ECONOMICS

Economics: The science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

Macroeconomics: It is the study of economic system as a whole. It studies broad aggregates like national income, employment and trade.

Micro Economics: It is a study of behaviour of individual units of an economy such as individual consumer, producer etc.

Economy: An economy is a system by which people get their living.

Production Possibility Curve (PP(C): PP curve shows all the possible combination of two goods that can be produced with the help of available resources and technology.

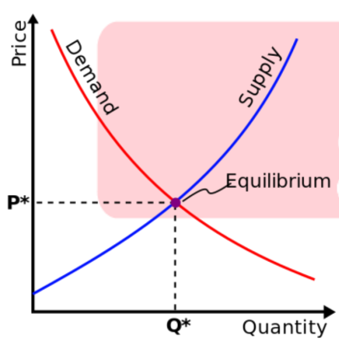
Marginal Opportunity Cost: MOC of a particular good along PPC is the amount of other good which is sacrificed for production of additional unit of another good.

DEMAND – SUPPLY CONCEPT

Law of Demand- The law of demand states that quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded.

Law of Supply- Supply of product is directly proportional to the price of the product. In other words, the higher the price, higher the supply of goods.

Equillibrium point - It is a point where demand of product is equal to the supply of the product.



Type of Goods

Substitute Goods: Increase in the price of one good causes increase in demand for other good. E.g., tea and Coffee

Complementary Goods: Increase in the price of one good causes decrease in demand for other good. E.g:- Petrol and Car

Normal Good: Goods which are having positive relation with income. It means when income rises, demand for normal goods also rises.

Inferior Goods: Goods which are having negative relation with income. It means less demand at higher income and vice versa.

Veblen good: Veblen goods are goods for which increased prices will increase quantity demanded. Veblen goods are high-status goods such as expensive wines, automobiles, watches, or perfumes. The utility of such goods is associated with their ability to denote status.

TYPES OF DEMAND

Cross demand: Demand primarily dependent upon prices of related goods is called cross demand. The cplementary goods and substitutes are called related goods. In case of complementary goods like pen and ink demand for good is inversely related to the prices of other goods but the case in substituting goods are just opposite. Demand for substituting goods is directly related to prices.

Income demand: Demand primarily dependent upon income is called income demand.

Direct demand: Demand for goods and services made by final consumers to satisfy their wants or needs is called direct demand. For example guest of hotels make the demand for food.

Derived demand: Demand for goods and services made according to direct demand is called derived demand.

Joint demand: Demand made for two or more goods and services to satisfy single
need or want is called joint demand.

Price Elasticity of Demand (E(d)

It refers to the degree of responsiveness of quantity demanded to change in its price.

Ed. = Percentage change in quantity demanded/Percentage change in price

Ed. = $P/q \times \Delta q/\Delta p$

P = Original price Q = Original quantity Δ = Change

Perfectly inelastic demand (Ed = 0)
This describes a situation in which demand shows no response to a change in price. In other words, whatever be the price the quantity demanded remains the same.

Inelastic (less elasti(c) demand (e < 1)
In this case the proportionate change in demand is smaller than in price.

Unitary elasticity demand (e = 1)
When the percentage change in price produces equivalent percentage change in demand, we have a case of unit elasticity. The rectangular hyperbola as shown in the figure demonstrates this type of elasticity.

Elastic (more elasti(c) demand (e > 1)
In case of certain commodities, the demand is relatively more responsive to the change in price. It means a small change in price induces a significant change in, demand.

Perfectly elastic demand (e = ∞)
This is experienced when the demand is extremely sensitive to the changes in price. In this case an insignificant change in price produces tremendous change in demand. The demand curve showing perfectly elastic demand is a horizontal straight line.

Engel's Law: % of income spent on food decreases as income increases.

LAW OF SUPPLY:
Supply means the goods offered for sale at a price during a specific period of time. It is the capacity and intention of the producers to produce goods and services for sale at a specific price. The supply of a commodity at a given price may be defined as the amount of it which is actually offered for sale per unit of time at that price.
The law of supply establishes a direct relationship between price and supply. Firms will supply less at lower prices and more at higher prices. "Other things remaining the same, as the price of commodity rises, its supply expands and as the price falls, its supply contracts".

Elasticity of Supply

The law of supply tells us that quantity supplied will respond to a change in price. The concept of elasticity of supply explains the rate of change in supply as a result of change in price. It is measured by the formula mentioned below
Elasticity of supply = Proportionate change in quantity supplied/Proportionate change in price

FORMS OF MARKET AND PRICE DETERMINATION
Market: Market is a place in which buyers and sellers come into contact for the purchase and sale of goods and services.

