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ECONOMIC DEVELOPMENT

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1. Nature of Indian Economy

Demographic Profile and its Economic Implications

- Economic Survey 2018-19: India's annual population growth rate was projected to decline (e.g., from 1.1% in 2011-21 to 0.8% in 2021-31).
- Economic Survey 2018-19: Service sector (excluding construction) share in India's Gross Value Added (GVA) was 54.3% in 2018-19.
- Economic Survey 2018-19: Share of employment of service sector was around 34%.
- Economic Survey 2018-19: India accounts for 18% of the world's population but uses only 6% of the world's primary energy.
- Disguised Unemployment: Marginal productivity of labour (or labourers) is zero.
- Unemployment Rate (2015-16): Based on Usual Principal Status (UPS), it was 5.0%.
- Labour Force Participation Rate (LFPR): Defined as the ratio of workforce to working age population.
- Human Capital Formation: Means the development of abilities and skills of people.
- Malthusian Population Theory: Epidemics, natural calamities, and war are known as Positive checks.
- Unemployment Measurement Approaches (NSSO): 'Usual Principal Status' (UPS), ‘Usual Subsidiary Status’ (USS), and ‘Usual Principal and Subsidiary Status’ (UPSS), Current Weekly Status (CWS), Current Daily Status (CDS). 'Current Monthly Status' is NOT used.
- Worker to Population Ratio (WPR): Defined as the percentage of employed persons in total population.
- Usual Status Unemployment: Refers to the number of persons who remained unemployed for a major part of the year.
- Unemployment Rate Trend (July-September 2019 to July-September 2022): The unemployment rate declined during this period.
- Population Theories & Propounders:
  - Optimum Population Theory: Edwin Cannan
  - Social Mal-adjustment Theory: Henry George
  - Demographic Transition Theory: Thompson
  - Population-Food Supply Relationship Theory: Malthus
- Employment Growth (2005-2010): Was relatively modest, accompanied by a lower labour force participation rate across all ages during this period (second half of the first decade of 21st century).
- Population Increase Impact: Increases the "Social overhead capital requirements" (e.g., infrastructure, education, health) of an economy.
- Unemployment Index in India: NSSO (National Sample Survey Office, now part of NSO) collects and publishes unemployment data.

Developing Economy Characteristics

1. India is characterized as a **Developing Economy** and a **Mixed Economy** (also a Lower-Middle Income Country as per World Bank classification).
2. **Characteristics of a Developing Economy:** Low per capita income, high dependency ratio, inequitable income distribution, slower national income growth, high proportion of workforce in agriculture (often with low productivity/disguised unemployment), employment problems (e.g., structural, disguised), improving capital formation, capital deficiency.
3. **Stagflation** is a situation of slow economic growth (stagnation) with high unemployment and rapid inflation (rising prices).
4. **Factors contributing to Stagflation:** High inflationary pressures (e.g., from increased government spending, cost-push), decline in industrial production, sluggish economic growth, decreased aggregate demand/consumer spending, currency appreciation reducing export competitiveness.
5. **Cost-push inflation** can lead to higher unemployment rates and reduced consumer spending.
6. **Law of Diminishing Marginal Utility:** As the amount of a good consumed increases, its marginal utility tends to diminish.
7. **Law of Demand Assumptions:** No changes in consumer taste/preferences, constant consumer income, no changes in substitute good prices. (The demonstration effect is NOT an assumption).
8. When **Total Utility (TU) is maximum**, Marginal Utility (MU) is zero. When TU is decreasing, MU is negative. When TU is increasing, MU is positive. MU and Average Utility are NOT necessarily equal when TU is maximum.
9. A **Joint-stock company** has legal existence, limited liability of shareholders, and collective ownership.
10. **Monopolistic Competition:** Many firms selling similar but differentiated products.
11. **Opportunity Cost:** The value of the next best alternative that is given up/forgone.
12. **Market Structures:**
    - **Perfect Competition:** Many producers, homogeneous products, infinite demand elasticity for individual firms, no price control, uniform price. Long-run: firms earn normal profits.
    - **Monopoly:** Only one producer selling one commodity.
    - **Monopolistic Competition:** Many producers selling differentiated products.
    - **Oligopoly:** Few producers selling similar or almost similar products.
13. **Structural Unemployment:** Mismatch in regional/occupational job vacancies and worker availability, often due to changes in demand or automation. It refers to inadequacy of productive capacity to create enough jobs.
14. Factors that **do NOT** influence quantity demanded for a good: Prices of inputs into production (these affect supply).
15. **Deflation:** Sustained decrease in the general price level.
16. An **exogenous decrease in demand** with a fully elastic supply curve leads to a decrease in equilibrium quantity and no change in price.
17. Geoffrey Kay argued that "capital created underdevelopment not because it exploited the undeveloped world, but because it did not exploit it enough."
18. The **Natural Rate of Unemployment hypothesis** was advocated by Milton Friedman.
19. The slope of a normal demand curve is **negative**.
20. A **movement along the demand curve** of a commodity is caused by a change in its own price.
21. A **shift in the demand curve** is caused by factors other than the commodity's own price (e.g., consumer income, prices of related goods, tastes, population growth). For instance, an increase in the price of a substitute good increases demand (shifts curve right).
22. **Geographical Indication (GI) tags** are typically given for agricultural products, foodstuffs, handicrafts, wines and spirit drinks, and industrial products.
23. A **Unicorn Company** is a private start-up valued at over US$1 billion.

