



**Quick
Book**

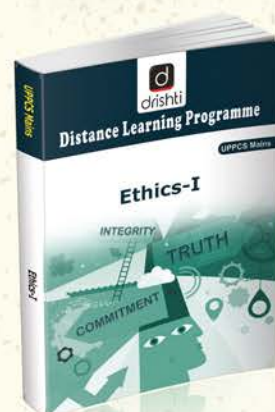
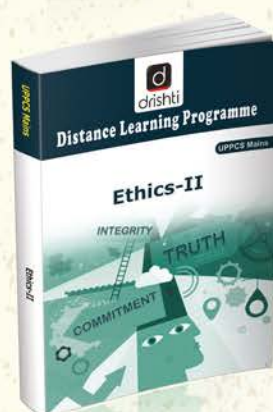
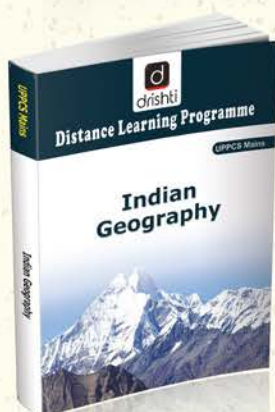
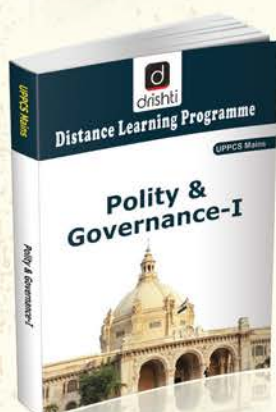
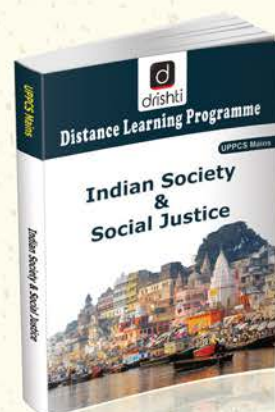
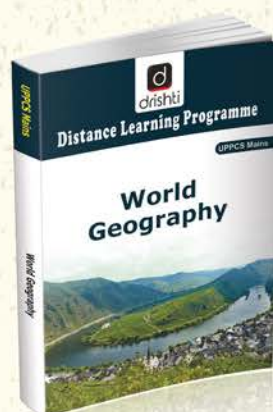
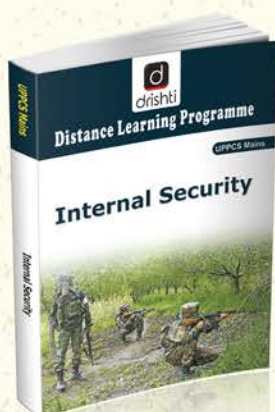
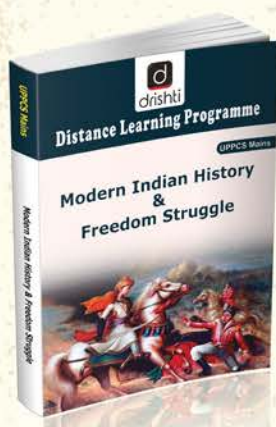


INDIAN ECONOMY

Useful for UPSC, State PSCs, CAPF, CDS,
and Other Competitive Exams



Distance Learning Programme (DLP) for UPPCS Mains Examination



The GS content pertaining specifically to Uttar Pradesh has been provided in relevant sections across different booklets.

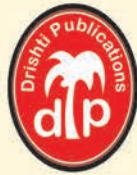
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Indian Economy



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FROM THE DESK OF THE EDITOR-IN-CHIEF

Dear Readers,

With immense pleasure, we present to you our *Quick Book Series*.

The series is an endeavour by Drishti Publications to provide a crisp and concise study material on core subjects that are very important for competitive examinations.

'Indian Economy' is second in the series of Quick Books. Study of Indian Economy and the concepts related to the discipline of Economics are an integral part of the syllabi of the most of the examinations, and hence a lot of importance is accorded to it.

If we talk about different study materials available in the market on Indian Economy, then most of it is advanced (bulky) or very basic. We have attempted to remove the inadequacies by explaining the integral concepts in a very concise manner.

The most notable thing about the economy section is its dynamic nature. We have included concepts related to the current happenings, thereby helping the reader to co-relate the theory along with the practical aspect of the subject.

Another key highlight is the incorporation of Practice Questions at the end of the chapter to equip you to tackle the questions asked in various examinations.

Team Drishti has attempted to do justice to the students in terms of coverage and presentation of the content related to Indian Economy. However, we are welcome to any feedback from your side and will be ever ready to incorporate the valuable suggestions of yours in the subsequent editions.

With Best Regards,

Editor-in-Chief

Drishti Publications

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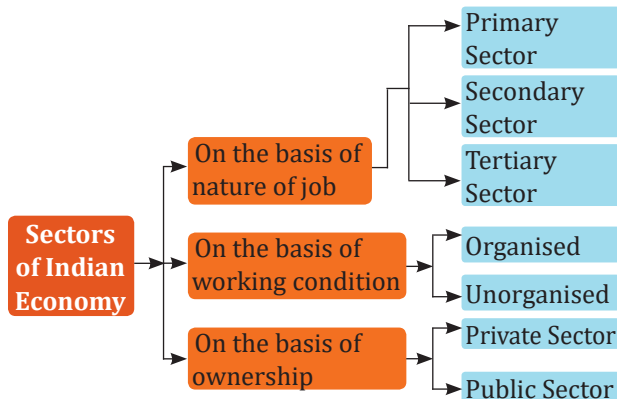
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Economics and Economy

- ❑ Economics is a science that studies economic activities of individuals or entities and develops possible models for their functioning.
- ❑ Economic agents can be individuals, businesses, organizations, or governments. The area can be a region or a country.
- ❑ Economy is an area of the production, distribution, or trade, and consumption of goods and services by different economic agents.
- ❑ Indian Economy is referred to production, distribution, trade and consumption of goods and services within Indian Territory.
- ❑ An economy is the result of a set of processes that involves its culture, education, technological evolution, history, social organization as well as its geography, natural resource endowment and ecology.

Classification of Sectors of Economy

Classification of Sectors of Indian Economy



On the basis of Nature of Job

Primary Sector

- ❑ It is concerned with the extraction of raw materials.
- ❑ Agriculture, mining, fishing, forestry, dairy etc., are some examples of the primary sector.

- ❑ Goods in this sector are produced by exploiting natural resources. It forms the base for all other products that we subsequently make.
- ❑ People engaged in primary activities are called red-collar workers.

Secondary Sector

- ❑ It includes the industries where finished products are made from raw material produced in the primary sector.
- ❑ Industrial production, textile, sugar, bread, automobiles, oil refinery etc., comes under this sector.
- ❑ In this sector natural products change into other forms through ways of manufacturing associated with industrial activity. For example: cotton fibre to yarn and then clothes, sugarcane is used for making sugar, and iron ore is used for making iron and steel.
- ❑ People engaged in secondary activities are called blue collar workers.

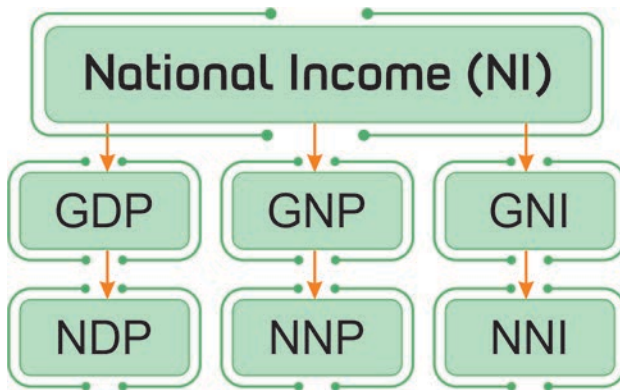
Tertiary Sector (or Service Sector)

- ❑ This sector's activities help in the development of the primary and secondary sectors.
- ❑ These activities, by themselves, do not produce good but they are an aid or a support for the production process.
- ❑ Transport, storage, communication, banking, Insurance, trade are some examples of tertiary activities.
- ❑ These activities generate services rather than goods, therefore, the tertiary sector is also called the service sector.
- ❑ Service sector also includes some essential services that may not directly help in the production of goods for example, teachers, doctors, and those who provide personal services such as washer men, barbers, cobblers, lawyers, and people who do

National Income

- ❑ It is the sum of income earned by its residents from the factor services rendered to the production units, both within and outside the geographical boundaries of the country.
- **National:** It refers to the residents whose economic interests lie within the country in which they live.
- **Factor Income:** It is the income derived from factors of production such as Land, Labour, Capital and Entrepreneurship.

Measures of National Income



National Income Accounting

- ❑ These are the set of statistical principles and methods used to measure overall economic activities of the nation.
- ❑ These also provide information about the trend of economic activities.
- ❑ While accounting National Income (NI), only the income earned by the residents is taken into account, irrespective of their economic territory.
- ❑ It may be within or outside the economic territory, i.e. we must see whether the income is generated by residents or non-residents.

Significance of National Income Accounting

- ❑ It helps in comparing estimates, forecasting growth, and policy formulation for the future.
- ❑ It helps in comparing economies around the world.
- ❑ It is helpful in effective decision making on investments, thereby helping business houses to plan for productions.

Concept of Factor Cost, Basic Price and Market Price

Factor Cost

- ❑ Factor cost refers to the cost of factors of production such as land, labour, capital and entrepreneurship which is incurred by a firm when producing goods and services.
- ❑ It is the cost of all the factors of production used in producing goods and services.
- ❑ It does not include the taxes that are paid to the government since taxes are not directly involved in the production process and therefore are not a part of the direct production cost.
- ❑ Subsidies received are included in the factor cost as subsidies are given on inputs used in production.

$$\text{Factor Cost} = \text{Cost of Production} + \text{Subsidies}$$

Basic Price

- ❑ It is the price received by the producer, excluding the product taxes and including the product subsidies.
- ❑ It also excludes any transport charges invoiced separately by the producer.

$$\text{Basic Price} = \text{Price received by the Producer} - \text{Product Taxes} + \text{Product Subsidies}$$

Market Price

- ❑ It is the price set after all the levels of value additions, and at which goods and services are sold or offered in the marketplace.

- ❑ In a free market economy, the market price is often referred to as retail price and it may fluctuate based on demand and supply.

$$\text{Market Price (MP)} = \text{Cost of Production} + \text{Indirect Taxes} - \text{Subsidies}$$

Important Notes

- ❑ Prior to 2015, GDP was estimated at factor cost.
- ❑ From 2015 onwards, Gross Value Added (GVA) at basic prices is used to calculate GDP at market price.
- ❑ The shift from factor costs to market prices indicates that India is conforming to international standards such as System of National Accounting (SNA) of the UN, which is used by most of the countries.
- ❑ The difference between GDP at factor cost and GVA at basic prices is that production taxes are included, and production subsidies excluded from the latter.
- ❑ Production taxes and production subsidies are different from product taxes and product subsidies.
- ❑ Production taxes are imposed even if the products are not produced, such as taxes on property.
 - However, excise duty, value added tax, etc., are all product taxes (or, indirect taxes).
- ❑ Likewise, product subsidies would not include interest subsidies, which will form part of production subsidies.
- ❑ Therefore, GDP at market prices is brought out by adding product taxes and deducting product subsidies from GVA at basic prices.

Gross Value Added (GVA)

- ❑ It is a measure of total output and income in the economy.
- ❑ It provides rupee value for the amount of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of goods and services.
- ❑ It gives a sector-specific picture of growth in an area such as industry, agriculture, manufacturing etc.
- ❑ **Classification Good or Service as Intermediate Consumption**
 - It is purchased or acquired from another production unit.
 - It is acquired for resale, which amounts to being used up entirely in the course of production during the accounting period.

$$\text{GVA} = \text{Value of Gross Output} - \text{Value of Intermediate Consumption}$$

- ❑ In the revision of National Accounts statistics done by Central Statistical Organization (CSO), it was decided that while computing GDP, sector-wise estimates of Gross Value Added (GVA) will now be given at basic prices instead of factor cost.
- ❑ GVA at basic prices will include production taxes and exclude production subsidies available on the commodity.

$$\text{GVA (at Basic Price)} = \text{GVA (at Factor Cost)} + \text{Production Taxes} - \text{Production Subsidies}$$

- ❑ GVA at factor cost includes no taxes and excludes no subsidies.
- ❑ While calculating GDP at market prices, it includes both production and product taxes, and excludes both production and product subsidies.

Gross Domestic Product (GDP)

- ❑ It is the market value of all final goods and services produced within the territory of the country during a financial year.
- ❑ However, it can also be computed quarterly or half-yearly.
- ❑ It is estimated by the Central Statistical Office (CSO).
- ❑ The Ministry of Finance uses the GDP numbers (at current prices) to peg the financial targets [as per the Fiscal Responsibility and Budget Management Act (FRBM), 2003].

Methods of Calculating GDP

Production Method

- ❑ It is also known as the Value Added or the Output Method.
- ❑ In this method, the value of the final product of the primary, secondary and tertiary sector is included, and the transfer payments viz., scholarships, pensions etc. are excluded. Production by unwarranted or illegal activities is also excluded.
- ❑ The total Market Price of the final produce should be equal to the Gross Value Added. Therefore, the GDP can be calculated using the Product or Value Added Method.

GDP using Value Added Method

$$\text{GDP (at Factor Cost)} = \text{GVA (at Basic Price)}$$

$$\text{GDP (at Market price)} = \text{GVA (at Basic Price)} + \text{Product Taxes} - \text{Product Subsidies}$$

Growth

- ❑ It refers to a positive change in size or maturation, often over a period of time.
- ❑ Growth from the economic perspective means an increase in the production of economic outputs or goods and services compared over a particular time period.
- ❑ Generally, the economic growth is measured in the terms of Gross Domestic Product (GDP).
 - GDP indicates the production level of the country.
 - It also indicates the expansion and contraction of the country's productivity.
- ❑ Economic growth, however, creates more profit for business and thus results in rise of the stock prices.
- ❑ It also creates space for private capital investment which in turn results in more employment (job creation), income, consumer demand etc.
- ❑ The most important aspect of growth is its quantifiability, that is, one can measure it in absolute terms.
- ❑ Factors Affecting Economic Growth
 - Natural resources
 - Human resources
 - Capital resources
 - Technological development
 - Trade

Development

- ❑ It is a multidimensional process involving changes in social structures, popular attitudes, and national institutions as well as the reduction of inequality and the eradication of poverty.
- ❑ It is both quantitative as well as qualitative in nature. It is difficult to measure it in absolute terms.
- ❑ **Core values of Development**
 - **Sustenance:** Purpose of development is to create an environment in which all people can expand

their capabilities and opportunities which can be enlarged for both present as well as future generations.

- **Self-esteem:** It has a sense of worth and self-respect, of not being used as a tool by others for their own ends. Development is legitimized as a goal because it is important for the indispensable way of gaining esteem.
- **Freedom to be Able to Choose from Servitude:** Freedom must be understood from the sense of emancipation from alienating material conditions of life and from social servitude to nature, ignorance, other people, misery, institutions and dogmatic beliefs.
- ❑ **Objectives of Development**
 - To increase the availability and widen the distribution of basic life sustaining goods such as food, shelter, health and protection.
 - To raise the levels of living, including in addition to higher incomes, the provision of more jobs, better education and greater attention to cultural and humanistic values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem.
 - To expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation states but also to the forces of ignorance and human misery.
- ❑ **Challenges in the Way of Development**
 - Corruption
 - Over exploitation of natural resources
 - Dependence on primary products as raw materials
 - Misuse of foreign assistance
 - Misguided priorities
 - Cultural restraints

❑ Various Aspects of Development

○ Social Development

- ❖ It is about putting people at the centre of development, which means a commitment that development processes need to benefit people.
- ❖ The way people interact in groups and society, and the norms that facilitate such interaction, shape development processes.
- ❖ The World Bank supports social development by listening to the poor people and promoting their voices in the development process; understanding and addressing their needs, priorities and aspirations and building formal and informal institutions.
- ❖ Some of the indices of social development are Civic activism; Interpersonal safety and trust; Clubs and associations; Gender equality; Inter-group cohesion; and Inclusion of minorities.

○ Economic Development

- ❖ It is the process of structural transformation with continuous technological and industrial upgradation which increases labour productivity, and accompanied improvement in infrastructure and institution.

- ❖ It can also be defined as a process whereby low income economies are transformed into modern industrial economies.

- ❖ Economic growth is one aspect of the process of economic development.

- ❖ Economic growth is one of the aspects of economic development.

- **Gender and Development:** Development should aim for gender equality which refers to equal rights, responsibilities and opportunities that all persons should enjoy, regardless of whether one is born male or female.

○ Human Development

- ❖ It is defined as the process of expansion of human capabilities, a widening of choices, a fulfillment of human rights, an enhancement of freedom and opportunities and improving their well-being.
- ❖ According to the United Nations, there are three essential choices for people Leading a long and healthy life; Acquiring knowledge; and Having access to the resources needed for a decent standard of living.

Human Development Index (HDI)

- ❑ In 1990, two economists – Prof. Mehbub Al Haque of Pakistan and Prof. Amartya Sen of India introduced the concept of Human Development Index (HDI)
- ❑ Since 1993, it has been used by the United Nations Development Programme (UNDP) each year to calculate the Human Development Index (HDI) and publish it as a report which is known as Human Development Report (HDR).
- ❑ The HDI simplifies and captures only part of what human development entails. It does not reflect on inequalities, poverty, human security, empowerment, etc.

Dimensions of HDI

❑ Health

- **Life Expectancy Index (LEI):** It is calculated from Life expectancy at birth.

❑ Education

- **Education Index (EI):** It is calculated from expected years schooling for school-age children and Mean years of schooling in the adult (25 years and more) population.