Market structure: refers to number of firms operating in an industry, nature of competition between them and the nature of product.

Types of market
(a) Perfect competition. (b) Monopoly (c) Monopolistic Competition (d) Oligopoly.

(a) **Perfect competition**:It refers to a market situation in which there are large number of buyers and sellers. Firms sell homogeneous products at a uniform price.
(b) **Monopoly market**: Monopoly is a market situation dominated by a single seller who has full control over the price.
(c) **Monopolistic competition**: It refers to a market situation in which there are many firms who sell closely related but differentiated products.
(d) **Oligopoly**:It is a market structure in which there are few large sellers of a commodity and large number of buyers.

1. Features of perfect competition:
1. Very large number of buyers and sellers.
2. Homogeneous product.
3. Free entry and exit of firms.
4. Perfect knowledge.
5. Firm is a price taker and industry is price maker.
6. Perfectly elastic demand curve (AR=MR)
7. Perfect mobility of factors of production.
8. Absence of transportation cost.
9. Absence of selling cost.

Features of monopoly:
1. Single seller of a commodity.
2. Absence of close substitute of the product.
3. Difficulty of entry of a new firm.
4. Negatively sloped demand curve(AR>MR)
5. Full control over price.
6. Price discrimination exists
7. Existence of abnormal profit.

Features of monopolistic competition
1. Large number of buyers and sellers but less than perfect competition.
2. Product differentiation.
3. Freedom of entry and exit.
4. Selling cost.
5. Lack of perfect knowledge.
6. High transportation cost.

7. Partial control over price.
8. Main features of Oligopoly.
8. Few dominant firms who are large in size

9. Mutual interdependence.
10. Barrier to entry.
11. Homogeneous or differentiated product.
12. Price rigidity.

Features of pure competition
1. Large number of buyers and sellers.
2. Homogeneous products.
3. Free entry and exit of firm.

Selling cost (Advertisement cost)-Cost incurred by a firm for the promotion of sale is known as selling cost.

Product differentiation- It means close substitutes offered by different producers to show their output differs from other output available in the market. Differentiation can be in colour, size packing, brand name etc to attract buyers.

Patent rights-Patent rights is an exclusive right or license granted to a company to produce a particular output under a specific technology.

Price discrimination- It refers to charging of different prices from different consumers for different units of the same product.

Production: Combining inputs in order to get the output is production.
PRODUCTION FUNCTION AND TIME PERIOD
1. Production function is a long period production function if all the inputs are varied.
2. Production function is a short period production function if few variable factors are combined with few fixed factors.

Concepts of product:
Total Product- Total quantity of goods produced by a firm / industry during a given period of time with given number of inputs.
Average product = output per unit of variable input.
APP = TPP / units of variable factor
Average product is also known as average physical product.
Marginal product (MP): refers to addition to the total product, when one more unit of variable factor is employed.
MPn = TPn – TPn-1
MPn = Marginal product of nth unit of variable factor
TPn = Total product of n units of variable factor
TPn-1= Total product of (n-1) unit of variable factor.
n=no. of units of variable factor
MP = ΔTP / Δn
We derive TP by summing up MP TP = ΣMP

COST
Cost of production: Expenditure incurred on various inputs to produce goods and services.
Types of Cost-
Money cost: Money expenses incurred by a firm for producing a commodity or service.

- Explicit cost: Actual payment made on hired factors of production. For example wages paid to the hired labourers, rent paid for hired accommodation, cost of raw material etc.
- Implicit cost: Cost incurred on the self – It owned factors of production. For example, interest on owners capital, rent of own building, salary for the services of entrepreneur etc.
- Opportunity cost: is the cost of next best alternative foregone / sacrificed.
- Fixed cost: are the cost which are incurred on the fixed factors of production. These costs remain fixed whatever may be the scale of output. These costs are present even when the output is zero. These costs are present in short run but disappear in the long run.
- Total Variable Cost: TVC or variable cost are those costs which vary directly with the variation in the output. These costs are incurred on the variable factors of production. These costs are also called "prime costs", "Direct cost" or "avoidable cost". These costs are zero when output is zero.
- Total Cost: is the total expenditure incurred on the factors and non-factor inputs in the production of goods and services. It is obtained by summing TFC and TVC at various levels of output.

1. Relation between TC, TFC and TVC
1. TFC is horizontal to x axis.
2. TC and TVC are S shaped (they rise initially at a decreasing rate, then at a constant rate & finally at an increasing rat(e) due to law of variable proportions.
3. At zero level of output TC is equal to TFC.
4. TC and TVC curves parallel to each other.

