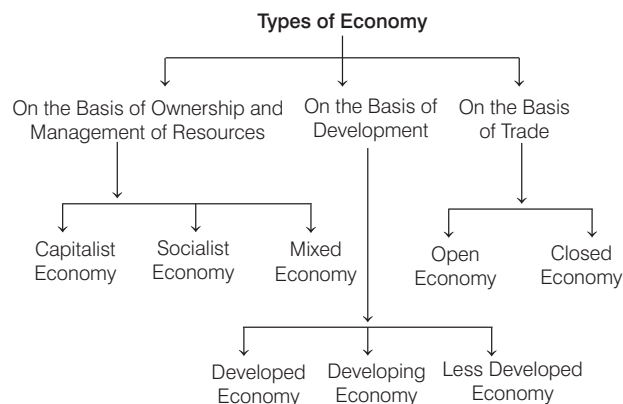
Sources Class-IX New NCERT Chap 1 (The Story of Village Palampur), Chap 2 (People as a Resource), Class-IX & X Old NCERT Chap 1 (An Overview of the Indian Economy), Class X New NCERT Chap 1 (Development), Chap 2 (Sectors of the Indian Economy), Class-XI New NCERT Chap 1 (Indian Economy on the Eve of Independence), Chap 2 (Indian Economy (1950-1990), Chap 5 (Human Capital Formation in India), Chap 9 (Environment and Sustainable Development), Class-XII New NCERT Chap 1 (Introduction)

Economy : An Introduction

A framework in which all the economic activities are carried out in the form of investment, production and consumption, is termed as economy.

Types of Economy

Depending on the basis of classification, economies can be of various types as follows :



On the Basis of Ownership and Management of Resources

On the basis of ownership and management of resources, economies can be classified into Capitalist Economy, Socialist Economy and Mixed Economy.

- **Capitalist Economy** In this type of economy, the private enterprises are the main spheres of production. They control the operation of the price mechanism by which buyers and sellers determine what goods and services will be bought and sold in the market, in what quantities and at what prices. The means of production in the capitalist economy are controlled by private owners of capital, who operate for their private profit or gain. United States of America and United Kingdom are examples of capitalist economy.
- **Socialist Economy** In this type of economy, there is existence of public enterprise or state ownership of capital in all the important spheres of productive activity. In the place of free operation of market forces, the socialist economies depend on state planning of production and distribution. China and Russia are examples of a socialist economy.
- **Mixed Economy** In this type of economy, some of the important enterprises engaged in production are owned by the government but other enterprises have private owners. India is the example of a mixed economy.

India's Mixed Economy Model

- In India, all three sectors coexist in harmony, i.e. private sector, public sector and joint sector. The joint sector is jointly run by the government and private companies, with at least 51% ownership belonging to the state.
- The government can regulate and direct the working of private enterprise in India to safeguard public interest through different provisions of the law.

On the Basis of Development

On the basis of economic development, economies can be classified into Developed Economies, Developing Economies and Less Developed Economies.

- **Developed Economy** It is also called an industrialised economy. This economy has advanced technological infrastructure and diverse industrial and service sectors. Countries which had been industrialised since long time like USA, UK, France, Japan, Korea and other newly industrialised countries of Asia are the examples of developed economy.
- **Developing Economies** In this type of economy, the modern industrial sector, keeps increasing in size and the traditional agricultural or rural sector keeps shrinking. It has a low socio-economic indicators and moderate Human Development Index as compared to other developed countries. China and India are the examples of developing economy.
- **Less Developed Economy** According to the United Nations, this type of economy include developing economies that exhibit the lowest indicators of socio-economic development, with the lowest Human Development Index ratings of all countries in the world. The poorer countries are generally described as Less/Least Developed Countries (LDCs). They have relatively very small industrial sectors. They also have very little access to modern technology whether in industry or agriculture. Bangladesh, Niger, Central African Republic, South Sudan, Chad, Burundi, Sierra Leone, Burkina Faso, Mali, etc. are the examples of less developed economy.

On the Basis of Trade

On the basis of trade, economies can be divided into Open Economy and Closed Economy.

- **Open Economy** It refers to a market economy, which is generally free from trade barriers and where exports and imports form a large percentage of the Gross Domestic Product (GDP). The degree of openness of an economy determines a government's freedom to pursue economic policies of its choice and the susceptibility of the country to international economic cycles. India after 1991 economic reforms, Chile and Argentina are the examples of open economy.
- **Closed Economy** It refers to an economy in which no activity is conducted with other economies. It is self-sufficient, where no imports are brought in and no exports are sent out. The goal is to provide consumers with everything that they need from within the economy. India before 1991 economic reforms, is the example of closed economy.