❑ Income

- **Income Index (II):** It is calculated from Gross National Income (GNI) per capita (PPP US\$)

Categorisation of Countries based on HDI

- ❑ Very High Human Development: An index of 0.8 and above
- ❑ High Human Development: An index of 0.7 – 0.799
- ❑ Medium Human Development: An index of 0.55 – 0.699
- ❑ Low Human Development: An index of 0 – 0.549

Other Key Indices of Human Development

- ❑ **Inequality- Adjusted HDI (IHDI)**

- IHDI combines a country's average achievement in health, education and income with how those achievements are distributed among the country's population by "discounting" each dimension's average value according to its level of inequality.
 - Two countries with different levels of achievements can have the same average HDI value.
 - Under perfect equality, the IHDI is equal to the HDI, but falls below the HDI when inequality rises.
 - ❑ **Gender Development Index (GDI)**
 - The GDI measures gender gaps in human development achievements by accounting for disparities between women and men in three basic dimensions of human development—health, knowledge and living standards using the same component indicators as in the HDI.
 - It is a direct measure of gender gap showing the female HDI as a percentage of the male HDI.
 - The GDI value of 1 indicates perfect gender equality.
 - ❑ **Gender Inequality Index (GII)**
 - The GI is an inequality index.
 - **Reproductive Health**, measured by the maternal mortality ratio and adolescent birth rates.
 - **Empowerment**, measured by proportion of parliamentary seats occupied by females and proportion of Indian Economy adult females and males aged 25 years and older with at least some secondary education.
 - **Labour market participation**, measured by the labour force participation rate of female and male populations aged 15 years and older.
 - ❑ **Multidimensional Poverty Index**
 - The Multidimensional Poverty Index (MPI), published for the first time in the 2010 Report, complements monetary measures of poverty by considering overlapping deprivations suffered by individuals at the same time.
 - The index identifies deprivations across the same three dimensions as the HDI and shows the number of people who are multidimensionally poor (suffering deprivations in 33% or more of the weighted indicators) and the number of weighted deprivations with which poor households typically contend with.
 - ❑ **Happiness Index as a Measure of Human Development**
 - The Happiness Index is brought by the World Happiness Report. It is a measure of happiness published by the United Nations Sustainable Development Solutions Network.
 - The World Happiness Report aims to draw global attention around the need to create a sound policy for what matters most to people – their well-being.
 - It maps happiness on the parameters of GDP per capita, social support, and healthy life expectancy, freedom to make life choices, generosity and perceptions of corruption.
 - All the top countries tend to have high values for all six of the key variables that have been found to support well-being: income, healthy life expectancy, social support, freedom, trust and generosity.
- Human Development in India
- ❑ India's rank is 129 in the 2019 Human Development Index (HDI) out of the 189 countries.
 - ❑ It is placed in the medium human development category.
 - ❑ India's HDI has increased from 0.428 in 1990 to 0.647 in 2019.
 - ❑ India's ranking remained low because of poor social indicators. Smaller SAARC countries like Sri Lanka (71) and Maldives (104) have surpassed India in the rankings.
 - ❑ India has one of the lowest life expectancy (69.4 years) and the lowest mean years of schooling (6.5 years) in the region.
 - ❑ 26.8% of India's HDI value is lost on account of inequalities – a greater loss than for most of its South Asian neighbours (the average loss for the region is 26.1).
 - ❑ The trends of 20 years show that HDI of India has improved over time, but ranking has not improved much.
 - ❑ The slow progress is due to a slowdown in the economy, slow growth in expected years of schooling and declining growth rates of life expectancy, particularly in Asia.
 - India also has the lowest Human Development Index (HDI) among all BRICS nations, with its life expectancy, higher only than South Africa.
 - Russia, Brazil and China are in the high HDI category with rankings of 49, 79 and 85 respectively.

Poverty

Poverty doesn't have a single or universal definition because it is multidimensional in nature.

However, the state of being under poverty is decided through determining whether a person is able to meet 'basic needs' or not. It is the multidimensional nature of 'basic needs' throughout the globe that gives poverty multiple definitions and indicators.

Types of Poverty

Poverty is complex, it does not mean the same thing for all people. We can identify six types of poverty: situational, generational, absolute, relative, urban, and rural.

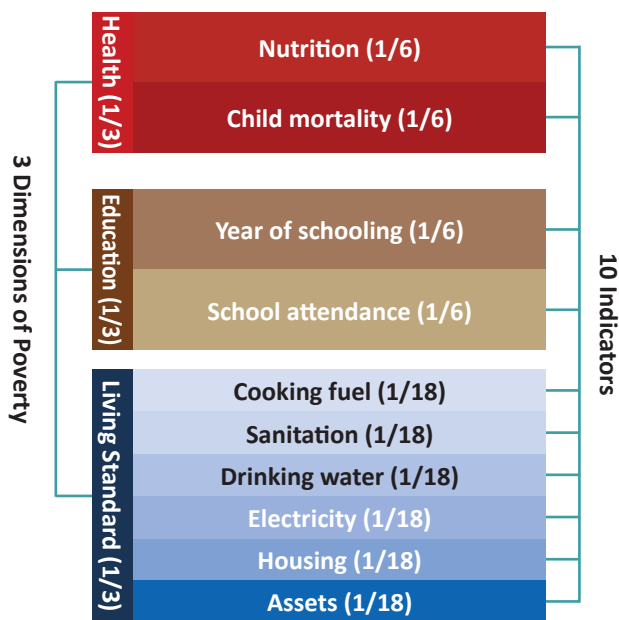
- ❑ **Situational Poverty:** It is generally caused by a sudden crisis or loss and is often temporary. Events causing situational poverty include environmental disasters, divorce, or severe health problems.
- ❑ **Generational Poverty:** It occurs in families where at least two generations have been born into poverty. Families living in this type of poverty are not equipped with the tools to move out of their situations.
- ❑ **Absolute Poverty (Extreme Poverty, or Abject Poverty):** It is "a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services." It involves a scarcity of such necessities as shelter, running water, and food. Families who live in absolute poverty tend to focus on day-to-day survival.
- ❑ **Relative Poverty:** It refers to the economic status of a family whose income is insufficient to meet its society's average standard of living. Relatively poor at one place can be well-off at other.
- ❑ **Urban Poverty:** It generally occurs in metropolitan areas. The urban poor deal with a complex aggregate of chronic and acute stressors (including crowding,

violence, and noise) and are dependent on often-inadequate large-city services. As per Lakdawala Committee, the overflow of rural poor to urban region is the main cause of poverty growth with increased urbanization.

- ❑ **Rural Poverty:** It occurs in non-metropolitan areas (including census town). In rural areas, there are more single-guardian households, and families often have access to services, support for disabilities, and quality education opportunities. Programs to encourage transition from welfare to work are problematic in remote rural areas where job opportunities are few. The rural poverty rate is growing and has exceeded the urban rate every year since data collection began in the 1960s. The difference between the two poverty rates is about 14% as per Tendulkar panel.

Poverty Around the World

- ❑ As per the World Bank a person earning \$1.90 or less per day measured at 2005 international prices and adjusted to local currency using PPP (Purchasing Power Parity) is under poverty. The international poverty line is worked out as the average of national poverty lines in poorest fifteen countries (in terms of consumption per capita) by the World Bank through an 'International Comparison Program'.
- ❑ The World Bank in its most recent estimates in 2015 has found that "10% of the world's population lived on less than \$1.90 a day, down from nearly 36% in 1990. In 2015, 736 million people lived on less than \$1.90 a day, down from 1.85 billion in 1990."
- ❑ Asian Development Bank, too, has its own poverty line which is currently at \$1.51 per person per day.
- ❑ Moreover, there's also a Global Multidimensional Poverty Index (MPI) which ranks 101 countries on deprivations across ten indicators in health, education, and standard of living. It is developed by Oxford Poverty and Human Development Initiative (OPHI) with the UN Development Programme (UNDP).



- ❑ Across 101 countries, 1.3 billion people (23.1%) are multidimensionally poor and two-thirds of multidimensionally poor people live in middle-income countries.
- ❑ In African countries such as Burkina Faso, Chad, Ethiopia, Niger and South Sudan 90% or more children (under the age of 10) are multidimensionally poor.
- ❑ In South Asia 22.7% of children under age 5 experience intra-household inequality in deprivation in nutrition (where at least one child in the household is malnourished and at least one child in the household is not).
- ❑ There is wide variation across countries in inequality among multidimensionally poor people – that is, in the intensity of poverty experienced by each poor person.
- ❑ For example, Egypt and Paraguay have similar MPI values, but inequality among multidimensionally poor people is considerably higher in Paraguay.
- ❑ Ten countries viz. Bangladesh, Cambodia, Democratic Republic of Congo, Ethiopia, Haiti, India, Nigeria, Pakistan, Peru and Vietnam have shown significant progress towards achieving SDG 1 i.e ending poverty in all its forms. Notably, India and Cambodia reduced their MPI values the fastest.

Poverty in India

Presently, in India, a person earning below or equal ₹27 in rural areas and ₹33 in urban areas is considered under poverty.

Causes

- ❑ **Unemployment:** Due to increasing unemployment, poverty has taken a more serious form. For example, the number of unemployed in the country at the beginning of the first plan was 35 million, which is around 31 million in 2017, according to a report published by the Centre for Monitoring Indian Economy (CMIE), a think-tank that tracks business and economic data.
- ❑ **Underemployment:** It is the cause as well as the result of poverty. Poverty has resulted in underemployment because of lack of education, where people do the jobs less than their ability and capacity.
- ❑ **Jobless Economic Growth:** The growth of Indian Economy has been jobless. Since 1990's, Indian economic growth is mainly based on manufacturing and services sector. The use of efficient technology in these sectors resulted in low levels of employment opportunity creation.
- ❑ The low level of economic growth in primary sector curtailed job opportunities at rural level. Thus, it resulted in jobless growth. Rapid growth of population enhanced this problem.
- ❑ **Dependency on Agriculture:** Too much dependency on agriculture (about 60%) of our working population depends on agriculture directly or indirectly. But the pressure on land has increased so much that productivity of land has decreased over time.
- ❑ **Political Causes:** The Zamindari system inherited from the colonial legacy started in the country exploited the farmers completely. Their agricultural policies gave birth to landless farmers and their exploitation. Poverty also increased their exploitation. This has resulted in large inequalities in the ownership of earning assets such as land, buildings, industry etc.
- ❑ **Inflation:** In India, inflation has taken an alarming shape. Due to this, people are unable to fulfil the basic requirements of their families. The income earned by the poor people is insufficient to buy them the basic necessities of life and get them even two meals a day. Due to the lack of nutrition they are unable to do any physical work and hence they remain poor. The prices of basic food items are so high due to high rate of inflation that the little income earned by them is just insufficient.

levels of access of different groups to development opportunities and benefits is observed.

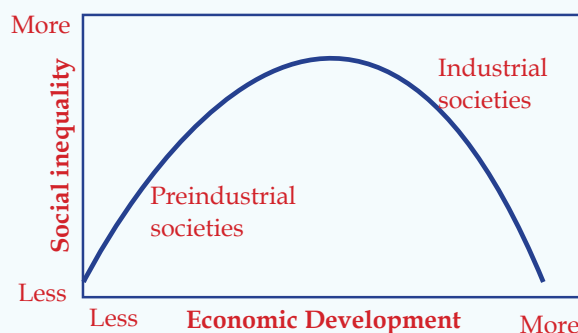
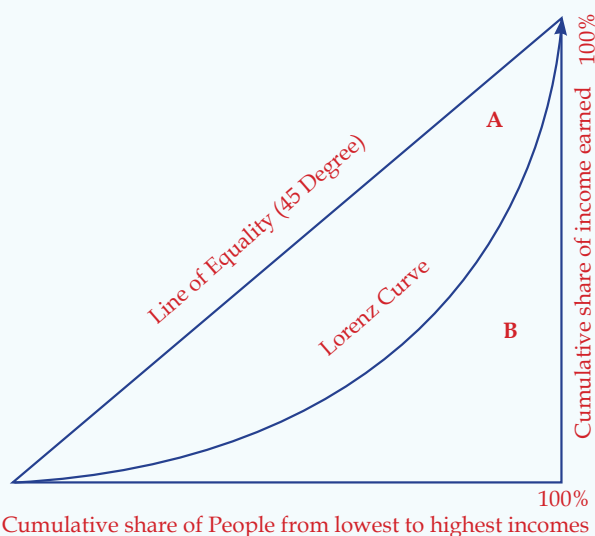
- ❑ There are many instruments that measure inequality of income and non-income aspect. In income aspect, the most widely used ones are the Gini coefficient, and the Lorenz curve which draws the cumulative percentage of distribution of income corresponding to cumulative distribution of households.
- ❑ While, the non-income aspect includes the access to safe drinking water, access to sanitation, access to education and health, employment opportunity. The levels of access of different facilities are measured in terms of inequality indicators. The level of access of

different services varies among social groups, gender, geographical areas etc.

- ❑ The UNDP's Human Development Report uses domestic data to bring out two indicators for measuring inequality one being the Gini Coefficient and other being Quintile Income Ratio (ratio of average income of the richest 20% of the population to that of the poorest 20%).
- ❑ In India, conventionally, estimates of inequality in India have always been based on consumption expenditure data from household surveys conducted by the National Sample Survey Office (NSSO).

Lorenz Curve, Gini Coefficient & Kuznets Curve

- ❑ **The Lorenz Curve (the actual distribution of income curve):** It is a graphical distribution of wealth developed by Max Lorenz in 1906, which shows the proportion of income earned by any given percentage of the population.
 - The line at the 45° angle shows perfectly equal income distribution, while the other line shows the actual distribution of income. The further away from the diagonal, the more unequal the size of distribution of income. The more bowed out a Lorenz Curve; the higher the inequality of income in the country.
- ❑ **The Gini Coefficient:** It is derived from the Lorenz curve and can be used as an indicator of economic development in a country. The Gini Coefficient measures the degree of income inequality. It can vary from 0 (perfect equality) to 1 (perfect inequality). A Gini Coefficient of Zero means that everyone has the same income, while a coefficient of 1 represents a single individual receiving all the income.
 - The Gini Coefficient is equal to the area between the actual income distribution curve (Lorenz curve) and the line of perfect income equality. The Gini coefficient is the Gini index expressed as a number between 0 and 1. Gini Coefficients can be used to compare the income distribution of a country over time as well.
- ❑ **The Kuznets Curve:** It demonstrated that economic growth initially leads to greater inequality, but as the economy develops, market forces first increase and then decrease inequality levels. As economic growth comes from the creation of better products, it usually boosts the income of workers and investors who participate in the first wave of innovation. The industrialisation of an agrarian economy is a common example. This inequality, however, tends to be temporary as workers and investors who were initially left behind soon catch up by helping offer either the same or better products. This improves their incomes.





Remedies

Of all the solution proposed, inclusive growth stands tall as it emphasises that the economic opportunities created by growth are available to all particularly the poor – to the maximum possible extent. Thus, inclusive growth is growth that not only creates new economic opportunities, but also ensures equal access to the opportunities created for all segments of society, particularly for the poor.

Therefore, inclusive growth is the process that focuses on both creating opportunities rapidly and making them accessible to all including the disadvantaged. In addition, following measures could be adopted to eliminate inequality:

- ❑ **Accumulation of Wealth:** Curbing the concentration of income and wealth: inequality in income can be reduced by curing the process of wealth accumulation.
- ❑ **Land reforms:** Land reforms are warranted to redistribute the land from the rich landlord to the actual land tillers and poor peasants.
- ❑ **Redistribution of assets:** Inequality can be reduced by making redistribution of other productive assets.
- ❑ **Employment opportunities:** Creation of employment opportunities for the majority and poorer class can reduce income inequality.
- ❑ **Small scale industries:** Promotion of small scale industries and village level industries can generate jobs for the village people. Agro-based industries can generate income employment for the unskilled people.
- ❑ **Social security measures:** Government should devise appropriate social security measures to reduce income inequality.
- ❑ **Tax reforms:** Appropriate taxation system of the government can bring redistribution of the income from the rich to the poor.
- ❑ **Educational reforms:** The educational system should be efficient and fair. It should give equal opportunity to all. It should be accessible and affordable. It should be meaningful for the livelihoods of the people.
- ❑ **Inheritance laws:** Changing the inheritance laws of the country is necessary. The son and daughter difference in practice of inheritance of property of the parents should be fought with morality and legality.
- ❑ **Public sector reforms:** The public sector should be revitalized and modified to reduce inefficiency and corruption. It can increase the production and income level of the poor people. Good performance by the public sector can reduce income inequality in India.

Sustainable Development Goals (SDGs) 2016–2030

No Poverty		1	End poverty in all its forms everywhere
Zero Hunger		2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Good Health & Well-Being		3	Ensure healthy lives and promote well-being for all at all ages
Quality Education		4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Gender Equality		5	Achieve gender equality and empower all women and girls
Clean Water & sanitation		6	Ensure availability and sustainable management of water and sanitation for all
Affordable & Clean Energy		7	Ensure access to affordable, reliable, sustainable and modern energy for all
Decent Work & Economic Growth		8	Promote sustained, inclusive & sustainable economic growth, full and productive employment and decent work for all
Industry Innovation & Infrastructure		9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Reduced Inequalities		10	Reduce inequality within and among countries
Sustainable Cities & Communities		11	Make cities and human settlements inclusive, safe, resilient and sustainable
Sustainable Consumption & Production		12	Ensure sustainable consumption and production patterns
Climate Action		13	Take urgent action to combat climate change and its impacts
Life Below Water		14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Life on Land		15	Protect, restore and promote sustainable use of terrestrial ecosystems, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Peace & Justice		16	Promote peaceful and inclusive societies, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Partnership for the Goals		17	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

General Budget

- ❑ It is an annual financial statement of income (receipts) and spending (expenditure) of the government for a particular financial year.
- ❑ The financial year starts from 1st April and ends on 31st March.
- ❑ Under Article 112 of the Constitution, a statement of estimated receipts and expenditure of the Government of India has to be laid before Parliament in respect of every financial year. This statement titled 'Annual Financial Statement' is the main Budget document.
- ❑ The Annual Financial Statement shows the receipts and payments of the government under the three parts in which government accounts are kept, Consolidated Fund, Contingency Fund and Public Account.

○ The Consolidated Fund of India

- ❖ It draws its existence from Article 266 (1) of the Constitution.
- ❖ All revenues received by the 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 and no amount can be withdrawn from the Fund without authorisation from Parliament.
- ❖ The Comptroller and Auditor General of India audit this fund.

○ Public Account of India

- ❖ It draws its existence from Article 266 (2) of the Constitution.
- ❖ Money held by the Government in trust is kept in the Public Account such as Provident Funds, Small Savings collections, etc.
- ❖ Funds in the public account do not belong to the Government and have to be finally paid back to the persons and authorities, who deposited them.

- ❖ It does not require Parliamentary authorization for withdrawals.

○ Contingency Fund of India

- ❖ It draws its existence from Article 267 of the Constitution.
- ❖ It authorizes the existence of a Contingency Fund of India, which is placed at the disposal of the President of India to facilitate meeting of urgent unforeseen expenditure by the Government.
- ❖ Parliamentary approval is required for such unforeseen expenditure.
- ❖ The corpus of the Contingency Fund as authorized by Parliament presently stands at ₹500 crores.
- ❑ The Reserve bank of India, being a banker of the government, manages these three funds.
- ❑ **Set of Figures in General Budget**
 - **Actual Estimates:** Estimates of expenditure and receipts of the preceding financial year.
 - **Provisional Estimates:** Estimates of revenue and expenditure of the current financial year.
 - **Budget Estimates:** Estimates of the coming financial year.
- ❑ The estimates are arrived at by one of the following three methods:
 - **Advanced estimates:** These estimates are made before the actual occurrence of economic activity.
 - **Revised Estimates:** These estimates show the contemporary situation. It is basically a current estimation of either the budgetary estimates or the provisional estimates. It gives interim data. These estimates are based on changes in the economic scenario or actual occurrence of some economic activities.
 - **Quick Estimates:** These estimates are based on sample surveys. Information gathered from the sample is used to predict the overall economic activity.