- Average variable cost
- It is the cost per unit of the variable cost of production.
- AVC = TVC / output.
- AVC falls with every increase in output initially.
- Once the optimum level of output is reached AVC starts rising.

Average total cost (AT(C) or Average cost (A(C): refers to the per unit total cost of production.
Marginal cost: Refers to the addition made to total cost when an additional unit of output is produced.

MCn = TCn-TCn-1 or MC = $\Delta TC / \Delta Q$
Note : MC is not affected by TFC.

Relationship between AC and MC
- Both AC & MC are derived from TC
- Both AC & MC are "U" shaped (Law of variable proportion)
- When AC is falling MC also falls & lies below AC curve.
- When AC is rising MC also rises & lies above AC
- MC cuts AC at its minimum where MC = AC

Revenue
Revenue: Money received by a firm from the sale of a given output in the market.
Total Revenue: Total sale receipts or receipts from the sale of given output.
TR = Quantity sold × Price (or) output sold × price
Average Revenue: Revenue or Receipt received per unit of output sold.
- AR = TR / Output sold
- AR and price are the same.
- TR = Quantity sold × price or output sold × price
- AR = (output / quantity × pric(e) / Output/ quantity
- AR= price
- AR and demand curve are the same. Shows the various quantities demanded at various prices.

Marginal Revenue: Additional revenue earned by the seller by selling an additional unit of output. MRn = TR n - TR n-1
TR = Σ MR

Relationship between AR and MR (when price remains constant or perfect competition)
Under perfect competition, the sellers are price takers. Single price prevails in the market. Since all the goods are homogeneous and are sold at the same price AR = MR. As a result AR and MR curve will be horizontal straight line parallel to OX axis. (When price is constant or perfect competition)

Relation between TR and MR (When price remains constant or in perfect competition)
When there exists single price, the seller can sell any quantity at that price, the total revenue increases at a constant rate (MR is horizontal to X axis)

Relationships between AR and MR under monopoly and monopolistic competition (Price changes or under imperfect competition)
- AR and MR curves will be downward sloping in both the market forms.
- AR lies above MR.
- AR can never be negative.
- AR curve is less elastic in monopoly market form because of no substitutes.
- AR curve is more elastic in monopolistic market because of the presence of substitutes.

Relationship between TR and MR. (When price falls with the increase in sale of output)
- Under imperfect market AR will be downward sloping – which shows that more units can be sold only at a less price.
- MR falls with every fall in AR / price and lies below AR curve.
- TR increases as long as MR is positive.
- TR falls when MR is negative.
- TR will be maximum when MR is zero

Break-even point: It is that point where TR = TC or AR=AC. Firm will be earning normal profit.
Shut down point: A situation when a firm is able to cover only variable costs or TR = TVC
- Formulae at a glance:
- TR = price or AR × Output sold or TR = Σ MR
- AR (pric(e) = TR ÷ units sold
- MR n = MR n – MR n-1

Main characteristics and various aspects of Indian Economy are being given below:
Agrarian Economy — Even after 60 years of independence, 49% of the work force of India is still agriculturist and its contribution to Gross Domestic Product is approximately 18%.
Mixed Economy — Indian Economy is a unique combination of public and private sector, i.e. a mixed economy. After liberalization, Indian Economy is going ahead as a capitalist economy or market economy.

SECTORS OF AN INDIAN ECONOMY –

a. Primary Sector-It includes all those activites which involve direct use of Natural resources such as agriculture,forestry,fishing,minerals etc.
b. Secondary sector-It involve all economic activities which use the produce of primary sector as its raw materials.It is also called the Manufacturing sector example production of bread from wheat.Its contribution to GDP is approximately 30% in Indian economy.
c. Tertiary sector-It includes all economic activities which provide "services" example are banking,tourism etc. Tertiary sector contribution in GDP is highest it is approximately 53%.

MACRO ECONOMICS
Important concepts of National Income:

(1) **Gross Domestic Product (GDP):-**
Gross Domestic Product (GDP) is the total market value of all final goods and services currently produced within the domestic territory of a country in a year. It is measured at two different prices which are GDP at factor cost and GDP at constant prices.When GDP is measured at current price it is called Nominal GDP and when it is measured at constant price or base year it is called real GDP.

(2) **Gross National Product of Market Price (GNP at MP):-**
Gross national product at market price is broad and comprehensive concept. GNP at MP measures the money value of all the final products produced annually in a counter plus net factor income from abroad. In short GNP is GDP plus net factor incomes earned from abroad. Net factor incomes is derived by reducing the factor incomes earned by foreigners from the country, in question from the factor incomes earned by the residents of that country from abroad.