Size of Indian Economy

- As per 2021, on the basis of economic indicators, India is 5th largest economy of the world. On the basis of Purchasing Power Parity (PPP), India is 3rd largest economy of the world after USA and China.
- According to UNCTAD's (United Nations Conference on Trade and Development) world investment report 2021, India is world's 5th largest hub for foreign investment.
- Comparing the foreign investment of India, in 2020 India received \$ 64 billions from foreign investments that is 27% more than 2019. India's GDP at constant price in the year 2020-21 is estimated at ₹ 135.13 lakh crores.

Economics

Economics is the study of labour, land and investments of money, income, production, taxes and government expenditures. Adam Smith is known as 'Father of Economics'.

Activities in Economics

In order to fulfill desires of day-to-day life, people keep themselves engaged in different types of activities, which are as follows :

- **Economic Activities** The activities which create economic or financial gain by producing goods or services are known as economic activities. e.g., doctor, teacher, businessmen, etc.
- **Non-Economic Activities** The activities done not for earning money or any consideration of economic gain are known as non-economic activities. e.g., social services, political services, religious services, etc.

Branches of Economics

Economic analysis is usually divided into two main branches of economics i.e., Macroeconomics and Microeconomics.

- **Macroeconomics** It is concerned with problems of an economy as a whole rather than individual facts and problems. e.g., National Income, employment, poverty, Balance of Payments, inflation, etc.
- **Microeconomics** It studies economic activities at micro level. It examines the economic behaviour of individual units such as consumers, businessmen, etc to understand how decisions are made in the situation of scarcity and effects of these decisions on the economy.

Sectors of Economy

An economy is divided into three parts or sectors on the basis of economic activities. These activities are broadly grouped into Primary, Secondary and Tertiary sectors.

Primary Sector

- It is directly related to the extraction or utilisation of natural resources. It comprises economic activities like agriculture, mining, fishing, dairy, quarrying, etc.
- Products of primary sector does not undergo for major processing of change and are used or traded as natural products itself.
- This sector is also known as the Agriculture and Allied Sector.
- The Agriculture sector is at the third place with the contribution of 20.19% in GDP.

Secondary Sector

- It utilises the end product of the primary sector, to manufacture finished goods, through the refinement and processing of the primary products.
- It comprises construction, manufacturing, electricity, gas and water supply, etc related works.
- This sector is also known as the Industrial Sector.
- The Industry sector lags behind Service Sector with the contribution of 25.92% in GDP.

Tertiary Sector

- It provides services, instead of goods to other sectors. Thus, this sector is sometimes referred to as the Service Sector.
- Business, transport, telecommunication, banking, insurance, etc are associated with the sector.
- In India, the Service Sector accounts for almost 54% of India's GDP contribution.

Other Sectors of Economy

Quaternary Sector The quaternary sector consists of those industries providing information services, such as computing, ICT (Information and Communication Technologies), consultancy (offering advice to businesses) and Research and Development, particularly in scientific fields.

Quinary Sector Economists further narrow the quaternary sector into the quinary sector, which includes the highest levels of decision-making in a society or economy. This sector includes top executives or officials in such fields as government, science, universities, healthcare, culture and media.

Features of Indian Economy

The features of Indian economy can be categorised as traditional and modern features.

Traditional Features of Indian Economy

The traditional features of Indian economy are as follows:

- **Primacy of Agriculture** 58% of the working population of the country is engaged in agriculture and agriculture share in the Gross Domestic Product (GDP) is 18%. This share is one of the highest in India's Gross Domestic Product. In India, other sectors are also developing quite fast, but agriculture still remains most employable sector of the country. Agriculture has 13.3% share in India's export.
- **Low Per Capita Income** Low level of Per Capita Income is one of a major dilemma in the development of the country, due to the increasing population of the country. Due to lower levels of Per Capita Income, it gave rise to poverty in India.
- **Rural Economy** According to Census 2011, 67% of India's population lives in rural areas which shows the rural population is quite high. In developed economies, the percentage of rural population is quite low.
- **High Population** Continuous and fast rising population makes the Indian economy weak. Between 2010 to 2011, the population rise in India was 17.64%. Due to rise in population, stress in the available resources is created. If a country has limited or less population, then there is a greater chances of decrease in social inequality that benefits larger masses.
- **Unemployment** In India, there is a huge amount of workforce, but employment opportunities are few. In such a situation, it becomes very difficult to provide employment to everyone. Due to more population engaged in agriculture sector that is needed, it affects the productiveness of the country. In India, more human resource is engaged in agriculture than any other sectors.
- **Inequality in Income Distribution** There is a huge inequality in distribution of income and property in India, that gives rise to problem of poverty and unemployment. Due to progressive taxation system in developed countries, there is low income inequalities. Equal opportunities of social security, education, training and employment decreases the scope of income inequality in an economy.