	<ul style="list-style-type: none"> ❑ It is of two types: <ul style="list-style-type: none"> ○ Short Term Capital Gains Tax (STCGT): It is charged when an investment is held for less than 36 months and is calculated on the basis of income bracket one falls in. ○ Long Term Capital Gains Tax (LTCGT): It is charged when an investment is held for a longer period which is more than 36 months.
Securities Transaction Tax	<ul style="list-style-type: none"> ❑ Levied on the value of securities traded in the stock market. ❑ This means that every time one buys or sells shares, a tax is charged on them.
Estate Tax	<ul style="list-style-type: none"> ❑ Also known as Inheritance tax. ❑ It is raised on an estate or the total value of money and property that an individual has left behind after their death.
Commodities Transaction Tax	<ul style="list-style-type: none"> ❑ It is imposed on the transaction of commodities in commodity exchanges. ❑ It was introduced in 2013-14.
Fringe Benefit Tax	<ul style="list-style-type: none"> ❑ It is fundamentally a tax that an employer has to pay in lieu of the benefits that are given to his/her employees. ❑ The list of benefits encompass a wide range of privileges, services, facilities or amenities which were directly or indirectly given by an employer to current or former employees. ❑ It was introduced in 2005-06.
Interest Tax	<ul style="list-style-type: none"> ❑ It is the tax that banks deduct when total interest income is more than ₹10,000 in a year. As the interest earner is directly liable to pay tax, thus it is a direct tax.
Equalization Levy	<ul style="list-style-type: none"> ❑ It was introduced in the Finance Act, 2016 as a measure of tax evasion. ❑ The equalization levy of 6% is levied at business-to-business transactions in the digital advertising space that is, the income accruing to foreign ecommerce companies from within India. ❑ It is intended to address the disparity in tax treatment between domestic companies and foreign companies that are able to earn without being subject to income tax on those profits, neither in a state where the premiums are collected nor in the state of residence.

❑ Indirect Tax

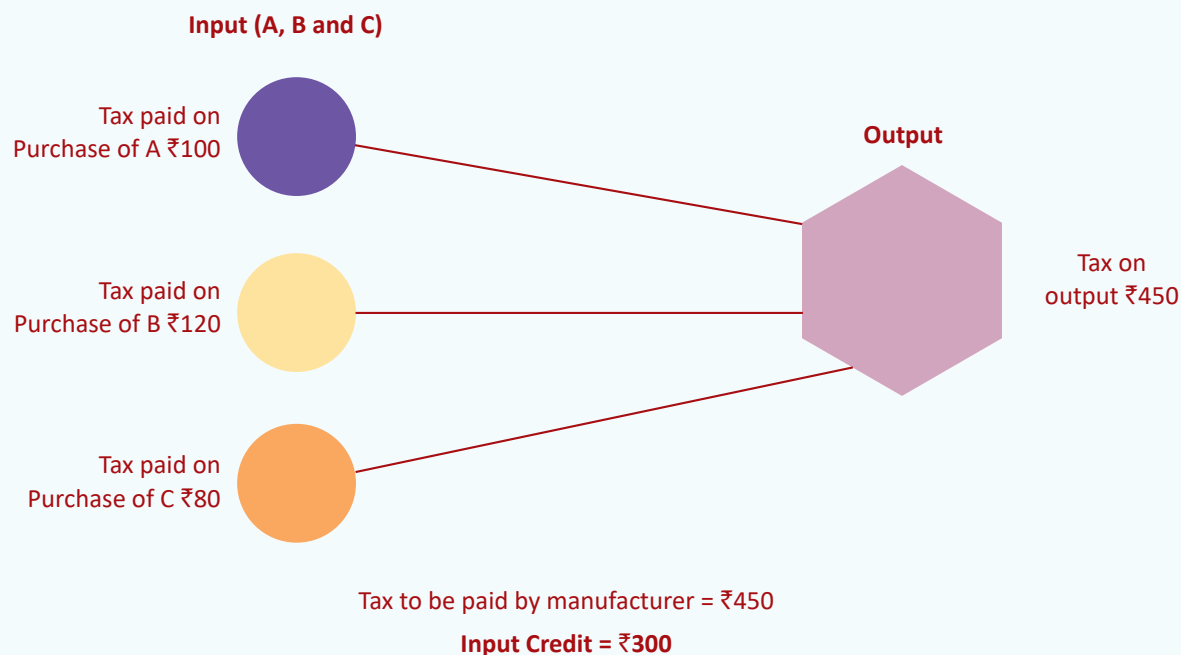
- The tax which has incidence and impact at the different points i.e. tax burden is on different people and is paid by different people.
- It is a tax levied by the Government on goods and services and not on the income, profit or revenue of an individual.
- It is proportional in nature.
- In this, the tax burden can be shifted from one taxpayer to another.
- It has the effect of raising the price of the products on which they are imposed.

Indirect Taxes (Central Levies)	
Service Tax	<ul style="list-style-type: none"> ❑ It is a tax levied by the government on service providers on certain service transactions, but is actually borne by the customers. ❑ It is categorized under Indirect Tax and came into existence under the Finance Act, 1994. ❑ It is subsumed under GST

Custom Duty	<ul style="list-style-type: none"> ❑ It is the tax imposed on exports and imports of goods. ❑ Duties levied on imports of goods are termed as import duty while duties levied on exported goods are termed as export duty. ❑ Countries around the world levy custom duties on import/export of goods as a means to raise revenue and/or shield domestic institutions from predatory or efficient competitors from other countries.
Excise Duty	<ul style="list-style-type: none"> ❑ It is levied by the Central Government of India for the production, sale, or license of certain goods. ❑ Excise duty charges are also collected by state governments for alcohol and narcotics. ❑ It was replaced by the GST.
Central Sales Tax	<ul style="list-style-type: none"> ❑ Tax levied on sales generated during inter-state trade and commerce in a country. ❑ It is an origin based tax on customers and is payable in the state where a particular product is sold. ❑ It is also subsumed under GST.

Input Tax Credit

- ❑ Input tax credit means at the time of paying tax on output, the manufacturer can reduce the tax he has already paid on inputs.
- ❑ It is one of the key features of the GST.



- ❑ Here, Tax payable on Output (Final Product) is ₹450 and tax paid on input (purchases) is ₹300. So, the manufacturer can claim an input tax credit (ITC) of ₹300 and ₹150 is only needed to pay as tax.
- ❑ Manufacturer, supplier, agent, e-commerce operator, aggregator or any of the persons who are registered under GST, can claim for ITC.

GST Council

- ❑ It is a constitutional body under Article 279A for making recommendations to the Union and State Government on the issues related to GST.
- ❑ **Members of Council**
 - Union Finance Minister as Chairperson
 - The Union Minister of State, in-charge of Revenue or Finance as Member
 - The Minister in-charge of Finance or Taxation or any other Minister nominated by each State Government as Members.
- ❑ The Council make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected to or exempted from GST, model GST Laws, principles that govern place of supply, threshold

limits, GST rates, including the floor rates with bands, special rates for raising additional resources during natural calamities/ disasters, special provisions for certain States, etc.

National Bench of GST
Appellate Tribunal (GSTAT)

- ❑ The Tribunal would serve as the forum of second appeals regarding the applicability of GST, and will also be the first common forum of dispute resolution between the Centre and the States.
- ❑ **Composition**
 - The National Bench of the Appellate Tribunal, to be situated in New Delhi and will be presided over by its President.
 - It will consist of a technical member from the Centre and a representative of the States.

Concept of Money

Money is anything that has general acceptance as a means of payment for goods and services or settlement of debts.

Major Functions of Money

- It is used as a medium of exchange.
- It gives a common measure of value.
- It is used as a standard of deferred payments.
- It can also be used as a store of value.

Properties of Money

- **Fungibility:** Anything which is capable of interchanging unit by unit within itself or its individual units must be capable of mutual substitution (i.e., interchangeability). For example one can interchange a ₹100 note with ₹10×10 notes.
- **Durability:** Able to withstand the repeated use.
- **Portability:** Easily carried and transported.
- **Cognizability:** Its value must be easily identified.
- **Stability of Value:** Its value should not fluctuate.

Types of Money

Commodity Money

- The commodity money derives its value from the commodity out of which it is made.
- The commodity itself represents money, for instance, commodities that have been used as a medium of exchange include gold, silver, copper, salt, precious stones, etc.

Representative Money

- It includes token coins or any other physical tokens like certificates, that can be reliably exchanged for a fixed amount/quantity of a commodity like gold and silver.
- It is used against the backing of equivalent values of gold and silver.

Fiat Money

- It is also known as the fiat currency and its value is not derived from any intrinsic value or guarantee that it can be converted into a valuable commodity like gold.
- It derives its value, which is only based on Government order.
- Fiat money is also one that is declared legal tender. This includes any form of currency in circulation such as paper money or coins.
- Legal tender means something which cannot be refused as an option for payment, for example Indian Rupee, US Dollar etc.



Cryptocurrency

- Cryptocurrencies are peer-based money, such as bitcoin.
- This type of money is electronically based on electronic accounting entries that can be used as a medium of exchange.
- It works on block chain technology, which is a decentralized database that maintains a continuously growing list of records.
- In India Crypto-currencies are not legal tenders.

Measures of Money Supply

- Money supply is the total stock of all types of money, such as currency and demand deposits held with public and banks.
- The stock of money kept with the government and RBI, etc. is not taken into account in money supply as these are not in actual circulation in the economy.

Main Sources of Money Supply

- **The Government**
 - ❖ It produces coins of all denominations and the One Rupee notes.



- ❖ The government of India has the sole right to mint coins.
- ❖ However, these are issued for circulation only through the Reserve Bank in lieu of the RBI Act.
- **RBI**
 - ❖ It is the only authority that has the sole right to issue currency notes, except one rupee notes which are issued by the Ministry of Finance.
 - ❖ However, the RBI follows a minimum reserve system in the note issue. It has to maintain only ₹200 crores of gold and foreign exchange reserves, of which gold reserves should be of the value of ₹115 crores.
- **Commercial Banks:** These create the credit as per the demand deposits.
- **Components of Money**
 - Currency component which consists of all coins and notes in circulation.
 - Deposit component which includes money of the general public held with the banks, which can be withdrawn by cheque or through ATM's.
- The RBI categorises money into four broad categories which are also known as the monetary aggregates.
- Through these monetary aggregates, it computes and measures the total supply of money in the market.

Monetary Aggregates	
M0	<ul style="list-style-type: none"> □ It is known as the monetary base or reserve money. □ It is sometimes referred to as High-powered money or primary money. □ It includes all physical money like coins and currency along with demand deposits and other liquid assets held by the central bank.
M1	<ul style="list-style-type: none"> □ It is also known as narrow money. □ Narrow money only contains the most liquid financial assets which are accessible on demand. □ It includes all the currency notes being held by the public on any given day, demand deposits with the commercial banks (both savings as well as current account deposits) and other deposits of the banks kept with the RBI. □ Narrow money is the most liquid part of the money supply because the demand deposits can be withdrawn anytime during the banking hours.
M2 and M3	<ul style="list-style-type: none"> □ When Post office Savings Deposits are also added to M1, it becomes M2. <ul style="list-style-type: none"> ○ $M2 = M1 + \text{Savings Deposits of Post Office Savings account}$ □ When we add time deposits in the narrow money (M1), we get broad money, which can be denoted by M3. <ul style="list-style-type: none"> ○ $M3 = M1 + \text{Time deposits of public with the banks}$ □ Broad money does not include the interbank deposits. At the same time, time deposits of the public with the banks, including the cooperative banks are also included in Broad money. □ M1, M2 and M3 are also called fortnight money as these three aggregates are computed or compiled fortnightly.
M4	<ul style="list-style-type: none"> □ When we add total savings deposits with post offices with M3 we get M4 Money. <ul style="list-style-type: none"> ○ $M4 = M3 + \text{Total Saving deposits with Post offices}$ □ The most common measure used for money supply is M3 Money or the Broad money. □ Currently M1 and M3 are extensively used for policy purposes and are the relevant indicators of money supply in India.


Money Multiplier

- It is the amount of Broad money that banks generate with each rupee of reserves or base money available with them.
- However, Reserves are the amount of deposits that the RBI requires banks to hold and not to lend.
- It tells how fast the money supply from the bank lending will grow.
- The higher the reserve ratio is, the less deposits will be available for lending, resulting in a smaller money multiplier and vice versa.

- Thus, higher the value money multiplier, higher will be liquidity in the market and vice versa.

$$\text{Money Multiplier} = \frac{1}{\text{Reserve Ratio}}$$



○ Tier 2 Capital

- ❖ It is also known as supplementary capital.
- ❖ It includes undisclosed reserves, revaluation reserves, hybrid (debt/equity) capital and subordinated debt.
- ❖ It is considered riskier as it is more difficult to calculate if liquidation is required.

❑ **Leverage Ratio:** It is calculated by dividing Tier 1 capital by the bank's average total consolidated assets (sum of the exposures of all assets and non-balance sheet items). This ratio must be at least 3% under Basel III.

❑ **Capital Adequacy Ratio (CAR):** It is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It set standards for banks by looking at a bank's ability to pay liabilities, and respond to credit risks and operational risks.

Financial Inclusion

❑ It is the process of including the excluded sections and people in the financial system.

❑ Goals of Financial Inclusion according to United Nations

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance.
- Sound and safe institutions governed by clear regulation and industry performance standards.
- Financial and institutional sustainability to ensure continuity and certainty of investment.
- Competition to ensure choice and affordability for clients.

Major Initiatives towards Financial Inclusion

MUDRA Bank	<ul style="list-style-type: none"> ❑ It stands for Micro Units Development and Refinance Agency. ❑ It provides loans at low rate to microfinance agencies and NBFCs, which then provide credit to Micro, Small & Medium Enterprises (MSMEs). ❑ The bank will initially function as a non-banking financial company and a subsidiary of the Small Industries Development Bank of India (SIDBI). ❑ Classification of Borrowers under MUDRA scheme <ul style="list-style-type: none"> ○ Under the Shishu scheme, loans upto ₹50,000 are sanctioned. This is the first stage when the business has just started. ○ Under the 'Kishor' scheme, loans above ₹50,000 and upto ₹5 Lakh are provided. ○ Under the 'Tarun' scheme, loans above ₹5 Lakh and upto ₹10 Lakh are provided. ❑ Small manufacturing units, shopkeepers, fruit and vegetable vendors, artisans, etc., are eligible to borrow under this scheme.
Pradhan Mantri Jan Dhan Yojana (PMJDY)	<ul style="list-style-type: none"> ❑ It aimed at ensuring access to various financial services like availability of basic savings bank accounts, access to need based credit, remittance facility, insurance and pension to the excluded sections, i.e., weaker sections & low income groups. ❑ Important Features <ul style="list-style-type: none"> ○ All households across the country – both rural and urban are to be covered under the scheme. ○ All bank accounts opened under the scheme, to have an overdraft facility of ₹5,000 for Aadhar-linked accounts after satisfactory operation in the account for 6 months. ○ Issuance of RuPay Debit Card with inbuilt ₹1 lakh personal accident insurance cover provided by HDFC Ergo and a life cover of ₹30,000 provided by LIC Financial services.
Priority Sector Lending	<ul style="list-style-type: none"> ❑ The Priority sector list is provided by RBI and updated regularly. ❑ Currently, priority sector lending includes Agriculture, Micro, small and medium enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy, etc. ❑ Shortfalls in the priority sector have to be deposited in NABARD's Rural Infrastructure Development Fund and other funds with NABARD, SIDBI and NHB. ❑ NABARD lends this amount for rural development, SIDBI for small industries, NHB for housing; to state governments.

Inflation

- ❑ It is defined as a sustained increase in the general price level of goods and services.
- ❑ It is measured in terms of percentage change in prices over a particular time-period.
- ❑ It is different from relative price rise as 'Inflation' refers to a sustained, across-the-board price increase, whereas 'a relative price increase' is a reference to an episodic price rise pertaining to one or a small group of commodities.

Causes of Inflation

❑ Demand-Side or Demand-Pull Inflation

- It is a situation when aggregate demand for goods and services in the market exceeds the aggregate supply.
- When demand for goods and services are high and supply is not adequate due to low economic output (Production), the firms increase the general price levels of goods and services.

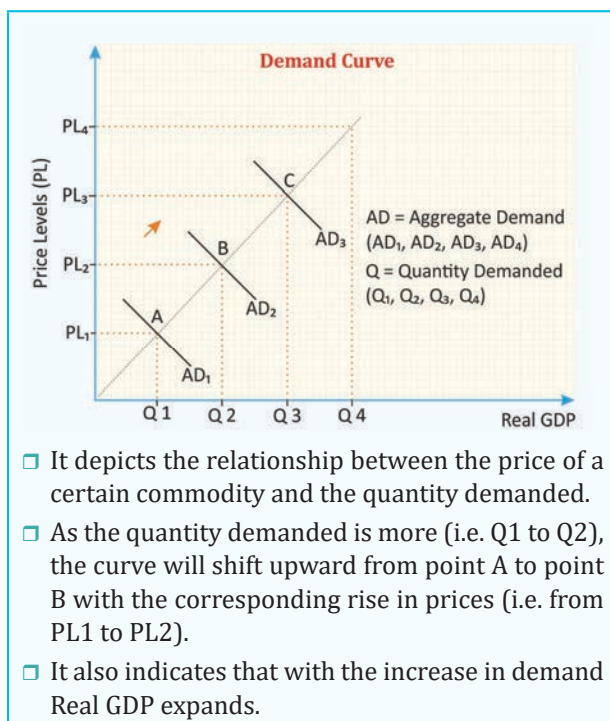
○ Causes of Demand Side Inflation

- ❖ Increased liquidity in the economy.
- ❖ Increase in income levels and purchasing power of households.
- ❖ Growth in population and increase in demand for goods and services.
- ❖ Changing consumer behaviour.

○ Macroeconomic Impacts of Demand-pull Inflation

- ❖ There is full employment of resources when aggregate supply is inelastic.
- ❖ Rise in Real GDP as the economy will grow at a faster rate.
- ❖ Fall in unemployment rate.
- ❖ Upward revision on wages as the demand for workers will increase.

- ❖ The upward pressure on wages may lead to wage-push inflation as higher wages increase the disposable income of workers leading to a rise in consumer spending.