(3) Net National Product at Market Price (NNP at MP):-
Net National product measures the net money value of final goods and services at current prices produced in a year in a country. It is the gross national product at market price less depreciation.
(4) Net Domestic Product (NDP):-NDP is calculated by deducting depreciation expense from Gross domestic product.

(5) Gross Domestic Product at Factor Cost (GDP at F(C):-
Gross national product at factor cost is obtained by deducting the indirect tax and adding subsidies to GNP at market price .

(6) Private Income:-
Private income means the income earned by private individuals from any source whether productive or unproductive. It can be arrived at from NNP at factor cost by making certain additions and deduction.
(7) Personal Income:-
Personal Income is the total income received by the individuals of country from all sources before direct taxes. Personal income is not the same as National Income, because personal income includes the transfer payments where as they are not included in national income. Personal income includes the wages, salaries, interest and rent received by the individuals.
(8) Disposable Income:-
Disposable income means the actual income which can be spent on consumption by individuals and families. It refers to the purchasing power of the house hold. The whole of disposable income is not spent on consumptions; a part of it is paid in the form of direct tax. Thus disposable income is that part of income, which is left after the exclusion of direct tax.

Concepts
- NNP Mp = GNP mp - depreciation
- NDP Mp = GDPmp – depreciation
- NDP Fc = NDP mp – Net indirect taxes (indirect tax – subsidies)
- GDP Fc = NDP fc + depreciation
- NNP Fc = GDP mp - depreciation + Net factor income from abroad – Net indirect taxes

Nominal-GNP- GNP measured in terms of current market prices is called nominal GNP.
Real GNP- GNP computed at constant prices (base year pric(e) is called real GNP.

Factor Payment: Factor payment is a payment made in lieu of providing goods and services. A worker gets the wages is the factor payment because he worked for it.

Transfer payment: If there is no obligation involved to deliver service or goods in return of the payments is called transfer payment. Examples are: donation, old age pension, unemployment benefit, scholarship etc.

METHODS OF CALCULATING NATIONAL INCOME-

Production generate incomes which are again spent on goods and services produced. Therefore, national income can be measured by three methods:
1. Output or Production method
2. Income method, and
3. Expenditure method.
Let us discuss these methods in detail.

1. Output or Production Method: This method is also called the value-added method. This method approaches national income from the output side. Under this method, it estimate the net contribution made by all the firms in a year. Value added by a firm is the difference between value of total production by the firm and value of intermediate goods used by the firm.

Value added=Value of output -Value of input

In order to arrive at the net value of production of a given industry, intermediate goods purchases by the producers of this industry are deducted from the gross value of production of that industry. The advantage of this method is that it reveals the contributions and relative importance and of the different sectors of the economy.

2. Income Method: This method approaches national income from the distribution side. According to this method, national income is obtained by summing up of the incomes earned from four factors of production which are rent(lan(d),wage(labour),profit(entreprenur) and interest (capital).

This method of estimating national income has the great advantage of indicating the distribution of national income among different income groups such as landlords, capitalists, workers, etc.

3. Expenditure Method: This method arrives at national income by adding up all the expenditure made on goods and services during a year. Thus, the national income is found by adding up the following types of expenditure by households, private business enterprises and the government: -

(a)Expenditure on consumer goods and services by individuals and households denoted by C. This is called personal consumption expenditure denoted by C.

(b)Expenditure by private business enterprises on capital goods and on making additions to inventories or stocks in a year. This is called gross domestic private investment denoted by I.

(c)Government's expenditure on goods and services i.e. government purchases denoted by G.

(d)Expenditure made by foreigners on goods and services of the national economy over and above what this economy spends on the output of the foreign countries i.e. exports – imports denoted by

(X – M). Thus, GDP = C + I + G + (X – M)

INFLATION TYPES-

•Inflation is the rate at which the general level of prices for goods and service is on rise. Inflation is measures by consumer price index.

•Types of Inflation-

(a)Demand Pull Inflation-when there is strong consumer demand and many individuals purchasing the same good it will increase the price of goods so it is called demand pull inflation.

(b)Cost push inflation- It is an inflation caused by an increase in the price of inputs like labour,raw material etc.The increased price of the factors of production leads to a decreased supply of goods.

Other types of Inflation-

(a)Deflation- When the overall price level decreases so that inflation rate becomes negative, it is called deflation. It is the opposite of the often-encountered inflation.It is decrease in general level price for shorter period.

(b)Disinflation- Disinflation is a situation of decrease in the rate of inflation over successive time period. It is simply slowing of inflation for longer period of time.