24. According to the Economic Survey 2018-19, "Data" was presented as a **Public Good**.
25. The **7th Economic Census** commenced from Tripura.
26. **NSSO concepts of unemployment:** Usual Status Unemployment, Current Weekly Status of Unemployment, Current Daily Status of Unemployment.
27. **Economic Cycle terms:**
    - **Slowdown:** Reduction in the growth rate of the economy.
    - **Recession:** Economy is reducing in size (negative growth).
    - **Boom:** Increase in the growth rate of the economy.
    - **Meltdown:** A sudden downturn in the economy.
28. **Effects of Inflation:** Debtors gain, creditors lose; purchasing power of salaried/fixed-income persons decreases.
29. **Non-economic factors contributing to economic growth:** Human resource, corruption, social organization. (Market surplus in agriculture is an economic factor).
30. **Development Theories and Economists:**
    - **Critical Minimum Effort Hypothesis:** Leibenstein.
    - **Theory of Social Dualism:** Boeke.
    - **Low-level Equilibrium Trap:** Nelson.
    - **Theory of Technological Dualism:** Higgins.
31. **Employment Elasticity:** Percentage change in employment with a 1% point change in economic growth.
32. Ragnar Nurkse is associated with the statement "A country is poor, because it is poor" (Vicious Circle of Poverty) and the **Balanced Growth Theory**.
33. According to Schumpeter, **Development** is a discontinuous and spontaneous change in the stationary state, while **Growth** is a gradual and steady change in the long run.
34. The Indian economy has been described as 'Bullock-cart Capitalism' by Lloyd and Susanne Rudolph.
35. **CPI (Consumer Price Index) vs WPI (Wholesale Price Index):** WPI is calculated for goods only, CPI for both goods and services. WPI is published by the Office of the Economic Advisor (Ministry of Commerce and Industry), CPI by the National Statistical Office (Ministry of Statistics and Programme Implementation). WPI measures inflation in initial stages, CPI in later stages of the supply chain.
36. The author of 'The Accumulation of Capital' is Mrs. Joan Robinson.
37. **Economists and Books:**
    - Myrdal: Economic Theory and Underdeveloped Regions
    - Hirschman: The Strategy of Economic Development
    - Adam Smith: The Wealth of Nations
38. **Price Elasticity of Demand (< 1):** When a fall in price reduces total expenditure and a rise in price increases it, demand is inelastic.
39. **Marginal Rate of Substitution (MRS):** The rate at which a consumer is willing to substitute one good for another without changing the level of satisfaction (represented by an Indifference Curve).
40. **Factors affecting an individual's demand for a commodity:** Price of the commodity, income of the consumer, prices of related goods.
41. **Law of Diminishing Returns (in production):** Beyond a point, the marginal product will diminish as more units of a variable factor are used, holding fixed factors constant.
42. The **Marginal Revenue (MR) curve** of a monopoly firm is always below its Average Revenue (AR) curve. The AR and MR curves of a perfectly competitive firm are perfectly elastic.
43. **Zero price elasticity of demand** means no change in demand, whatever the change in price.
44. A **Price Ceiling** is a maximum price (e.g., Maximum Retail Price - MRP). MRP is the maximum a seller can charge, not what they must charge. Consumers can bargain below MRP. Minimum Support Price (MSP) and minimum wages are examples of price floors.
45. On a **Production Possibility Frontier (PPF)**, the economy has to sacrifice some production of one commodity to increase another, as it implies efficient resource utilization.