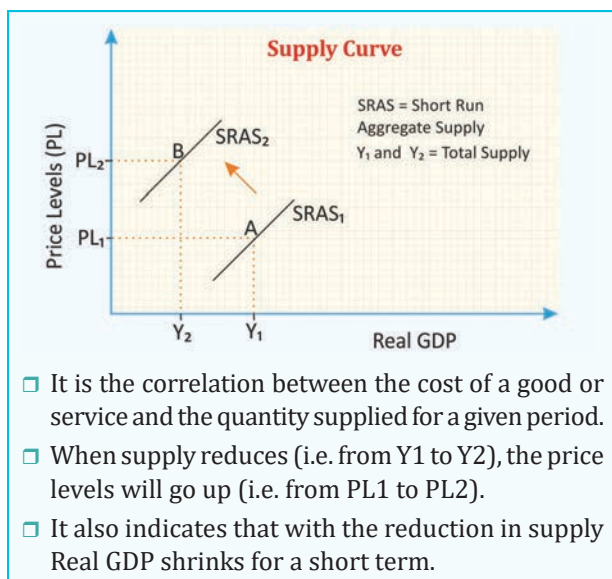
- ❑ It depicts the relationship between the price of a certain commodity and the quantity demanded.
- ❑ As the quantity demanded is more (i.e. Q1 to Q2), the curve will shift upward from point A to point B with the corresponding rise in prices (i.e. from PL1 to PL2).
- ❑ It also indicates that with the increase in demand Real GDP expands.

❑ Supply-Side (or Cost-Push) Inflation

- It develops when the factor cost or the cost of production increases with respect to the consistent demand for goods.
- It is determined by supply-side factors, such as higher wages, higher oil prices, etc.

○ Causes of Supply Side Inflation

- ❖ Rising nominal wages of labour.
- ❖ Depreciation of exchange rates.
- ❖ Rising food and energy prices.
- ❖ Rising oil prices.
- ❖ Higher production tax.
- ❖ Structural rigidities.



Macroeconomic Impacts of Cost-Push Inflation

- Macroeconomic impact of cost push inflation is temporary in nature.
- It can lead to lower economic growth and often causes a fall in living standards.
- It will cause a higher price level.
- It lowers the Real GDP.

Types of Inflation

Creeping Inflation

- When the rise in prices is very slow (i.e., less than 3% per annum), it is called creeping inflation or mild inflation.
- It is regarded as safe and essential for economic growth.
- It acts as an incentive for producers to enhance production.
- It indicates a continuous rise in demand in the economy.

Trotting Inflation

- When prices rise moderately and the annual inflation rate is in single digit (3% – 10%), it is called walking or trotting inflation.
- Inflation at this rate is a warning signal for the government to control it before it turns into running inflation.

Running Inflation

- When prices rise rapidly at a rate of 10% – 20% per annum, it is called running inflation.

- Its control requires strong monetary and fiscal measures, otherwise it leads to hyperinflation.

Galloping Inflation

- It is when prices rise at double or triple digit rates, such as 30 % or 100 % per year.
- At this rate of inflation, money loses its value at a rapid rate. This level of inflation is obviously not good for the economy.
- Businesses will hesitate to engage in long-term contracts because prices change rapidly. Investors will not make investments that yield returns that are below the inflation rate.
- Latin American countries such as Argentina and Brazil had inflation rates of 50% to 700% per year in the 1970s and 1980s.

Hyper-inflation/ Runaway Inflation

- It is a very high and accelerating inflation rate. It brings a situation when the prices skyrocket more than 50 % a month.
- Hyperinflation collapses the entire monetary system and at this inflationary stage, the government tends to use other stable currency.
- Hyperinflation was experienced by a number of developing countries, such as Argentina, Brazil and Peru in the decade from 1989 to 1999 and Venezuela in 2016.

Bottleneck Inflation

- It takes place when the supply falls drastically and the demand remains at the same level.
- It arises due to supply-side mismanagement, which is also known as structural inflation.
- This can be put in the demand-pull inflation category.

Headline Inflation

- It measures the change in prices of a wide range of commodities including those which have price volatility, like food and oil.
- In India, headline inflation is measured through the WPI (the latest base year 2011-12) – which consists of 697 commodities (services are not included in WPI in India).
- It is measured on a year-on-year basis, i.e., rate of change in the price level in a given month in relation to the corresponding month of last year.
- It is also known as point to point inflation.

- ❑ For example, food prices rose steadily during the last months of 2009 and the early months of 2010 in India, even though the prices of non-food items continued to be relatively stable.

Inflationary Gap

- ❑ It is a macroeconomic concept that describes the difference between the current level of real GDP and the anticipated GDP that would be experienced when an economy is at full employment, also referred to as the potential GDP.
- ❑ It is a type of the output gap (GDP gap).
- ❑ The main cause of the gap is considered to be expansionary monetary policies carried out by the government.
- ❑ An inflationary gap is a signal that the economy is in the boom part of the trade-cycle, government action in the form of fiscal and monetary policies is must to close the gap.

Deflationary Gap

- ❑ It is also known as recessionary gap. It is also a negative output gap. In other words, a recessionary gap occurs when the aggregate demand is not sufficient to create conditions of full employment.
- ❑ The deflationary gap thus is the difference of the amount by which aggregate expenditure falls short of the level needed to generate equilibrium national income at full employment without inflation.

Inflationary Spiral

- ❑ A self-sustaining upward trend in general price levels fuelled by the reinforcing feedback of a vicious circle.
- ❑ Such situations continue until radical measures (such as income policy) are instituted to break the cycle, otherwise the currency is rendered almost worthless as a medium of exchange (as it happened in Germany in the 1920s, in Brazil in the 1980s, and in Argentina in the 1990s) and has to be replaced with new monetary units (currency).
- ❑ The wage price spiral is a typical example of an inflationary spiral.

Wage-Price Spiral

- ❑ The wage-price spiral suggests that rising wages increases disposable income, thus raising the demand for goods and causing prices to rise.

- ❑ Rising prices cause demand for higher wages, which leads to higher production costs and further upward pressure on prices, creating a conceptual spiral.



Inflation Tax

- ❑ It is not a legal tax, rather it is the degree of decrease in the value of cash and is termed as the inflation tax for the way it punishes people who hold assets in cash, which tend to be lower-and middle-class wage earners.
- ❑ To quote Milton Friedman, "inflation is taxation without legislation".

Inflation Premium

It is the part of prevailing interest rates that result from lenders compensating for expected inflation by pushing nominal interest rates to higher levels.

Inflation and Unemployment: Phillips Curve

- ❑ The Phillips curve shows the inverse relationship between unemployment and inflation in an economy.
- ❑ The curve suggests that changes in the level of unemployment have a direct and predictable effect on the level of price inflation.
- ❑ A W Phillips claimed that economic growth comes with inflation, which in turn should lead to more jobs and less unemployment. So, higher inflation is associated with lower unemployment and vice versa.

History of Planning in India

- ❑ Planning is a method of achieving economic prosperity of the nation by the optimum utilization of the resources.
- ❑ Soviet Union, for the first time put forward the idea of economic planning in 1928, to transform the country into an industrial superpower.
- ❑ The idea of economic planning got further strength and support during the period of great depression in the 1930s, during which other parts of the world were performing badly but the Russian economy progressed in the same period.
- ❑ M. Visvesvaraya in his book “Planned Economy for India” suggested a ten-year plan for India.
- ❑ Under the Plan, he proposed to double the income of the country within ten years. He also described how industries will not make satisfactory progress if left to private enterprises.
- ❑ Since 1934, India had gone through multiple planned phases such as the Bombay Plan, The Gandhian Plan, The People’s Plan, etc.
- ❑ Later in the 1950’s, India adopted the Soviet Model of economic planning as an instrument of socio-economic development.

The Federation of Indian Chambers of Commerce and Industry (FICCI) Proposal

- ❑ It is a non-government, not-for-profit organisation, established in 1927.
- ❑ It is the largest and oldest apex business organisation in India.
- ❑ In 1934, it recommended the need of national planning for economic development.
- ❑ N. R. Sarkar, the then president of FICCI, called for a high powered ‘National Planning Commission’ to coordinate the whole process of planning, so that the country could achieve its full economic potential.

The Bombay Plan, 1944

- ❑ It was formulated by eight leading Indian industrialists with the basic aim of economic development under considerable amount of government intervention and regulations.
- ❑ The title of the plan was “A Plan for Economic Development of India”.
- ❑ The signatories of the Plan were Jamshedji Ratanji Dadabhoy Tata, Ghanshyam Das Birla, Ardeshir Dalal, Sri Ram, Kasturbhai Lalbhai, Ardeshir Darabshaw Shroff, Sir Purshottamdas Thakurdas and John Mathai.
- ❑ The basic objectives were doubling of the output of the agricultural produce and rapid industrialization with emphasis on the development of capital goods and core industries and also doubling the per capita income within a period of 15 years from the time the plan goes into operation.
- ❑ Some of the important agreements of the Bombay Plan are:
 - Agrarian restructuring by abolition of intermediaries, minimum wages, fair prices for agricultural produce, cooperative and credit supports to farmers, etc.
 - Rapid industrialization
 - Development of the essential consumer goods industries
 - Promotion of medium and small-scale industries, setting up of cottage industries with a focus to generate more employment.
 - The plan advocated active role of the state in the economy through planning, controlling and overseeing the different areas of the economy.
 - Large -scale measures for social welfare.

The Gandhian Plan

- ❑ It was introduced by Shriram Narayan Aggarwal (Ex. Governor of Gujarat) in 1944.
- ❑ It was based upon Gandhian philosophies.

- ❑ There is no comprehensive planning in capitalism.
- ❑ In this model, the government does regulatory work to avoid recession and inflation and to prevent monopoly.
- ❑ Government works towards raising the standard of living of people.

Planning in a Socialist Economy

- ❑ It is based on a central plan.
- ❑ There is a central command for planning, which formulates and executes plans for the entire economy.

❑ Key Points

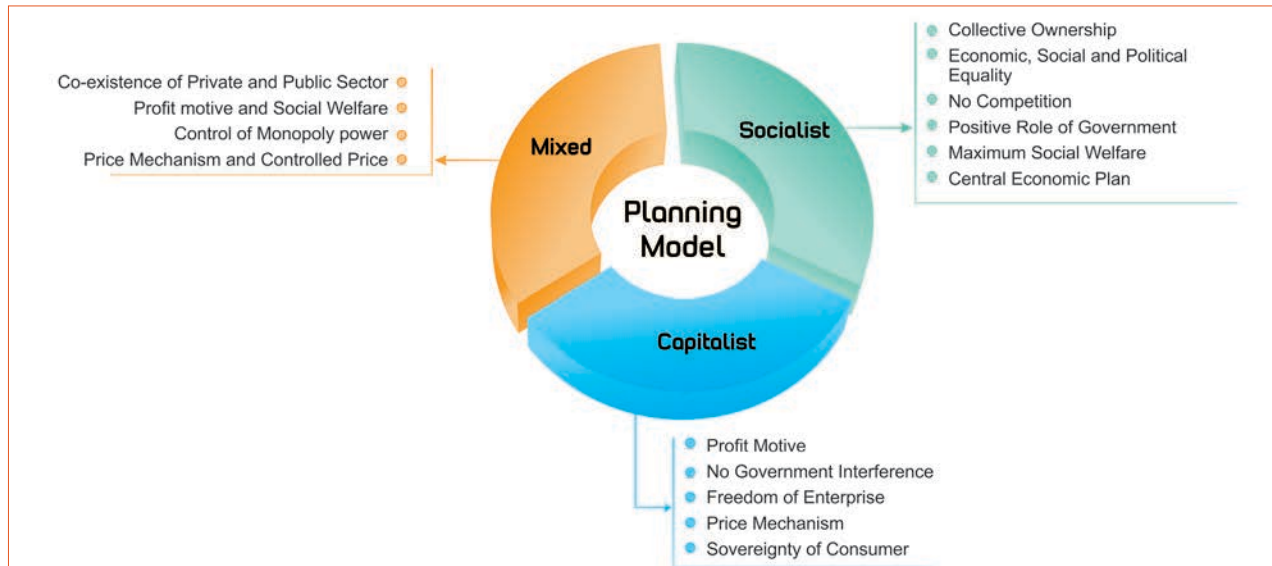
- The pricing process under socialist planning does not operate freely, but works under the control and regulation of the central planning authority.
- Production of goods is generally governed by the preferences of consumers and available consumer goods are distributed to them at fixed prices.
- Under socialist planning, consumer choice is confined to the choice of socially useful commodity which planning authority deems fit to produce and to provide to people.

Planning in a Mixed Economy

- ❑ This system of planning contains the features of socialist and capitalist economies.
- ❑ It is free from all the problems of both capitalist and social economic planning model and it has all the good features of both socialist and capitalist economies.
- ❑ Planning in a mixed economy is not comprehensive like in a socialist economy.
- ❑ In this set-up, the economy is bifurcated into public and private sector for the purpose of economic development.

❑ Key Points

- The public sector works under direct control of the government, which regulates its production and distribution. Budgeting is done for important sectors like health, defence, education, etc.
- The private sector manages its production and distribution, but it is also under state regulation so that public interest can be protected.
- The state gives subsidies to the industry and also to the common man. The state can nationalize any industry in the larger public interest.



Planning Commission

- ❑ It was a non constitutional and non-statutory body which was set up by a resolution of the Government of India in 1950.
- ❑ Jawaharlal Nehru was appointed as the first Chairman of the Planning Commission.

- ❑ The Prime Minister of India used to be the ex-officio Chairman of the Commission.
- ❑ There was no fixed tenure for its members and Vice-chairman.
- ❑ There was no account of qualification for its members as the government at the Centre appointed its members according to the government wishes.

Industrial Sector

Industry refers to the economic activity concerned with the processing of raw materials and manufacture of goods in factories. Economic development cannot be achieved by a country without developing its industries. These provide employment to a large labour force and contribute significantly to the total national wealth/income.

Brief History of Modern Industries in India

- ❑ Machine age in India began with cotton, textile, jute and coal-mining industries in the 1850's. However, all the industries that existed in India had a very stunted growth till India gained its independence.
- ❑ Most of the modern Indian industries were owned or controlled by British capital. Foreign capitalists were attracted to Indian industry by the prospect of high profit.
- ❑ At the time of independence, the economy was under-developed with agriculture contributing to more than 60 per cent of the GDP and most of the country's export earnings.

Industrial Policy of India after Independence

- ❑ Post its independence, India decided that the industrial sector should be the prime moving force of the economy.
- ❑ The main thrust of the industrial policy was on removing regional imbalances and diversification of industries.
- ❑ **The industrial development can be divided into two phases:**
 - **First Phase (1947-1980):** The government successively increased its control over various economic sectors.
 - **Second Phase (1980 – 1997):** The government took measures to liberalize the economy between 1980 and 1992. The liberalization process became more pronounced and focused after 1992.

Industrial Policy Resolution, 1948

- ❑ It declared the Indian economy as a mixed economy.
- ❑ Responsibility for the development of basic industries was given to the public sector including all arms/defence production, atomic energy and management of railways.
- ❑ Small-scale and cottage industries were given importance.
- ❑ Restrictions were imposed on foreign investments.
- ❑ Review of the policy after 10 years.

Industries (Development and Regulation) Act (IDRA), 1951

- ❑ It was enacted in pursuance of the Industrial Policy Resolution, 1948.
- ❑ It provides for:
 - Necessary means to the Central Government in order to implement its industrial policy;
 - A licensing system to regulate planning and future development of new undertakings; and
 - Regulation and development of important industries as mentioned in the Act.

Industrial Policy Resolution, 1956

- ❑ It laid down the basic framework of Industrial Policy.
- ❑ **It was based upon:**
 - **Second Five Year Plan:** This plan tried to build the basis for a socialist pattern of society.
 - **Mahalanobis Model of Growth:** It laid emphasis on heavy industries.
- ❑ **It classified industries in three schedules:**
 - **Schedule A:** 17 Public Sector Industries, strictly under the Government control.
 - **Schedule B:** 12 Mixed Sector (i.e. Public & Private) Industries.
 - **Schedule C:** Only Private Industries.
- ❑ It provided for compulsory licensing of industries in India, all schedule B and many of the schedule C

Industrial Policy Resolution, 1985 & 1986

- ❑ Both these policies were almost similar in content.
- ❑ The Monopolies and Restrictive Trade Practice (MRTP) Limit was revised upward to ₹100 crore to promote bigger companies.
- ❑ Some relaxations concerning the use of foreign exchange were permitted in FERA.

New Industrial Policy, 1991

- ❑ Its objective was to provide a larger role to market forces.

Focus Areas

- Liberalization (Reduction of government control),
- Privatization (Transfer of control of ownership of economic resources from the public sector to the private sector),
- Globalisation (Integration of the national economy with the global economy).

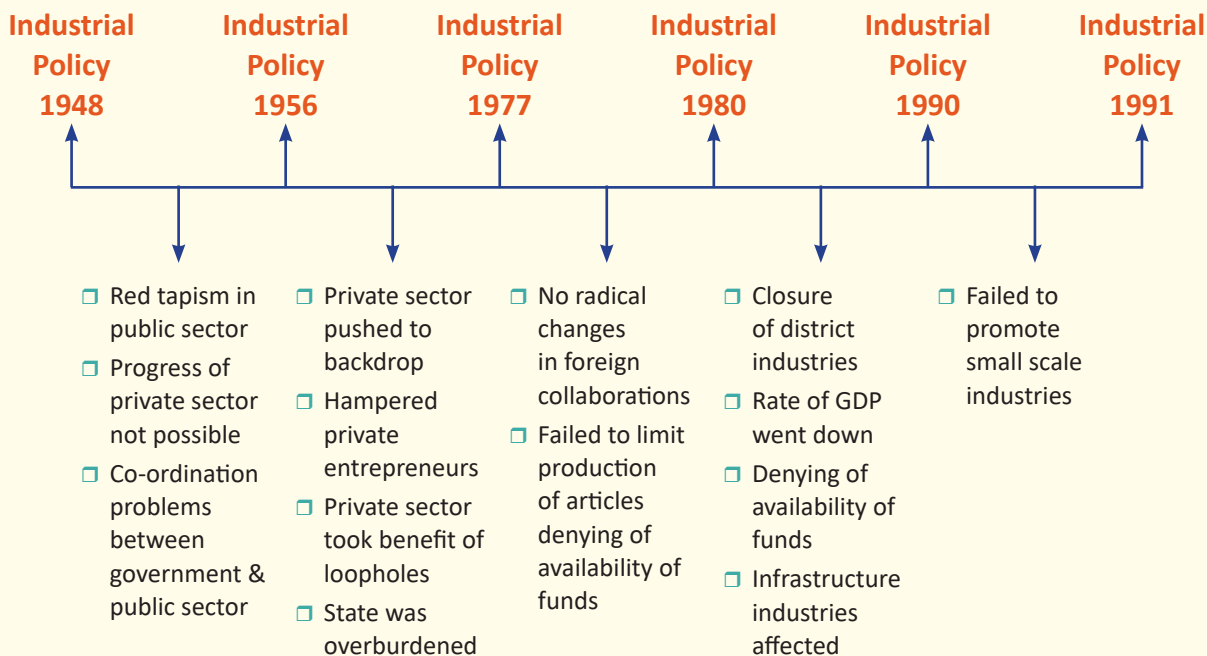
Other Provisions of the Policy

- The government allowed domestic firms to import better technology in order to improve efficiency.
- The Foreign Direct Investment (FDI) ceiling was increased.