Modern Features of Indian Economy

The modern features of Indian economy are as follows :

- **Planned Economy** In India, the phase of planned economy started from establishment of Planning Commission and preparing of Five Years Plan. In between 1951 and 2017, 12 Five Years Plan have been prepared so far.

NITI Aayog was established on 1st January, 2015. At present, this organisation is responsible for preparing both short-term and long-term development plans.

- Industrial Development In many Five Years Plans, establishment of industrial plans gave rise to the industrial development in India.

In the year 1991, the process of liberalisation, privatisation and globalisation also began for development along with the initiation of 'New Economic Policies'. This gave rise to the industrial development in India.

Economic Development

- In economic growth, the concept of social justice and fair distribution is termed as Economic Development. It is a qualitative concept.

Indicators of Economic Development

Alternative indicators have been developed by different national and international organisations to provide better measures of a nation's quality of life. These include :

- The Human Development Index (HDI)
- Multi-dimensional Poverty Index (MPI)
- World Happiness Report (WHR)
- Gender Inequality Index (GII)
- Global Hunger Index (GHI)

Each of these indexes is a composite measure weighing both income and non-income variables such as life expectancy, literacy rates, environmental indicators, measures of inequality and so on. By including these variables, they provide a measure of life quality that goes beyond the narrowness of a nation's GDP value.

1. Human Development Index (HDI)

- The United Nations Development Programme (UNDP) introduced the HDI in its first Human Development Report (HDR), prepared under the stewardship of Mahbub-ul-Haq in 1990.
- HDR, 1990 defined human development as the process of widening people's choices as well as raising the level of well-being achieved.
- Three main indicators of HDI are as follows :
 - Life Expectancy Index (LEI) Infant mortality is not considered as a separate indicator in this index. Thus, life expectancy refers to life expectancy at birth, not at age one.
 - Educational Attainment Index (EAI) It is a combination of adult literacy rate and combined enrolment ratio. The weight assigned to Adult

Literacy Rate (ALR) is two-third while for Combined Enrolment Ratio (CER) is one-third.

- Standard of Living Index (SLI) It is represented here by the concept of Purchasing Power Parity (PPP). Per Capita Income is converted into Purchasing Power Parity in terms of US dollar. It is also known as GDP Index. The value of HDI is scaled on 1 to 0, where 1 represents the best and 0 (zero) represents the worst.

$$HDI = \frac{1}{3} (LEI + EAI + SLI)$$

2. Multi-dimensional Poverty Index (MPI)

- The Multi-dimensional Poverty Index was launched by the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Initiative (OPHI) in 2010.
- MPI is based on the idea that poverty is not unidimensional (not just depends on income and one individual may lack several basic needs like education, health etc.), rather it is multi-dimensional.
- The index shows the proportion of poor people and the average number of deprivations each poor person experiences at the same time.
- MPI uses three dimensions and ten indicators are as follows :
 - Education Years of schooling and child enrollment.
 - Health Child mortality rate and nutrition.
 - Standard of living Electricity, flooring, drinking water, sanitation, cooking fuel and assets.

A person is multi-dimensionally poor if she/he is deprived in one third or more (means 33% or more) of the weighted indicators (out of the ten indicators). Those who are deprived in one half or more of the weighted indicators are considered as living in extreme multi-dimensional poverty.

3. World Happiness Report (WHR)

- The phrase 'Gross National Happiness' was first coined by the fourth King of Bhutan, King Jigme Singye Wangchuck, in 1972.
- The concept implies that sustainable development should take a holistic approach towards notions of progress and give equal importance to non-economic aspects of wellbeing.
- The World Happiness Report ranks 149 countries by how happy their citizens perceive themselves to be.
- The rankings are based on polling (Gallup World Poll), which looks at six variables:
 - (i) Gross Domestic Product Per Capita (Purchasing Power Parity)
 - (ii) Social Support