46. The concept of "Paradox of Thrift" was coined by John Maynard Keynes.
47. At **full employment**, the measured unemployment rate is positive (due to natural unemployment like frictional and structural), not negative.
48. On the basis of employment conditions, the economy is divided into **organized and unorganized sectors**.
49. The **'Stand-Up India Scheme'** promotes entrepreneurship amongst women, SC, and ST communities.
50. **High Frequency Indicators** of the Indian economy include Power Consumption, IIP General Index, and 10-year G-sec yield.
51. **Public Goods** are characterized by non-rivalry and non-excludability. Markets generally cannot provide the optimal amount of a good in the presence of externalities.
52. **Disguised unemployment** generally means marginal productivity of labour is zero.
53. Economic growth in a country will necessarily occur if there is **capital formation**.
54. Decreased money circulation helps in controlling inflation.
55. Despite being a high saving economy, capital formation may not result in significant output increase due to a **high capital-output ratio**.
56. Traits of **Depression**: Extremely low aggregate demand, decelerating activities, comparatively lower inflation, shrinking employment, rapidly growing unemployment.
57. The share of the service sector in India's GDP is significantly higher than 25%.
58. A **buyers' market** exists where supply is more than demand.
59. Adam Smith is considered the **Father of Economics** and author of "Wealth of Nations."
60. **Consumer equilibrium** is achieved when a consumer is able to fulfill their needs and maximize satisfaction with a given level of income.
61. According to the World Development Report, low-income economies had a per capita GNP of US $925 or less in 1994.
62. Nobel Prize in Economics for 1997 was awarded for contributions in the area of **Financial Economics**.
63. A non-economic factor in a country's growth is **Social Behavior**.
64. The principal methodology employed by the National Statistical Office (NSO) for assessing unemployment in India is the **Periodic Labour Force Survey (PLFS)**.
65. **Pareto Optimality:** A situation where no one can be made better off without making someone else worse off.
66. An **Indifference Curve** represents different combinations of two items giving equal satisfaction.
67. An **Engel's Curve** shows the optimum quantity of a commodity purchased at different levels of income.
68. **Autonomous Demand:** Demand that is not associated with the demand of another product.
69. When demand is elastic, the numerical value of elasticity of demand is **> 1**.
70. In a monopoly market, the **cross elasticity of demand** will be zero or very low due to lack of close substitutes.
71. The **Law of Supply** indicates the nature of the relationship between quantity supplied and price of a product.
72. The per unit cost of production of output at current market price is called **Nominal Price**.
73. The **Average Fixed Cost (AFC) curve** looks like a rectangular hyperbola.
74. When average production is at maximum, average variable cost will be at its **minimum**.
75. An indicator of development in the Indian Economy is an **increase in per capita real income**.
76. In a **Perfect Competitive Market**:
    - Cross price elasticity between the products of the firms is infinite.
    - Free entry and free exit ensure that the firm will make only normal profits in the long run.
    - Homogeneous and identical products ensure that firms will make only normal profits in the long run.
77. The **short-run equilibrium of a competitive firm** occurs where Price (P) = Short-run Marginal Cost (SMC), SMC must be non-decreasing, and P > Average Variable Cost (AVC) (to avoid shutdown).

78. The **G-77** was established on 15 June, **1964** in Geneva (not 1974).
79. A **monopsony** is a market situation where a single buyer substantially controls the market.
80. A growth of resources in an economy is shown by a **Rightward Shift** of the Production Possibility Curve (PPC).
81. **Primary Data** is data collected originally for an investigation.
82. Amartya Sen received the Nobel Prize in Economics in **1998**.
83. Paul Romer & William Nordhaus received the Nobel Prize in Economics in **2018**.
84. The co-existence of inflation and unemployment is called **Stagflation**.
85. The main cause of the Greece problem that emerged during June 2015 was **Economic** (sovereign debt crisis).
86. The book "The India Story" was published by former RBI Governor Bimal Jalan in July 2021.
87. **Ragnar Frisch** was the first economist to have coined the terms 'Micro Economics' and 'Macro Economics'.
88. The volume of one barrel of oil is nearly **159 litres**.
89. Uniform price is a feature of **perfect competition**.
90. Abhijit Banerjee was awarded the Nobel Prize in Economics in 2019 for his work on alleviating global poverty.
91. A **K-shaped recovery** occurs when different parts of the economy recover at vastly different rates after a recession.
92. According to Economic Survey 2021-22, strengths of the Indian Economy included strong growth, fiscal consolidation, and high forex reserves.

Dominance of Service Sector and its Unique Growth Pattern

- Service sector holds the largest share in India's GDP (approx. 57% in 2012-13, highest share presently).
- This pre-eminence of the service sector is a striking feature of India's structural economic change, contributing most to growth.
- Despite its high GDP share, the service sector's contribution to total employment is comparatively lower (approx. 28% in 2012-13), indicating a unique growth pattern.
- The Service sector consistently attracts the highest Foreign Direct Investment (FDI) equity flow in India.
- IT/BPO sector was the largest contributor to job growth in 2015 (as per Labour Bureau's 28th QES Report).

Dualism in Indian Economy (Formal vs. Informal Sector)

- Dualism in Indian Economy refers to the simultaneous existence of a modern, highly productive Formal/Organised Sector and a traditional, low-productivity Informal/ Unorganised Sector.
- Informal/Unorganised Sector:
    - Characteristics: Lack of registration, no formal employer-employee relationship, absence of social security benefits (like PF, gratuity, health insurance), low wages, job insecurity, and unregulated working conditions.
    - Transactions: Predominantly involves cash/currency transactions. (Answers MCQ 1)
    - Employment Share: Accounts for approximately 93% of India's total workforce employment. (Answers MCQ 3, 4)
    - Unemployment: Unemployment in India is largely concentrated in this sector. (Answers MCQ 2)
    - Composition: Includes a significant proportion of self-employed individuals, casual workers, and small-scale, unregistered enterprises.
- Formal/Organised Sector:
    - Characteristics: Registered with government authorities (e.g., under Factories Act, Companies Act), adheres to labour laws, provides social security benefits, offers relatively better wages, job security, and formal contracts.
    - Employment Share: Accounts for a small proportion (approx. 7-10%) of the total workforce.