- Technology transfer agreement was allowed under automatic route.
- MRTP Act was relaxed in 1991.
- Abolition of Industrial Licensing.
- Dilution of Public Sector's role.
- Restructuring the Monopolies and Restrictive Trade Practices Act.
- Regulations relating to the concentration of economic power, pre-entry restrictions for setting up new enterprises, expansion of existing businesses, mergers and acquisitions etc. were abolished.
- Liberalization and globalization of Indian economy aimed to get higher economic growth rates and reduction of the annual rate of inflation.
- Other focus areas were Balance of Payment problem and low Foreign Exchange Reserve.

Positive Impact of the New Industrial Policy 1991

- ❑ The growth of GDP increased from 5.6% during 1980-91 to 6.4% during 1992-2001.
- ❑ Foreign investment increased.
- ❑ Foreign exchange reserves increased.
- ❑ The growth of the service sector went up.

TIMELINE OF INDUSTRIAL POLICY REFORMS**Industrial Policy Evolution →**

Border Road Organisation

- ❑ BRO was established in May 1960 for accelerating economic development and strengthening defence preparedness through rapid and coordinated improvement of strategically important roads along the northern and north-eastern boundary of the country.
- ❑ It is a premier multifaceted construction agency. It has constructed roads in high altitude mountainous terrain joining Chandigarh with Manali (Himachal Pradesh) and Leh (Ladakh). This road is the world's highest motorable road and it runs at an average altitude of 4,270 meters above the mean sea level.

Road Density in India

- ❑ Road density is the ratio of the length of the country's total road network to the country's land area.
- ❑ The density of roads is high in most of the northern, and major southern states. It is low in the Himalayan region and northeastern region. Kerala has the highest road density.
- ❑ Nature of terrain and the level of economic development are the main determinants of density of roads.

Government Initiatives

Project	Features
National Highways Development Project (NHDP)	<ul style="list-style-type: none"> ❑ It aims to expand the national highway network and the existing highways to four lanes and some to six lanes. ❑ Projects under this include Golden Quadrilateral, North-South & East-West Corridors that link the largest cities in India.
Golden Quadrilateral Project	<ul style="list-style-type: none"> ❑ Golden Quadrilateral is a network of highways connecting India's four metropolitan cities, namely Delhi, Mumbai, Chennai and Kolkata, thereby, forming a quadrilateral. ❑ The project was launched in 2001 and consists of four/six lane express highways. ❑ It has been executed through a Public Private Partnership (PPP) between the NHAI and private contractors.
North-South and East-West Corridor	<ul style="list-style-type: none"> ❑ It is the second phase of the National Highways Development Project (NHDP), and consists of building 7300 km of four/six lane expressways connecting Srinagar, Kanyakumari, Kochi, Porbandar and Silchar. ❑ Jhansi is the junction of North-South and East-West Corridors.
Bharatmala Project	<ul style="list-style-type: none"> ❑ It is under the Ministry of Road Transport and Highways, and focuses on new initiatives like development of Border and International connectivity roads, Coastal port connectivity roads, improving efficiency of National Corridors, Economic corridors, etc. ❑ The Government intends to develop approximately 84,000 km of highways and roads. ❑ Funding will be made through market borrowings, central road funds, monetizing government-owned road assets, and budgetary allocation. ❑ It will enhance last mile connectivity, boost cargo movement, increase exports, and boost employment opportunities. ❑ This will help to improve India's ranking in Logistics Performance Index of World Bank, thus enhancing Ease of Doing Business in India.
National Urban Transport Policy (NUTP)	<ul style="list-style-type: none"> ❑ It was laid down in 2014. It is a further improvement of NUTP 2006, which has the objective of ensuring easy, accessible, safe, affordable, quick, comfortable, reliable, and sustainable mobility for all. ❑ In order to provide better transport, proposals for bus rapid transit system (BRTS) were approved. ❑ The NUTP focuses on ensuring equitable use of road space by the people and not only by the vehicles.
Pradhan Mantri Gram Sadak Yojana (PMGSY)	<ul style="list-style-type: none"> ❑ PMGSY was launched to provide all-weather road connectivity to unconnected habitations having a population of 500 persons or above in plain areas and 250 persons and above in hill states, tribal areas, desert areas, and LWE-affected districts. ❑ With a view to reduce the "carbon footprint" of rural roads, reduce environmental pollution, PMGSY is aggressively encouraging the use of "Green Technologies" and non-conventional materials like waste plastic, cold mix, geo-textiles, fly-ash, iron and copper slag etc. in rural roads.
Setu Bharatam	Initiated in 2016, it aims at construction, rehabilitation and widening of 1500 major bridges and 208 Railway Over Bridges (ROBs)/Railway Under Bridges (RUBs) on National Highways.
Chardham Mahamarg Vikas Pariyojna	<ul style="list-style-type: none"> ❑ The Ministry of Road Transport and Highway, has taken up separate programme for connectivity Improvement for Char-Dham (Kedarnath, Badrinath, Yamunothri & Gangotri) in Uttarakhand. ❑ The project entails development of 889 km of roads with configuration of two-lane with paved shoulders. ❑ The projects are being taken up on Engineering, Procurement and Construction (EPC) Model, and the programme is targeted for completion by March, 2020.

Currently, logistics cost in India is one of the highest among major countries.

- As per the recent reports it is 18% in India versus 8-10% in China and 10-12% in European Union.
- The acquisition of land for national and State highways is difficult and the cost of construction of roads, flyovers and bridges is high. So, water transport is good alternative.
- It will help in the generation of millions of job opportunities.

- It will boost the maritime trade of the states and augment their economies.
- There is a huge potential for domestic cargo transportation as well as for cruise, tourism and passenger traffic.

Government Initiatives

□ National Waterways

- As per the National Waterways Act, 2016, 111 have been declared as National Waterways (NW).

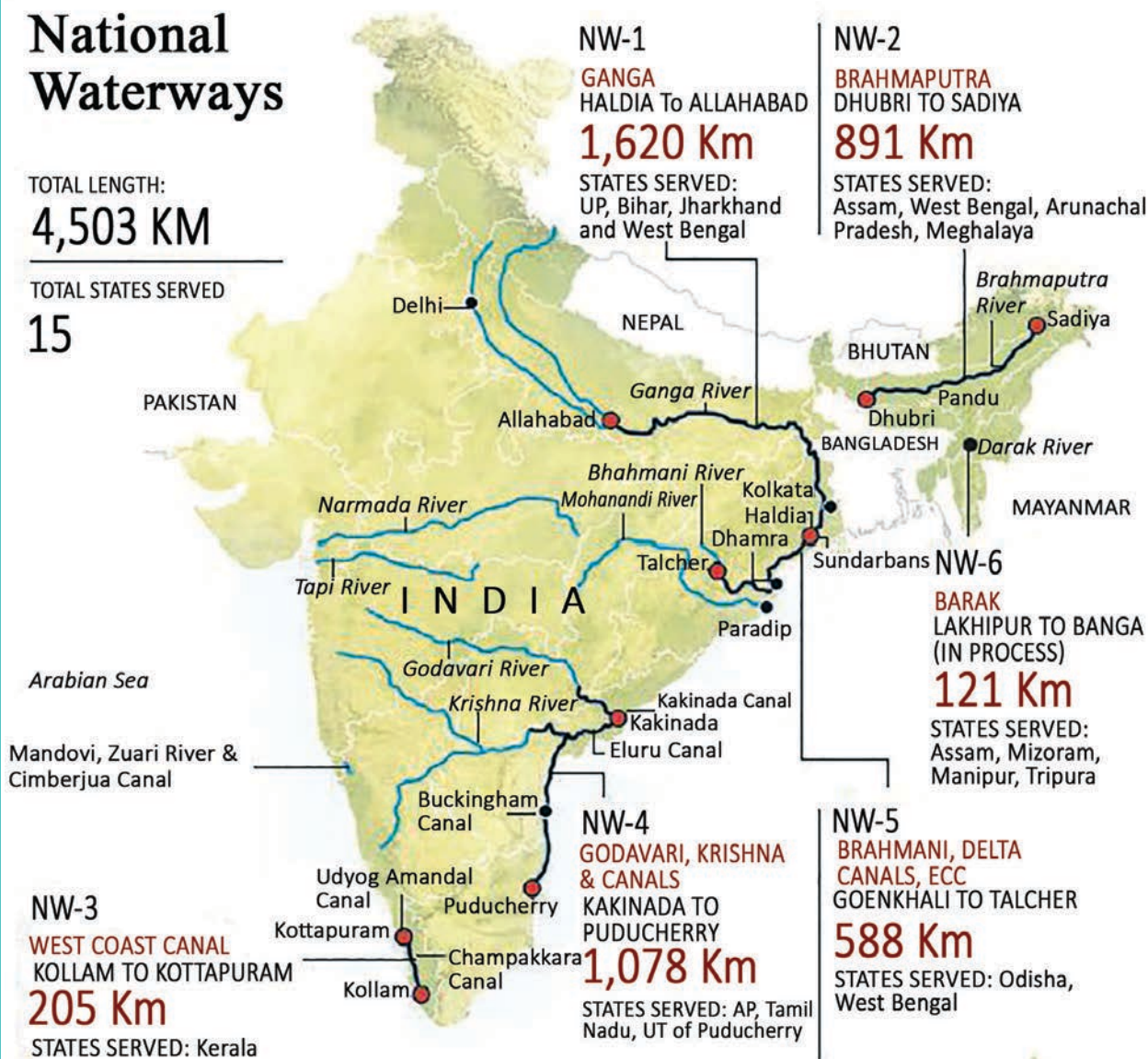
National Waterways

TOTAL LENGTH:

4,503 KM

TOTAL STATES SERVED

15



Introduction

- ❑ A country's economy is broadly divided into three sectors – Primary, Secondary and Tertiary sector.
- ❑ Industries are a part of the secondary sector. They produce finished products that are usable by the end consumer. The produce of the primary sector are used by this to manufacture finished goods or as inputs for other businesses.
- ❑ A substantial portion of this sector comprises the businesses that have large factories, use machinery to transform raw materials into products and consume huge quantities of energy.
- ❑ **Some Major Industries:** Aerospace, Apparel, Automobile, Chemical, Textile, Consumer electronics, Energy, Industrial equipment, Metals and metalworking, Shipbuilding and Tobacco.
- ❑ The real beginning of the modern industry in India is recognised with the establishment of the cotton textile industry in Mumbai in 1854.
- ❑ The first jute mill was set up at Rishra near Kolkata in 1855.
- ❑ Other Industries in India before World War I in 1914 were woollen textiles, paper and breweries.
- ❑ The main industrial centres were port cities of Mumbai, Kolkata and Chennai.
- ❑ Planned development of manufacturing industries in India began in 1951 and various types of products began to be produced here.
- ❑ The industrial policies of 1948 and 1956 indicated the direction of industrial development in India. The process of industrialisation started with the launching of the First Five Year Plan.

Major Industries

- ❑ An industry is categorized as a major industry based on factors such as its contribution to the country's Gross Domestic Product (GDP), the percentage of the country's population it employs, and its gross business receipts.

- ❑ Traditionally, India had six major industries. These were Iron and Steel, Textiles, Jute, Sugar, Cement, and Paper.
- ❑ Further, four new industries joined this list, namely, Petrochemical, Automobile, Information Technology (IT), and Banking & Insurance.

Role Industries in Indian Economy

- ❑ Industries are labour intensive as they need a large workforce for the production processes. They help in generating employment opportunities for both the rural and urban labour.
- ❑ It ensures balanced and rapid development and provides finished goods and services which fulfils our wants.
- ❑ It increases the national as well as the per capita income. Moreover, the export of surplus industrial output also helps in earning foreign exchange.
- ❑ It also accommodates skilled, semi skilled and agricultural labourers.
- ❑ It also helps in Agricultural Development as they require raw materials from the agricultural sector to produce their goods. So this sector creates a market for agricultural products which results in their development.

Factors Influencing Location of Industries

- ❑ Location of industries is determined by several factors like access to raw materials, power, market, capital, transport and labour, etc., as these factors influence the cost of production and delivery cost of manufactured goods to consumers.
- ❑ It is economical to locate the manufacturing industries at a place where the cost of production is least and profit is more. However, the relative significance of these factors varies with time and place.

Raw Materials

- ❑ Raw materials are one of the most important determinants of the location of industries. Industries

clinical trials are uncertain, which may hinder the clinical research environment in India and have an impact on the availability of new treatments and vaccines to Indian patients. The ethical concern in the Indian pharmaceutical industry is not seen up to the mark. Many international agencies believe more improvement is needed in the ethical scenario of the Indian pharmaceutical sector, especially in the field of clinical trials and marketing practices.

FDI Policy

- ❑ 100% FDI has been allowed through the automatic route for Greenfield pharmaceutical projects.
- ❑ For Brownfield pharmaceutical projects, FDI has been allowed up to 74% through the automatic route and beyond that through government approval.

MSME Sector

- ❑ The share of the MSME Sector in the country's Gross Value Added (GVA) is approximately 32%. MSMEs in India play a crucial role in providing large scale employment opportunities at comparatively lower capital cost than large industries and also in the industrialization of rural backward areas.
- ❑ As per the National Sample Survey (NSS) 73rd round, for the period 2015-16, there are 633.8 lakh unincorporated non-agricultural MSMEs in the country engaged in different economic activities providing employment to 11.10 crore workers.
- ❑ Moreover, the MSME sector has tremendous potential of creating gainful employment for a large workforce.

Definition and Budgetary Allocation

On February 18, 2018, the Cabinet approved a proposal for an Amendment to the Micro, Small and Medium Enterprises Development Act, 2006 to change the criteria of classification of MSME sector.

Definition of MSMEs in India		
Manufacturing Enterprises	Investment limit in Plant and Machinery	Annual Turnover
	Existing	Proposed
Micro Enterprises	Up to ₹25 lakh	Up to ₹5 Cr
Small Enterprises	Above ₹25 Lakh and up to ₹5 Crore	More than ₹5 Cr but does not exceed ₹75 Cr
Medium Enterprises	Above ₹5 Cr and up to ₹10 Cr	More than ₹75 Cr but does not exceed ₹250 Cr

Service Enterprises	Investment limit in Equipment	Annual Turnover
	Existing	Proposed
Micro Enterprises	Up to ₹10 lakh	Up to ₹5 Cr
Small Enterprises	Above ₹10 lakh and up to ₹2 Crore	More than ₹5 Cr but does not exceed ₹75 Cr
Medium Enterprises	Above ₹2 Cr and up to ₹5 Cr	More than ₹75 Cr but does not exceed ₹250 Cr

Cabinet has approved the changes on 7th Feb 2018

Challenges Before the MSME Sector

- ❑ The MSME sector despite its importance, has been struggling of late, mainly because of the following reasons:
 - **Credit Availability:**
 - ❖ The MSME sector faces a major problem in terms of getting adequate credit for expansion of business activities. The latest data on credit disbursed by banks shows that out of a total outstanding credit of ₹26041 billion as in November 2017, 82.6% of the amount was lent to large enterprises. The MSME received only 17.4% of the total credit outstanding. The growth of credit to Micro and Small enterprises increased by 4.6%, while credit to Medium enterprises decreased by 8.3%. This is primarily because the banks are apprehensive about the profitability of MSMEs. Further, the loan providing process of the banks is very long and formalistic.
 - **Competition from Large Corporations:**
 - ❖ With the number of items in the reserved list for MSMEs being reduced, the MSMEs have been to a certain extent getting exposed to the competition posed by the large corporations, who are using the modern technology and economies of scale to produce the same items at much lower costs. In the wake of such competition, several MSMEs are facing a severe crisis of existence and some have even succumbed to closure, in the absence of sufficient support from the government and other institutions.
 - **Infrastructural and Technological Constraints:**
 - ❖ With increase in demand, there has not been a corresponding increase in the infrastructural

Agriculture

- ❑ Agriculture is the practice of farming, including cultivation of the soil for the growing of crops and the rearing of animals to provide food, wool, and other products.
- ❑ It is the primary sector of Indian economy.
- ❑ **Agronomy:** It is the scientific study of soil management and crop production, including irrigation and the use of pesticides and fertilizers.
- ❑ **Horticulture:** It can be defined as the science and technique of production, processing and merchandising of fruits, vegetables, flowers, spices, plantation crops, medicinal and aromatic crops.
- ❑ **Animal Husbandry:** It deals with the study of various breeds of domesticated animals and their management for obtaining better products and services from them.
- ❑ **Fishery Science:** It deals with fish processing, aquaculture and fishery resource management, fishing technology, fisheries extension, etc
 - **Pisciculture:** It is the process of breeding, rearing and transplantation of fish by artificial means.
- ❑ **Forestry:** It is the practice of creation, conservation and scientific management of forests and the utilization of their resources.
 - **Silviculture:** It is one of the branches of forestry which deals with the practices of rising forests crops and the management composition and quality of forests.
- ❑ **Agricultural Engineering:** It is the application of engineering in agriculture such as machineries, technologies, process management, etc, to enhance agricultural productivity.

Role of Agriculture in Indian Economy

- ❑ **Employment:** Agriculture employs more than 50% of the total workforce in India.
- ❑ **Share in GDP:** Agriculture contributes around 17-18% to the country's GDP.

❑ Share in World Production

- India is the world's largest producer of milk, pulses and jute, and ranks as the second largest producer of rice, wheat, sugarcane, groundnut, vegetables, fruit and cotton.
- India is the largest producer (25% of global production), consumer (27% of world consumption) and importer (14%) of pulses in the world.
- According to 3rd Advance Estimates, the estimated production of major crops during 2018-19, food grains production is estimated at 283.37 Million tonnes (MT) with record production of Rice (115.63 MT) and Wheat (101.20 MT).

❑ Share in exports

- Export and import of agricultural products depend on several factors such as international and domestic demand & supply situation, prices, quality and food security concerns.
- As of 2018-19, The share of the agriculture sector in the country's total exports stood at 11.76%.

- ❑ **Provide raw material to industries:** Agro based industries like Textile, Leather, Tea, etc. are dependent upon the agricultural sector.

Cropping Patterns in India

- ❑ It refers to the proportion of land area under cultivation of different crops at different points of time.
- ❑ Multiplicity of cropping system has been one of the main features of Indian agriculture as it is attributed to rainfed agriculture and prevailing socio-economic situation of the farming community.
- ❑ The crop statistics published by the government is used to signify the cropping patterns in India.
- ❑ In India, the cropping pattern is determined by rainfall, climate, temperature, soil type and technology.

❑ It ensures:

- Cheap inputs to farmers.
- Stability in fertiliser prices.
- Reasonable returns to the manufacturer.
- Availability of fertilisers to farmers.

- ❑ In order to increase crop yields, it was essential to maintain the ideal NPK ratio of 4:2:1.

❑ Nutrient Based Subsidy (NBS)

- Nutrient Based Subsidy (NBS) programme for fertilizer was initiated in the year 2010.
- Under this policy, a fixed amount of subsidy decided on an annual basis, is provided on each grade of subsidized Phosphate and Potash (P&K) fertilizers depending on its nutrient content.

○ Benefits

- ❖ The P&K fertilizers are made available to farmers in adequate quantities.
- ❖ More grades of P&K fertilizers have been brought under the purview of the NBS Scheme giving the farmers a wider choice to use complex fertilizer grades.

Initiatives to improve soil fertility

❑ Soil Health Management (SHM) Programme

- Under the National Mission for Sustainable Agriculture (NMSA), it assists the state governments in setting up static/ mobile soil testing laboratories (STLs); strengthening of static/mobile STLs; and training and demonstrations on the balanced use of fertilizers.

❑ Soil Health Card Scheme

- It will provide information to farmers on the nutrient status of their soil along with recommendations on appropriate dosage of nutrients to be applied for improving soil health and its fertility.
- Soil health status will be assessed regularly in a cycle of 3 years, so that nutrient deficiencies are identified and amendments applied.

Power Subsidy

- ❑ It is the difference between the cost of generating and distributing electricity to farmers and the price received from farmers.
- ❑ The State Electricity Boards (SEBs) either generate the power themselves or purchase it from other

producers such as NTPC and other SEBs. Power subsidy “acts as an incentive” to farmers to invest in pump sets, bore-wells, etc.

Pandit Deendayal Upadhyaya Gram Jyoti Yojna

- ❑ It aims for separation of feeders at national level.
- ❑ It is first to be rolled out in Rajasthan and Andhra Pradesh.
- ❑ The scheme would be merged with ‘Integrated Power Development Scheme’, which aims at improving India’s sub-transmission and distribution network.

Kisan Urja Suraksha evam

Utthaan Mahabhiyan (KUSUM) Scheme

- ❑ Installation of grid-connected solar power plants each of capacity up to 2 MW in the rural areas.
- ❑ Installation of standalone off-grid solar water pumps to fulfil irrigation needs of farmers not connected to the grid.
- ❑ Solarization of tube-wells and lift irrigation projects of the Government sector.

Irrigation Subsidy

- ❑ It is the difference between operating and maintenance cost of irrigation infrastructure in the state, and irrigation charges recovered from farmers.
- ❑ Irrigation subsidies have become unsustainable mainly because the states have failed to devise a rational pricing model for the canal water.
- ❑ Estimates suggest that the pricing of the canal water did not cover more than 20% of the operational and maintenance expenses of the canals.

Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)

It is a national mission to attract investments in irrigation systems at field level, develop and expand cultivable land in the country, enhance ranch water use in order to minimize wastage of water, and enhance crop per drop by implementing water-saving technologies and precision irrigation.

Seed Subsidy

- ❑ It refers to providing high yielding seeds at low prices; or the research and development activities needed to produce such productive seeds are also undertaken by the government.
- ❑ Rashtriya Krishi Vikas Yojna, Macro Management Agriculture, Integrated Scheme for oilseeds, pulses,

Introduction

- ❑ Food Processing includes processes under which food items derived from agricultural products, dairy, animal husbandry, meat, poultry or fishing is transformed in such a way that its original physical properties undergo a change and the transformed product has commercial value and is suitable for human and animal consumption.
- ❑ The techniques involved in food processing helps in food preservation, storage, improving nutrient content as well as its quality.
- ❑ This sector in India includes fruit and vegetables; spices; meat and poultry; milk and milk products, alcoholic beverages, fisheries, grain processing and other consumer product groups such as confectionery, chocolates, cocoa products, soya-based products, mineral water and high-protein foods.
- ❑ At every stage from farmer to fork, there is addition of some value to the product. The value addition can be done by sorting, grading, packaging, branding etc.
- ❑ Moreover, food processing does not merely add value to the agro products, but also increases their utility, for example sugarcane is used to make jaggery, sugar, ethanol, alcohol etc., and sugarcane bagasse can also be used for power cogeneration.
- ❑ Large amounts of food wastage, especially of perishable commodities, leads to less per capita food availability of food products. The food processing industries can help avoid these wastages.
- ❑ It also promotes crop diversification, ensures remunerative prices to farmers, promotes employment and increases earnings through exports.

Segments of Food Processing Industries

- ❑ Food Processing Industries (FPI) consist of three segments – Primary processing of foods, Secondary processing of foods and Tertiary processing of foods.

- ❑ Indian primary and secondary food processing sector constitute around 62% of the sector and rest 38% is in the tertiary sector.

Primary Processing Sector	Storing, grading and packaging of milk, spices, food grains and fruits processing sector and vegetables, etc.
Secondary Processing Sector	Reshaping the food for easy consumption, for example, flour, processing of tea leaf and beverages, etc.
Tertiary Sector	Prime focus is on value addition. For instance, jams, jelly, juices, fortification of flour, etc.

Significance of Food Processing Industries

The Food Processing industry is a sunrise sector and is vital to India's development, primarily due to the linkages and synergies it promotes between the two pillars of our economy – industry and agriculture.

Significance of Food Processing Industries

- ❑ **Employment Generation**
 - Food processing industry provides plenty of direct and indirect employment opportunities.
 - The 12th Five Year Plan identified the Processing Industry as a sector that will create a larger number of skilled and semi-skilled jobs, with higher wages.
- ❑ **Doubling of farmers' income:** With direct agriculture and industry linkages will reduce wastage and remove middle men, thus commensurate rise in the price paid to the farmer, thereby increasing the income.
- ❑ **Reduce malnutrition:** Processed foods when fortified with vitamins and minerals can reduce the nutritional gap in the population. It also preserves the nutritive quality of food and prolongs the shelf life by preventing them from spoilage due to microbes and other spoilage agents.
- ❑ **Reduce food wastage**
 - As per the UN estimates about 40% of production is wasted. Similarly, NITI Aayog estimated annual post-harvest losses of close to ₹90,000 crore.

FOOD PRODUCER



512m

Livestock
Population

India has largest livestock population



17%

Global Share
of Milk

Largest producer of milk in the world



One of top five producers world wide
of rice, wheat, groundnuts, tea, coffee,
tobacco, spices, sugar and oilseeds



World's
2nd
Largest
Producers



Fisheries



Fruit and Vegetable



Cereals



282.5m

Tons Fruit and
Vegetable

Estimated 282.5 million tons
in 2015-16

CLIMATE



20

Agro-climatic*
Regions

India has 20 agro-climatic* regions



Agro-climatic conditions refer to
soil types, rainfall, temperature, and
water availability that influence
the type of vegetation and
cultivation practices.



15

Major Climates

of 26 major climates in the world



Ideal sunshine hours
and day length for
round the year
cultivation

- With greater thrust on proper sorting and grading close to the farm gate, and diverting extra produce to FPI, this wastage could also be reduced, leading to better price realisation for farmers.
- **Boosts trade and earns foreign exchange:** Earning through exports also adds to the Foreign Exchange Reserve of the nation. For e.g. Indian Basmati rice is in great demand in Middle Eastern countries.
- **Curbing migration:** Food Processing being a labour intensive industry provides localized employment opportunities and thus reduces the push factor in source regions of migration.
- **Curbing food inflation:** Processing increases the shelf life of the food thus keeping supplies in tune with the demand thereby controlling food-inflation. For e.g. Frozen Safal peas are available throughout the year.
- **Crop-diversification:** Food processing will require different types of inputs thus creating an incentive for the farmer to grow and diversify crops.
- **Increased consumer choice:** Apart from enhancing the quality and taste of food, the food processing allows food from other parts of the world to be transported to our local market and vice versa thereby bringing more choices in food basket.

Scope of Food Processing Industries (FPI) in India

- The processed food market is expected to grow to USD543 billion by 2020 from USD322 billion in 2016, at a Compound Annual Growth Rate (CAGR) of 14.6%.
- India's strong 1.2 billion consumer base provides a well-established domestic market for the food processing industry in the country. As the consumers in the country are becoming more health-conscious, the demand for nutritious food is growing proportionately.
- In addition, the rising number of working women and nuclear families is resulting in high demand for ready-to-eat and frozen food. Thus, overall India's food value chain is poised to create multiple opportunities for investment and employment in storage infrastructure, farming, retail and quality control.
- Further, India is endowed with a strong raw material base to stimulate the growth of the food processing industry. The country is first in terms of milk production and second in terms of fruits and vegetables in the world.

Schemes/Policies/Statutes	Institution	Components
The 12 th Five Year Plan	Planning Commission	<p>Recommended that following three schemes should be continued as centrally sponsored schemes:</p> <ul style="list-style-type: none"> ❑ Infrastructure Development Scheme <ul style="list-style-type: none"> ○ Mega Food Parks. ○ Cold Chain, Value Addition and Preservation Infrastructure. ○ Setting up and Modernization of Abattoirs as approved in the 11th five year plan. ❑ Strengthening of Institutions <ul style="list-style-type: none"> ○ The National Institute of Food Technology Entrepreneurship and management. ○ Indian Institute of Crop Processing Technology. ○ National Grape Processing Board. ○ National Meat and Poultry Processing Board. ❑ Quality Assurance <ul style="list-style-type: none"> ○ Hazard Analysis and Critical Control Points (HACCP), ISO standards, GHP and GNP.
Make in India Scheme		<ul style="list-style-type: none"> ❑ Food processing has been identified as one of the 25 sectors that will drive the growth of the manufacturing sector in the country. ❑ The government has permitted 100% FDI in this sector under the automatic route and 100% FDI through the approval route for trading, including through e-commerce in respect of food products manufactured or produced in India. ❑ Tax SoPs such as reduced service tax, excise duty and custom duty on food processing products and machinery.
National Mission on Food Processing (NMFP)	Ministry of Food Processing Industries	<ul style="list-style-type: none"> ❑ The NMFP is a Centrally Sponsored Scheme started in 2012. ❑ The basic objective of the Mission is decentralization in the implementation of food processing schemes.
National Horticulture Mission (NHM)	Ministry of Agriculture and Farmer Welfare	<ul style="list-style-type: none"> ❑ As part of the Mission for Integrated Development of Horticulture (MIDH), National Horticulture Mission (NHM) targets commercial horticulture through entrepreneurs using institutional financing. ❑ It is a cluster based approach for developing potential horticultural crops; and ensuring backward and forward linkages have been adopted. ❑ Districts are selected on the basis of comparative advantage of crops based on agro climatic conditions and potential for developing marketing opportunities.
Mega Food Parks	Ministry of Food Processing Industries	<ul style="list-style-type: none"> ❑ The Mega Food Parks scheme aims to provide a mechanism to link agricultural production to market. ❑ This is being done by bringing together farmers, processors and retailers and this approach of working in unison will ensure value addition, minimization of wastage, increment in farmers' income and the creation of employment opportunities in rural India. ❑ Hub and spoke model is adopted, as per which there will be a strong Central Processing Unit, which will cater needs of surrounding areas. ❑ In surrounding areas, there will be smaller, 'primary processing centers' which will be fed from numerous 'collection centers'. These collection centers will have direct interface with the farmer, farmer groups, or self-help groups. ❑ This will lead to vertical integration (backward and forward integration) in activities of that particular area.

		<ul style="list-style-type: none"> It also envisages zones of agricultural and horticultural processing having state-of-the-art world class facilities with well established supply chains. With a view to promote Mega Food Parks in the country, the Ministry of Finance has put Food Parks including Mega Food Parks into the infrastructure category. <div data-bbox="514 277 1303 741"> <p>Mega Food Park Model</p> <p>Farmer Groups, Self Help Groups, Individual Farmers → PPC → Mega Food Park - CPC</p> <p>Mega Food Park - CPC → Value added Products → Importer, Exporter, Domestic Sales</p> <p>Mega Food Park - CPC → Fresh Products → Domestic Retail Sales</p> <p>Mega Food Park - CPC → Field Collection Centers</p> <p>Field Collection Centers:</p> <ul style="list-style-type: none"> Primary Processing Centers: Precooling, Grading, pulping Sorting, warding, packing, Temporary storage Center Processing Centers: Pulping, Aseptic packing, CA chamber, Cold Store, QC lab, Logistics center, Processing Units etc. </div>
Cold Chain Projects	Ministry of Food Processing Industries	<ul style="list-style-type: none"> The scheme focuses on value addition and preservation infrastructure by setting up integrated cold chain infrastructure for minimizing post-harvest losses of horticulture and non-horticulture produce. The scheme provides financial assistance for setting up private cold chain facilities in the country.
Agri Export Zones (AEZs)	Ministry of Commerce & Industry	<ul style="list-style-type: none"> Agri Export Zones are the demarcated geographical regions for establishing agriculture based processing industries for the promotion of exports of processed food items. Agricultural and Processed Food Products Export (APEDA) has been nominated as the Nodal Agency to coordinate the efforts on the part of the Central Govt.
Pradhan Mantri Kisan SAMPADA Yojana	Ministry of Food Processing Industries.	<ul style="list-style-type: none"> The Pradhan Mantri Kisan SAMPADA Yojana is a central sector scheme for Agro-Marine Processing and Development of Agro-Processing Clusters. Seven component schemes under PMKSY: <ul style="list-style-type: none"> Mega Food Parks. Integrated Cold Chain and Value Addition Infrastructure. Infrastructure for Agro-Processing Clusters. Creation of Backward and Forward Linkages. Creation/Expansion of Food Processing & Preservation Capacities. Food Safety and Quality Assurance Infrastructure. Human Resources and Institutions. Under PMKSY, capital subsidy in the form of grants-in-aid ranging from 35% to 75% of the eligible project cost subject to a maximum specified limit is provided to investors under the various schemes for undertaking infrastructure, logistic projects and setting up of food processing units in the country.
Modernization of Abattoir	Ministry of Food Processing Industries	<ul style="list-style-type: none"> This is a comprehensive scheme, which includes establishment of modern abattoirs and modernization of existing abattoirs. Modernization of abattoirs will also include upscaling of infrastructure of existing abattoirs. The scheme is implemented with the involvement of local bodies and has flexibility for involvement of private investors on PPP basis.

Introduction

Service sector, also known as tertiary sector includes all the activities that help in the development of the primary and secondary sectors, but by themselves these activities do not produce goods, rather act as an aid or support for the production process. Tertiary activities include both production and exchange. The production involves the 'provision' of services that are 'consumed'. The output is indirectly measured in terms of wages and salaries. The exchange involves trade, transport and communication facilities that are used to overcome distance.

The service sector represents a significant part of the nation's economy. It contributes more than 54% to India's Gross Domestic Product (GDP). As of 2018, 31.5% of India's employed population is working in the service sector. The contribution of the service sector in the developed economies is comparatively much higher than primary and secondary sectors.

Trade and Commerce

Trade is essentially buying and selling of items produced elsewhere. All the services in retail and wholesale trading or commerce are specifically intended for profit. The towns and cities where all these works take place are known as trading centres.

Prospects of Indian Trade

- ❑ **Reviving Multilateral Trading System:** India's national interest is best served by most-favoured-nation treatment, largely provided by the multilateral trading systems anchored in the WTO.
- ❑ **Adjusting to Global Standards on Technical Barriers in Trade:** Currently, many trade deals are on hold. This provides valuable time to India, particularly industry for adjusting to global standards.
- ❑ **Participation in Regional Comprehensive Economic Partnership and Asia-Pacific Economic Cooperation:** The active participation of India in different regional trade blocks will help in the

diversification of its market outreach, given the fact that India not being a member of any specific regional trade block.

- ❑ **Raising the Share of Manufacturing Sector to GDP:** Contribution of Manufacturing Sector to GDP is 17.1%, which is far below as compared to our neighbours such as Thailand (where 35% of GDP is from manufacturing), China (32%), Philippines (30%), Indonesia (29%). Initiatives such as 'Make in India' was launched to raise its share to GDP and provide employment to 20 crore people up to 2020. To achieve this target, its share should be 25% of GDP.
- ❑ **India's Foreign Trade Policy:** India's Foreign Trade Policy aims to (a) increase the country's share of global trade from the current 2.1% to 3.5% and (b) double its exports to USD900 billion by 2020.

Challenges to India's Trade

- ❑ The greatest challenge to the development of a trade in India is its poorly developed manufacturing sector. Although it grew after India embarked on focused economic liberalization in 1991, the share of manufacturing sector to the gross domestic product (GDP) has since fallen to 16.2% in 2015–2016—about what it was in 1989–1990 (16.4%).
- ❑ India's trade and commerce sector is facing the following challenges:
 - **Manufacturing Sector:** The challenges of this sector are limited availability of power and land, lack of access to technology, low productivity, the rising cost of labour, and difficulties in doing business. The most serious impediment to the revival of the manufacturing sector is the scarcity of land.
 - **Less Gain to India from Free Trade Agreements (FTAs):** India signed FTAs with the Association of Southeast Asian Nations (ASEAN), the Republic of Korea, Japan, and Malaysia. In all these FTAs, India's trade partners have gained more from these agreements than India has.

Introduction

- ❑ Energy is the power that comes from coal, electricity, gas, crude oil, etc. that are used for producing heat, driving machines, and other purposes. It is one of the basic infrastructures which helps in the overall development of the country's socio-economic conditions.
- ❑ Based on the long term availability, energy resources can be broadly classified into: Non-renewable energy and Renewable energy.
- ❑ Non-renewable energy resources are finite and do not get replenished after their consumption. For example, fossil fuels like coal, lignite, crude oil and natural gas, uranium, etc. On the other hand, Renewable Energy resources get renewed by nature again and again, and supply of renewable energy is not constrained by the consumption. For instance, solar, wind, biomass, tides and geothermal.
- ❑ However, energy demand in agriculture, industrial sector, and transport, commercial and household sectors has increased manifold, and has put enormous pressure on scarce resources which are used for generation of energy.
- ❑ The depleting scarce resources and our commitment to ensuring a pollution free environment also require us to ensure an optimum utilization of available energy resources. Thus, this will require us to go for a balanced mix of all the sources of energy and this must be done as per the socio-economic status of the country.
- ❑ Moreover, ensuring the efficiency in the use of energy and diversification of sources of energy can help ensure energy security of the nation.
- in its Intended Nationally Determined Contribution (INDCs) which reflects the dire importance of energy for the development in the nation.
- ❑ The socio-economic status of India:
 - India accounts for 2.4% of the world's surface area, but supports around 17.5% of the world's population.
 - India houses the largest proportion of the global poor, around 30%.
 - Around 24% of the global population is without access to electricity (304 million).
 - About 30% of the global population relying on solid biomass for cooking in India.
 - 92 million people in India are still without access to safe drinking water.
- ❑ The average annual energy consumption in India during 2011 was only 0.6 tonnes of oil equivalent (toe) per capita as compared to a global average of 1.88 toe per capita.
- ❑ In addition to the above, no country in the world has been able to achieve a Human Development Index of 0.9 or more without an annual energy availability of at least 4 tonnes of oil equivalent (toe) per capita. According to Human Development Report 2018 of the United Nations Development Programme (UNDP), India's Human Development Index (HDI) is 0.640 and global rank is 130 among 189 countries.
- ❑ Besides, the pet projects of the Government of India like Make in India, Digital India, Startup India, Electricity for All, Housing, RURBAN Mission etc. depends on an uninterrupted supply of power.
- ❑ Also, realization of other national priorities like Bringing Green Revolution in Eastern India, Promoting Industrial Development in North Eastern India, Rapid Urbanization, etc. will require us to ensure affordable, efficient and uninterrupted supply of power. In fact, access to power not only ensures poverty alleviation but economic growth is also ensured.

Importance of Energy for India

- ❑ The Government of India has submitted socio-economic status of India, to the United Nations Framework Convention on Climate Change (UNFCCC)

Saubhagya Scheme

- ❑ The Pradhan Mantri Sahaj Bijli Har Ghar Yojana – ‘Saubhagya’ was launched by the government of India on 25th September 2017.
- ❑ Under Saubhagya free electricity connections to all households (both APL and poor families) in rural areas and poor families in urban areas will be provided. During the launch of the Scheme, there were around 4 crore un-electrified households in the country and as of now only around 18,000 houses are left to be electrified.

National LED Programme (DELP, SLNP)

- ❑ National LED Programme aims for promoting the use of the efficient lighting technology at affordable rates, by replacing incandescent bulbs with LED bulbs.
- ❑ The Domestic Efficient Lighting Programme (DELP) aiming to replace 77 crore incandescent bulbs with LED bulbs by providing LED bulbs to domestic consumers.
- ❑ The Street Lighting National Programme (SLNP) aimed to replace 3.5 crore conventional streetlights with smart and energy-efficient LED streetlights by March 2019.

Ujjawal DISCOM Assurance Yojana (UDAY)

- ❑ Power outages adversely affect national priorities like ‘Make in India’ and ‘Digital India’, Small and Medium Industries, Agricultural growth and other socio-economic progress in the country. Besides, default on bank loans by financially stressed distribution companies (DISCOMs) can not only hamper the development and growth, but also potentially impact adversely the banking sector.
- ❑ UDAY scheme for the financial turnaround of the power distribution companies has been formulated and launched by the Government of India, in consultation with the various stakeholders such as DISCOMs and state governments for financial and operational turnaround of DISCOMs and to ensure a permanent solution to the problem.
- ❑ The scheme envisages reducing the interest burden, the cost of power and AT&C losses. To achieve operational and financial turnaround DISCOMs and participating states have entered into a tripartite agreement with the Government of India. Also, best performing states is being incentivized for rational tariff revision.

National Smart Grid Mission

- ❑ A smart grid is an electrical grid, which can monitor power flows from the points of generation to the points of consumption, and control the flow of power or curtail the load to match generation on real-time basis. It is done using automation, communication and information technologies.
- ❑ Smart Grid helps in real time monitoring, automated outage management and faster restoration. This enables consumers to enjoy the improved reliability and better quality of power.
- ❑ Smart Grid can be used for Dynamic Pricing Mechanisms by sending pricing signals to consumers. This incentivizes to curtail their demand during different times of the day, enabling the optimal use of power and minimization of electricity bills.
- ❑ Technologies like in-house displays, programmable control thermostats, portals and energy information tools like mobile apps allow consumers to track and manage their energy usage and identify opportunities to reduce and conserve electricity.
- ❑ Smart Grid also facilitates the distributed generation, especially the rooftop solar power generation, by allowing movement and measurement of energy in both directions by using control system and net metering. This will help Prosumers (consumers who both produce and consume electricity), to safely connect to the grid.

Initiatives for Energy Efficiency

Bureau of Energy Efficiency (BEE)

- ❑ BEE was set up in 2002 as mandated in the Energy Conservation Act, 2001. Its function is to give policy directions and developing strategies to increase energy efficiency of the Indian Economy.
- ❑ BEE has launched following programmes to ensure Energy Efficiency in the country.

National Mission for Enhanced Energy Efficiency (NMEEE)

- ❑ NMEEE is a part of the National Action Plan on Climate Change (NAPCC). It aims to strengthen the market for energy efficiency by creating conducive regulatory and policy regime to promote energy efficiency.
- ❑ NMEEE has evolved four initiatives to enhance energy efficiency in energy intensive industries which are as follows:

Introduction

□ All economic activities of an economy which take place in foreign currency fall in the external sector such as import, export, external debt, foreign investment, capital account, current account, balance of payment, etc.

□ It is important from a policy point of view as the changes happening in countries across the world are also linked with India.

□ India's Foreign Trade

○ Foreign trade is exchange of capital, goods, and services across international borders or territories.

○ In most countries, it represents a significant share of the gross domestic product (GDP).

○ Foreign trade in India includes all imports and exports to and from India. It is administered by the Ministry of Commerce and Industry.

○ According to data (April -September of 2019-20) from the Ministry of Commerce & Industry.

❖ India's overall exports (Merchandise and Services combined) are estimated to be USD 267.21 billion, exhibiting a positive growth of 1.93% over the same period last year.

Merchandise April-September 2019-20	Services April- September 2019-20* (Estimated)	Overall Trade = Merchandise+Services April-September 2019-20* (Estimated)
Exports USD 159.57 billion -2.39%	Exports USD 107.63 billion 9.10%	Exports USD 267.21 billion 1.93%
Imports USD 243.28 billion -7.01%	Imports USD 68.88 billion 13.52%	Imports USD 312.16 billion -3.15%
Trade Deficit USD 83.70 billion	Net of Services USD 38.75 billion	Trade deficit USD 44.95 billion

❖ Overall imports are estimated to be USD 312.16 billion, exhibiting a negative growth of 3.15% over the same period last year.

❖ With this the estimated trade deficit stood at 44.95 billion.

□ **Direction of Trade:** Direction of foreign trade means the countries to which India exports its goods and the countries from which it imports. Thus, direction consists of destination of our exports and sources of our imports.

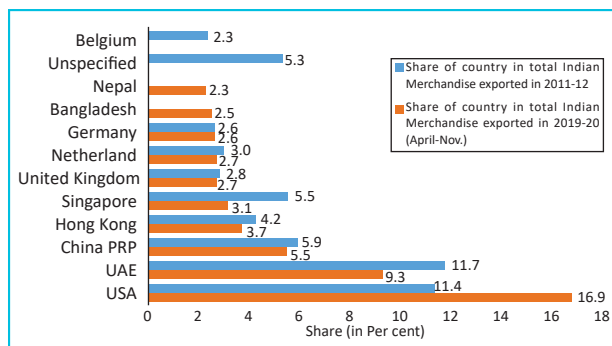


Fig.: Top 10 export destinations in 2011-12 and 2019-20 (April-November)

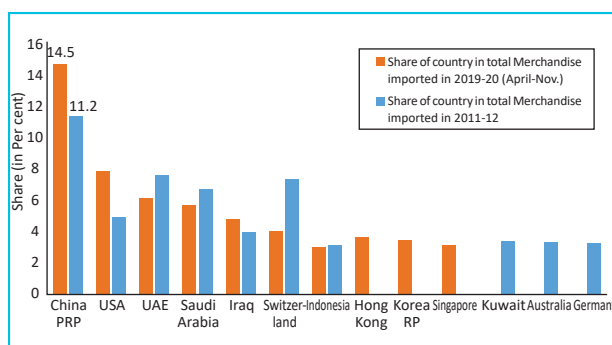


Fig.: Top 10 import origins of India in 2011-12 (April-November) (By share in per cent)

□ **Composition of Indian Foreign Trade:** Composition of Indian foreign trade means major commodity or sectors in which India is doing export and import.

❖ **Customs Union**

- ◆ In a Customs union, partner countries may decide to trade at zero duty among themselves, however, they maintain common tariffs against the rest of the world.
- ◆ For example Southern African Customs Union (SACU) amongst South Africa, Lesotho, Namibia, Botswana and Swaziland.

❖ **Common Market**

- ◆ A common market is a customs union with provisions to facilitate free movements of labour and capital, harmonize technical standards across members etc.
- ◆ European Common Market is an example.

❖ **Economic Union**

- ◆ Economic Union is a common market extended through further harmonization of fiscal/monetary policies and shared executive, judicial & legislative institutions.
- ◆ Most important feature of this union is use of common currency.
- ◆ European Union (EU) is an example.

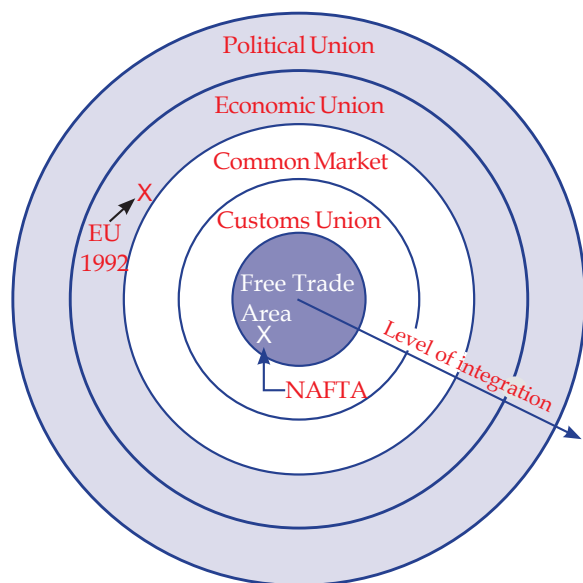
❑ **Economic Integration**

Fig.: Levels of Economic integration

- Free trade area represents the lowest form of economic integration whereas the highest form of economic integration is the Political union.
- Political union represents a common government in which the sovereignty of a member country is significantly reduced. Only found within nation-

states, such as federations where there are a central government and regions having a level of autonomy.

❑ **Trading Blocs and India**○ **South Asian Free Trade Agreement (SAFTA)**

- ❖ SAFTA was approved by all the member states of the South Asian Association for Regional Cooperation (SAARC) during the twelfth 'SAARC Summit' held in Islamabad from January 4-6, 2004.
- ❖ It came into force from January 1, 2006.
- ❖ The trade amongst SAARC nations is so poor that it comprises only 5% of the region's total world trade.

○ **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)**

- ❖ BIMSTEC is a regional organization comprising seven Member States lying in the littoral and adjacent areas of the Bay of Bengal.
- ❖ BIMSTEC member states are Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal and Bhutan.
- ❖ A BIMSTEC free trade agreement is under negotiation.

○ **European Union (EU)**

- ❖ The European Union (EU) is a political and economic union of 27 member states that are located primarily in Europe.
- ❖ The EU has developed an internal single market to facilitate trade between member countries.
- ❖ Negotiations for a comprehensive Free Trade Agreement (FTA) between the EU and India were launched in 2007 and suspended in 2013 due to a gap in the level of ambition between the EU and India.

○ **Association of South East Asian Nations (ASEAN)**

- ❖ ASEAN has a membership of 10 countries, namely Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
- ❖ **Economic cooperation:**
 - ◆ ASEAN is India's fourth largest trading partner.
 - ◆ India's trade with ASEAN stands at approx. 10.6% of India's overall trade.

Macroeconomic Situation of India in 1980's

- ❑ In the year 1980, just after the national emergency, the government of India had launched its ambitious sixth five year (1980-85) plan with a view to stabilise the macroeconomic situation of India.
- ❑ It focussed on increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment, controlling population explosion, etc.
- ❑ The plan recorded an economic growth of 5.7 % against the growth target of 5.2%.
- ❑ In 1985, many parts of the country faced severe famine conditions as agricultural output was less than the record output of the previous year.
- ❑ Addressing the agrarian issues, the government launched the seventh five year plan (1985-90). It aimed at accelerating food grain production, increasing employment opportunities & raising productivity with a focus on 'food, work & productivity'.
- ❑ It was also a very successful plan as the economy recorded 6% growth rate against the targeted 5%.
- ❑ Although, the Indian economy grew more swiftly during the 1980s than it had during previous decades but with the cost of high fiscal deficit, high inflation, deteriorating balance of payment accounts, etc.
- ❑ During this period, the public sector continued to absorb much of the country's investment capital without contributing to the economy proportionately.
- ❑ Iraq's invasion of Kuwait in August 1990 and the ensuing Gulf War also strained economic conditions of India as oil prices escalated to peak.
- ❑ Due to the Gulf war, India further lost its remittance earnings and export profits.
- ❑ This led to a situation when India found itself with foreign exchange reserves adequate to finance only two weeks of necessary imports.

- ❑ However, lowered investment rating also made additional loans costlier, and the prospect of defaulting on its international debt payments.
- ❑ The immediate task of the government was to re-establish macroeconomic stability, prevent a default on debt payments, and bring down inflation.

Washington Consensus

- ❑ It refers to a set of free market economic policies supported by prominent financial institutions such as the International Monetary Fund (IMF), the World Bank, and the U.S. Treasury.
- ❑ A British economist named John Williamson coined the term "Washington Consensus" in 1989.
- ❑ The idea was intended to help developing countries that faced economic crises.
- ❑ The Washington Consensus recommended structural reforms that increased the role of market forces in exchange for immediate financial help.
- ❑ Some examples include free floating exchange rates and free trades
- ❑ Ten Specific Principles set out by John Williamson in 1989
 - Low government borrowings to discourage developing economies from having high fiscal deficits relative to their GDP.
 - Diversion of public spending from subsidies to important long-term growth supporting sectors like primary education, health care, and infrastructure.
 - Implementing tax reform policies to broaden the tax base and adopting moderate marginal tax rates.
 - Revising the interest rates as per determined by the market. These interest rates should be positive after taking inflation into account (real interest rate).
 - Encouraging competitive exchange rates through freely-floating currency exchange.

- India is the 3rd largest economy at Market Exchange Rates (Purchasing Power Parity) and 5th largest by nominal GDP. Yet, significant development is not visible.
- Low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities, etc., are the problems for the nation.
- However, Corruption is one of the ills that also prevent inclusive growth in India.
- According to the Corruption Perception Index 2019, released by Transparency International, India ranked 80th while it was 78 in the previous years rankings.
- Accomplishment of higher GDP growth for the country is one of the boosting factors which give the importance to the inclusive growth in India.
- It was intended to achieve not only faster growth, but a growth process which ensured broad-based improvement in the quality of life of the people.
- The growth process included the poor, SCs/STs, other backward castes (OBCs), minorities and women to provide equality of opportunity to all.
- Reducing poverty is a key element in India's inclusive growth strategy and there was also some progress in that regard.
- However, the pace of poverty reduction has accelerated in recent years, though it may still be short of the target.
- The special impetus has also been given to several programmes aimed at building rural and urban infrastructure and providing basic services with the objective of increasing inclusiveness and reducing poverty.
- For growth to be inclusive, it must create adequate livelihood and job opportunities.
- Such job opportunities should come from a faster expansion in agro-processing, supply chains and the increased demand for technical personnel for inputs into various aspects of farming that is undergoing steady modernisation.
- The service sector too has to continue to be a place for the creation of decent jobs/livelihood opportunities, in both rural and urban areas.

Elements of inclusive Growth



Inclusive Growth in India

- The agenda for inclusive growth was envisaged in the eleventh five year plan (2007-2012).
- Major Causes for Disruptive Inclusive Growth in India
- Jobless growth and the decline in employment growth rate with respect to the levels of economic growth.
- Uneven economic growth across several sectors of the economy.
- Casualization of the labour force due to the rapid globalisation and rise in competitiveness.
- Lack of structural and large scale employment opportunities.
- There is a need to create jobs large-scale otherwise growth would be ineffective in its true sense.
- Miserable growth rate of agriculture.
- Lack in inclusiveness of SCs, STs, and weaker sections in the growth process.
- Gender inequality is also a major problem.

Government Initiatives to Promote Inclusive Growth In India

Programmes/Schemes	Objective
Pradhan Mantri MUDRA Yojana (PMMY)	To create an inclusive, sustainable and value-based entrepreneurial culture in order to achieve economic success and financial security.
Standup India Scheme	To facilitate bank loans to SCs, STs and Women entrepreneurs.
Atal Pension Yojana	To provide social security to workers in the unorganised sector like house helps, drivers, gardeners, etc.
Pradhan Mantri Jan Dhan Yojana	It strives to achieve financial inclusion by ensuring that the economically weaker sections have access to bank accounts.
Prime Minister's Employment Generation Programme	It is a credit-linked subsidy scheme, launched to generate sustainable employment opportunities in rural as well as urban areas through setting up of self employment ventures.
Pt. Deen Dayal Upadhyaya Grameen Kaushalya Yojana	It focuses on developing skills and productive capacity of the rural youth from poor families.

PRACTICE QUESTIONS

1. Which of the following has/have occurred in India after its liberalization of economic policies in 1991?

1. Share of agriculture in GDP increased enormously.
2. Share of India's exports in world trade increased.
3. FDI inflows increased.
4. India's foreign exchange reserves increased enormously.

Select the correct answer using the codes given below:

- 1 and 4 only
- 2, 3 and 4 only
- 2 and 3 only
- 1, 2, 3 and 4

2. In 1991 India met with an economic crisis. Which of the following can be quoted as a reason for the same?

1. The high level of external debt.
2. High level of foreign exchange reserve.
3. Rising prices of essential goods.
4. Import substitution policy of India.
5. Political instability.

Select the correct answer using the codes given below:

- 1 and 2 only
- 1 only
- 2, 3 and 4 only
- 1, 2, 3 and 4

3. Which of the following statements is correct with regard to the external sector of India in the pre-reform period?

- The foreign trade policy was very liberal; it allowed import of all types of goods.

(b) Import of foodgrains were strictly prohibited.

(c) The balance of payments situation was quite comfortable.

(d) None of the above

4. With regard to macroeconomic stabilization measures adopted by India during the reform period of 1990s:

1. Macroeconomic stabilisation measures include all those economic policies which intend to boost aggregate demand in the economy— be it domestic or external.
2. For the enhanced domestic demand, the focus has to be on increasing the purchasing power of the masses.

Which of the following statements(s) is/are correct?

- 1 only
- 2 only
- Both 1 and 2
- Neither 1 nor 2

5. Liberalisation was introduced to put an end to restrictions and open up various sectors of the economy. Which of the following liberalisation measures were taken up before the 1990s?

1. Industrial licensing
2. Export-import policy
3. Tax reforms
4. Foreign investment
5. Technology upgradation

Select the correct answer using the codes given below:

- 1 and 3 only
- 2 and 5 only
- 1, 2 and 5 only
- All of the above

Land Reforms in India

- ❑ Land reforms in India usually refer to the redistribution of land from the rich to the poor, i.e., large landowners to farm cultivators with very limited or no landholdings.
- ❑ It includes regulation of ownership, operation, leasing, sales, and inheritance of land.
- ❑ Land reforms in India were introduced to overcome the problems associated with the land revenue systems introduced by the British government, namely, Zamindari, Mahalwari and Ryotwari system.
- ❑ It was also intended to reduce poverty of people and extreme exploitation of the peasantry by zamindars and moneylenders.

Objectives of Land Reforms

- ❑ To enhance the productivity of land by improving the economic conditions of farmers and tenants.
- ❑ To ensure distributive justice and to create an egalitarian society by eliminating all forms of exploitation.
- ❑ To create a system of peasant proprietorship with the motto of “land to the tiller”.
- ❑ To transfer the incomes of the few to many so that the demand for consumer goods would be created.
- ❑ To remove impediments in the way of agricultural production that may arise from the character of agrarian structure and to evolve an agrarian economy conducive of high levels of efficiency and productivity.

Land Reform Programmes

Abolition of Intermediaries

- ❑ At the time of independence, about 57% of the cropped area in India was under the Zamindari system, where they had dominated and exploited the landless peasants.
- ❑ There was a strong opinion to abolish these Zamindars (intermediaries between the

administration and peasants) from the agrarian system. Hence, abolition of intermediaries accorded top priority for various states.

- ❑ The Zamindari system was effectively abolished in West Bengal and Kerala on account of the efforts by the state governments.
- ❑ **Issues in Abolishing Intermediaries**
 - Lack of written land records affect the recognition of the rights of tenants over land.
 - Lack of administrative machinery to implement abolition of intermediaries.
 - The laws to implement land reforms recognized “personal cultivation” by the Zamindars as a ground for retaining ownership of the land.

Tenancy Reforms

- ❑ Persons cultivating the land of others on payment of rent either in cash or kind or both are treated as tenants.
- ❑ However, in some states, sharecroppers who pay rent in kind are not considered as tenants.

Classification of Tenants

- ❑ **Occupancy Tenants**
 - They enjoy permanent rights over the land and do not face the fear of eviction as long as they pay rent on time.
 - They are also entitled to compensation for enhancing productivity of land.
- ❑ **Subtenants**
 - A subtenant is a person who has the right to use and occupy rental property leased by a tenant from a landlord.
 - Their rights over the land are also not recognized.
- ❑ **Tenants at Will**
 - They do not enjoy security of tenure.
 - They could be evicted from land whenever the landlord desires so.

Intellectual Property Rights

- ❑ Intellectual property is an intangible property that is the result of creativity, such as patents, copyrights, trademarks, etc.
- ❑ The rights given to persons over the use of his/her creation for a certain period of time are known as the Intellectual Property Rights (IPRs).
- ❑ Its aim is to create an environment of creativity and innovation which can benefit all.
- ❑ It gives legal protection which enables an innovator to make his innovation public while ensuring that the rewards in terms of prestige and monetary incentives are accrued only to him.
- ❑ It also enforces mechanisms to discourage counterfeiting and piracy.
- ❑ **Classification of IPRs**

○ Rights Related to Copyrights

- ❖ The rights of authors of literary and artistic works such as books and other writings, musical compositions, paintings, sculpture, computer programs and films.
- ❖ They are protected by copyright, for a minimum period of 50 years after the death of the author.

○ Industrial Property

- ❖ It can usefully be divided into two main areas.
- ❖ One area can be characterized as the protection of distinctive signs, in particular Trade Marks (TM) and Geographical Indications (GI).
- ❖ The other types of industrial property are industrial designs and trade secrets, protected primarily to stimulate innovation, design and the creation of technology.
- ❖ In this category all inventions are protected by patents.
- ❑ The intellectual property in India is administered by the office of the Controller General of Patents, Designs & TradeMarks (CGPDTM) generally known as Indian

Patent Office, which administers the Indian law of Patents, Designs, Trademarks and Geographical Indications.

- ❑ CGPDTM comes under the Department for Promotion of Industry and Internal Trade (DPIIT) of the Ministry of Commerce and Industry.

Objectives of IPR

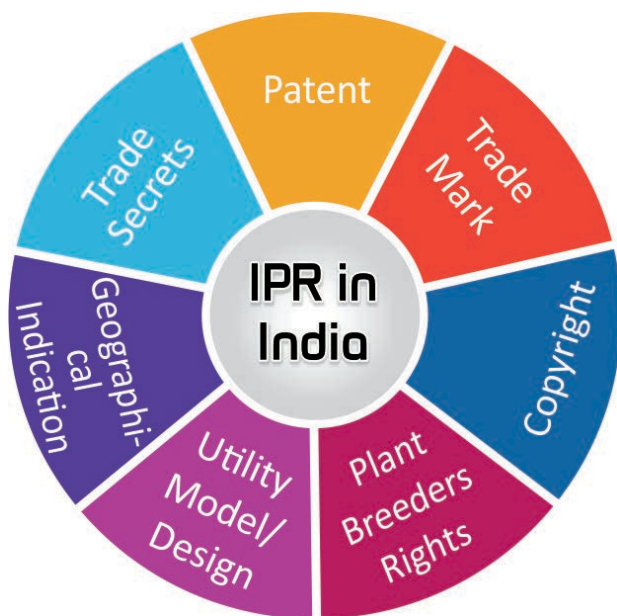
- ❑ **Financial Incentive:** IPR give creators of IP a financial incentive.
- ❑ **Economic Growth:** IP law facilitates economic growth by giving statutory expression to the creators' economic rights. It also promotes economic and social development through the fostering of fair trade practices.
- ❑ **Social Purpose:** It results from investment in the development of new technology, thus giving the incentive and means to finance research and development activities.
- ❑ **Encourages Innovation:** The legal protection of new creations encourages the commitment of additional resources for further innovation.
- ❑ **Safeguard the Rights of Creators:** IPR is required to safeguard creators and other producers of their intellectual commodity, goods and services by granting them certain time-limited rights to control the use made of the manufactured goods.
- ❑ It promotes innovation and creativity and ensures ease of doing business.
- ❑ It facilitates the transfer of technology in the form of Foreign Direct Investment (FDI), joint ventures and licensing.

Evolution of IPR

- ❑ **Statute of Monopolies, 1623:** It was an Act of the Parliament of England. Though intended to strengthen England's economy by making itself sufficient, the law became a way to raise money. Patents were issued even for common commodities like salt and starch.

- ❑ **Increase in Patent and Trademark Filings:** Patent filings have increased by nearly 7% in the first 8 months of 2018-19 vis-à-vis the corresponding period of 2017-18. Trademark filings have increased by nearly 28% in this duration.
- ❑ **IP Process Re-engineering Patent Rules, 2003** have been amended to streamline processes and make them more user friendly. Revamped Trademarks Rules have been notified in 2017.
- ❑ **Creating IPR Awareness:** IPR Awareness programs have been conducted in academic institutions, including rural schools through satellite communication, and for industry, police, customs and judiciary.
- ❑ **Technology and Innovation Support Centres (TISCs):** In conjunction with WIPO, TISCs have been established in various institutions across different states.

Types of IPRs in India



Patents

- ❑ It is the recognition of the invention and conferment of certain exclusive rights to inventors.
- ❑ It is granted by the government for an invention which is a new product or process involving an inventive step and capable of industrial application.
- ❑ It grants exclusive right to assignee to make use of and exploit their invention for a limited period of time in exchange for full disclosure of the invention.
- ❑ This public disclosure enables others to replicate or improve upon the invention.
- ❑ The Patent System in India is governed by the Patents Act, 1970 which was last amended in 2005.
- ❑ Patents are of two types – product patent and process patent.
- ❑ Product patent is the right to produce the product and right to authorize others to produce that particular product.
- ❑ Process patent is the right to the inventor for the processing method and not for the product.
- ❑ Others can produce the product using different processing methods.

Compulsory Licensing

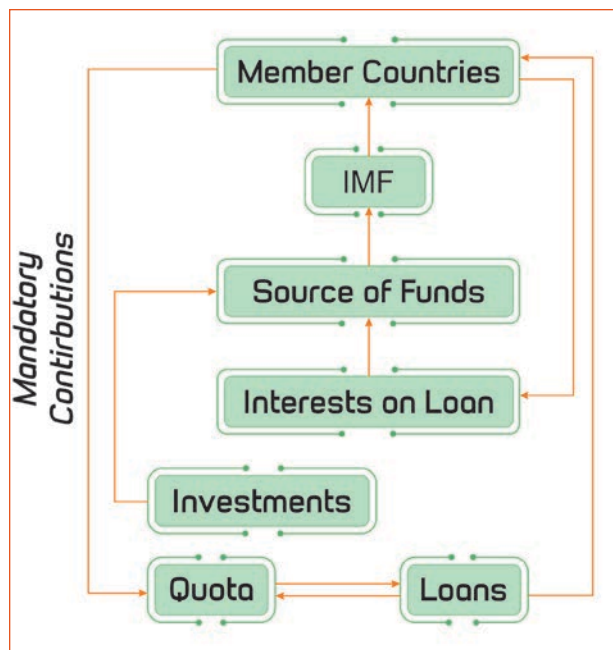
- ❑ The 2005 amendments to the Patents Act of 1970 introduced a provision for enabling grant of compulsory license for export of medicines to countries which do not have a developed manufacturing base.
- ❑ In 2014, the Supreme Court of India passed a landmark judgment where it said that the grant of Compulsory License (CL) to NATCO for the anti-cancer drug Sorafenib Tosylate was valid.
 - Availability of sorafenib tosylate was critical for the patients living with kidney and liver cancer. However, the drug was being sold by Bayer under the brand name Nexavar for 2.5 lakh per patient per month.
 - This was unaffordable for most patients in India. Compulsory license enabled NATCO to produce a generic version of Nexavar, which costs around Rs. 8800 per patient per month.

Evergreening of Patents

- ❑ Evergreening is a strategy used by producers to extend their patents over products that are about to expire.
- ❑ In India, a patent is granted for a period of 20 years.
- ❑ The patent period can be extended by applying for new patents after making modifications to the original product.
- ❑ The phenomenon is most prevalent in the pharmaceutical industry.

International Monetary Fund (IMF)

- ❑ IMF, a Bretton Woods institution, was conceived at the UN conference in Bretton Woods, New Hampshire, United States in July 1944.
- ❑ The IMF formally came into existence in 1945.
- ❑ It is governed by, and is accountable to its 189 member countries.
- ❑ **Primary Aims**
 - Promote international monetary cooperation;
 - Facilitate the expansion and balanced growth of international trade;
 - Promote exchange stability;
 - Assist in the establishment of a multilateral system of payments; and
 - Make resources available (with adequate safeguards) to members experiencing balance-of-payments difficulties.
- ❑ It also works in the direction to secure financial stability, promote high employment and sustainable economic growth, and reduce poverty around the world.
- ❑ However, its mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.
- ❑ The member quotas are the primary source of IMF financial resources.
- ❑ On joining the IMF, each member country contributes a certain amount of money, called a quota subscription, which is based on the country's wealth and economic performance.
- ❑ In addition, credit arrangements between the IMF and a group of members and institutions provide supplementary resources.
- ❑ Member countries have also committed resources to increase the IMF's emergency resources through bilateral borrowing arrangements.



Financial Assistance of IMF

- ❑ It provides loans to member countries under actual or potential balance-of-payments crises.
- ❑ It designs Structural Adjustment Programs (SAP) for the member countries and also provides financial support for their implementation.
- ❑ It also provides financial assistance to its member countries through allocation of Special Drawing Rights (SDRs) and Quota based on economic size and other parameters.

Organization Structure

- ❑ The governing board of IMF is composed of a Board of Governors, consisting of one governor and one alternate governor from each member country.
- ❑ They are usually the top officials from the central bank or finance ministry.
- ❑ The Board of Governors meets once a year.

Global Gender Gap Report	<ul style="list-style-type: none"> ❑ It is an annual report. ❑ It measures the extent of gender-based gaps among four key dimensions which are Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment. ❑ In the 2020 edition, India ranked 112th out of 153 countries.
Global Risk Report	<ul style="list-style-type: none"> ❑ It is an annual report ❑ Based on the work of the Global Risk Network of WEF ❑ It describes changes occurring in the global risks landscape from year to year and identifies global catastrophic risks. ❑ The risk assessment covers: <ul style="list-style-type: none"> ○ Extreme weather events. ○ Failure of climate change mitigation and adaptation. ○ Major natural disasters. ○ Massive incident of data fraud/theft. ○ Large scale cyberattacks. ○ Man-made environmental damage and disasters. ○ Large-scale involuntary migration. ○ Major biodiversity loss and ecosystem collapse. ○ Water crises. ○ Asset bubbles in a major economy.

Asia-Pacific Economic Cooperation (APEC)

- ❑ It is the premier Asia-Pacific Economic forum, with the primary goal to support sustainable economic growth and prosperity in Asia-Pacific region.
- ❑ It was established in 1989. It has only 24 member countries. India is not a member of the group.
- ❑ India has requested for membership in APEC, and received initial support from the United States, Japan, Australia and Papua New Guinea.
- ❑ However, the APEC Officials have decided not to allow India to join as India does not border the Pacific Ocean, which all current members do.
- ❑ India was invited to be an observer for the first time in November 2011

Organization for Economic Cooperation and Development (OECD)

- ❑ It is an intergovernmental economic organization, founded to stimulate economic progress and world trade.
- ❑ It was founded in 1961 with headquarters in Paris, France.

- ❑ It has 36 member countries.
- ❑ India is not a member of OECD but a key economic partner.
- ❑ Most OECD members are high-income economies with a very high Human Development Index (HDI) and are regarded as developed countries.

Gulf Cooperation Council (GCC)

- ❑ It was established in 1981, headquartered in Riyadh, Saudi Arabia.
- ❑ It deals with political and economic issues of all the Arab states of Persian Gulf except Iraq.
- ❑ Its members include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE.
- ❑ All members are monarchies, including three constitutional monarchies (Kuwait, Qatar and Bahrain), two absolute monarchies (Oman and Saudi Arabia) and one federal monarchy (UAE, which is composed of seven member states, each of which is an absolute monarchy with its own emir).

Key Terms of Economy

Activity Rate

The labour force of a country is known as the activity rate or participation rate. It is in percent and always a proportion of the total population of the country—the economically active population. This rate varies from one country to another depending upon several factors such as school leaving age, retirement age, popularity of higher education, social customs, opportunities, etc.

ADRS

ADR stands for American Depositary Receipt, which enables investors based in the USA to invest in stocks of non-US companies trading on a non-US stock exchange. ADRs are denominated in dollars. Simply put, US brokers purchase shares of a foreign company. ADRs are subsequently listed on US stock exchanges.

ADRs can be sponsored or unsponsored. Sponsored ADRs are those in which the company actively participates in the process. The ADRs were first offered in the US in the 1920s. A number of Indian companies have issued ADRs. Infosys Technologies was the first Indian company to use the ADR route.

Adverse Selection

One among the two kinds of the market failure often associated with insurance business which means doing business with the people one would have better avoided.

Adverse selection can be a problem when there is an asymmetry in information between the seller and the buyer of an insurance policy—as insurance will not be profitable when buyers have better information about their risk of claiming than does the seller of the insurance policy. In the ideal case, insurance premiums are set in accordance to the risk of a randomly selected person in the insured bracket of the population.

Agricultural Extension

Agricultural extension is a proper approach to motivate people to help themselves by applying agricultural research and development in their daily lives in farming, home making, and community living. It plays a vital role in community development. It is a two-way channel that brings scientific information to rural people and takes their problems to scientific institutes for their solution.

Arbitrage

Earning profits out of the price differences of the same product in different markets at the same time. For example, buying and selling any product, financial securities (as bonds) or foreign currencies in different markets/economies. As globalisation is promoting liberalised cross-border movement of goods and services around the world, arbitrage is prevalent today. To avoid arbitrage the WTO member countries are under compulsion to chalk out homogenous economic policies and a level-playing field at the international level is emerging.

ARCs

Assets Reconstruction Companies (ARCs) acquire non-performing assets (NPAs) from banks or financial institutions along with the underlying securities mortgaged and/or hypothecated by the borrowers to the lenders. The ARCs then try and manage these NPAs acquired from banks. It can even infuse more funds in order to reconstruct the asset. If reconstruction is not possible and the borrower is unwilling to repay the loan, the ARCs even sell these cured assets.

While the basic principle of ARCs is the same everywhere i.e., to acquire bad loans to resolve them. The essential difference is in the ownership of ARCs, public or private. India has adopted the private sector



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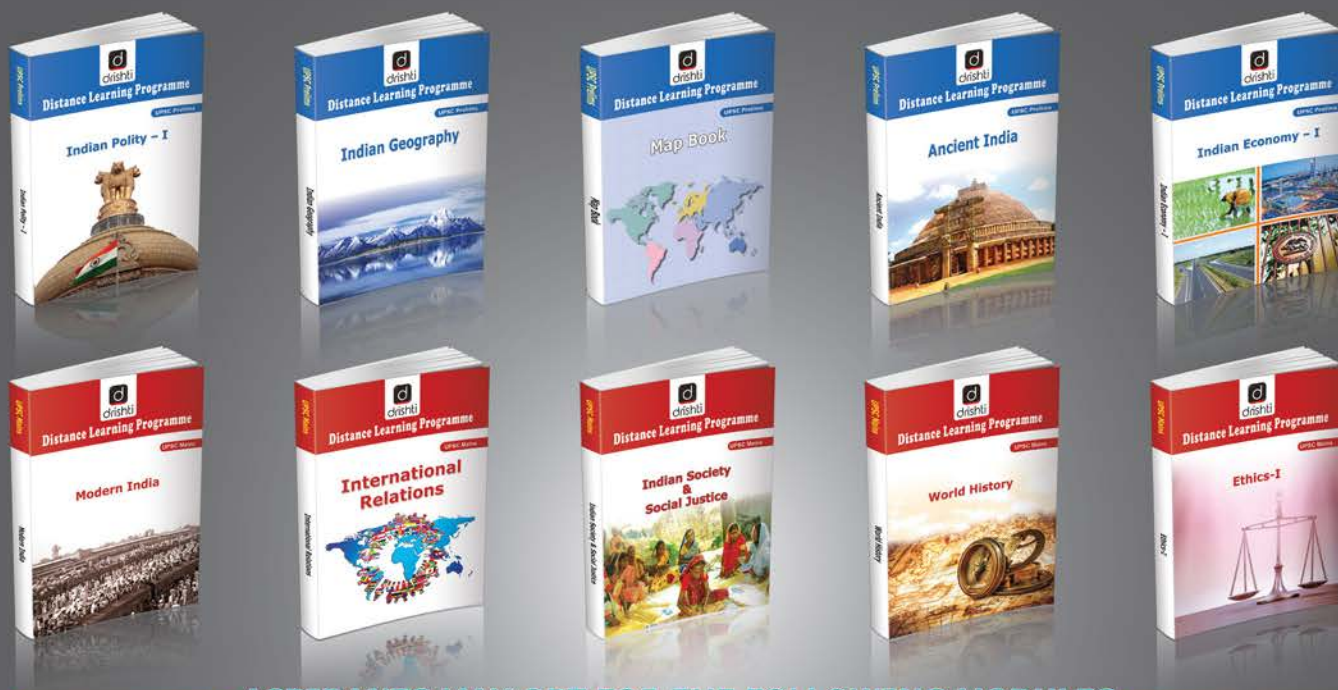
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