(c)Stagflation-It is a condition of slow economic growth and relatively high unemployment and there is decline in GDP.

(d)Hyperinflation- Hyperinflation is an extremely rapid period of inflation, usually
caused by a rapid increase in the money supply.

Some Important curves-

Lorenz curve-The Lorenz curve is a graphical representation of income inequality or wealth inequality developed by American economist Max Lorenz in 1905. The graph plots percentiles of the population according to income or wealth on the horizontal axis.

Philip curve- The Phillips curve is an economic concept developed by A. W. Phillips showing that inflation and unemployment have a stable and inverse relationship.

Gini coefficient -The Gini coefficient is a measure of inequality of a distribution. It is defined as a ratio with values between 0 and 1.

TAX STRUCTURE IN INDIA

Taxes are the amount of money government imposes on an individual or corporates directly or indirectly so as to generate revenue or to keep in check any black money activities in India.

The tax on incomes, customs duties, central excise and service tax are levied by the Central Government. The state Government levies agricultural income tax (income from plantations only), Value Added Tax (VAT)/ Sales Tax, Stamp Duty, State Excise, Land Revenue, Luxury Tax and Tax On Professions. The local bodies have the authority to levy tax on properties, octroi/entry tax and tax for utilities like water supply, drainage etc.

DIRECT TAXES-

These taxes are levied directly on the persons.These contributes major chunk of the total taxes collected in India.

INCOME TAX- This is a type of tax levied on the individuals whose income falls under the taxable category (more than 3 lakhs per annum).

The Indian Income Tax Department is governed by CBDT and is part of the Department of Revenue under the Ministry of Finance, Govt. of India.

Corporate Income Tax - This is the tax levied on the profits a corporate house earned in a year. In India, the Corporate Income tax rate is a tax collected from companies.

Securities Transaction Tax

Introduced in 2004, STT is levied on the sale and purchase of equities (ie Shares, Debentures or any other security). more clearly, The income a individual generate through the securities market be it through reselling of shares or through debentures is taxed by the government of India and the same tax is called as Securities Transaction Tax.

Banking Cash Transaction Tax

A bank transaction tax is a tax levied on debit (and/or credit) entries on bank accounts. It can be automatically collected by a central counterparty in the clearing or settlement process.

Capital Gains Tax:

Capital Gain tax as name suggests it is tax on gain in capital. If you sale property, shares, bonds & precious material etc. and earn profit on it then you are supposed to pay capital gain tax.

- PROPERTY TAX
- GIFT TAX
- HOUSE TAX
- PROFESSIONAL TAX
- DTC

INDIRECT TAXES

You go to a super market to buy goods or to a restaurant to have a mouthful there at the time of billing you often see yourself robbed by some more amount than what you enjoyed of, these extra amounts are indirect taxes, which are collected by the intermediaries and when govt tax the income of the intermediaries this extra amount goes in to government's kitty, hence as the name suggests these are levied indirectly on common people.

- Indirect Taxes:-
- SALES TAX
- VAT(VALUE ADDED TAX)
- CUSTOM DUTY
- OCTROI
- EXCISE DUTY
- ANTI DUMPING DUTY
- ENTERTAINMENT TAX
- TOLL TAX
- SERVICE TAX
- GST-GOODS & SERVICE TAX

Sales Tax :

Sales tax charged on the sales of movable goods.

Value Added Tax:

When we pay an extra amount of price for the goods and services we consume or buy, that extra amount of money is called as VAT. This taxes is about to be replaced by Goods and Services Tax.

Customs Duty :

Customs Duty is a type of indirect tax levied on goods imported into India as well as on goods exported from India. In India, the basic law for levy and collection of customs duty is Customs Act, 1962. It provides for levy and collection of duty on imports and exports.

Custom duty & Octroi (On Goods):-

Custom Duty is a type of indirect tax charged on goods imported into India. One has to pay this duty, on goods that are imported from a foreign country into India

Octroi is tax applicable on goods entering from one state to another for consumption or sale. In simple terms one can call it as Entry Tax.

Excise Duty:-

An excise duty is a type of tax charged on goods produced within the country. Another name of this tax is CENVAT (Central Value Added Tax).

Service Tax-

Service Tax is a tax imposed by Government of India on services provided in India. The service provider collects the tax and pays the same to the government. It is charged on all services except the services in the negative list of services.

GST(Goods and services tax)-

Goods and Service Tax is an value added indirect tax levied on the supply of goods and services. It has replaced many indirect tax laws that previously existed in India. It is one indirect tax for the entire country. It remove the Cascading effect on the sale of goods and services.

There are 3 taxes applicable under GST: CGST, SGST & IGST.

CGST: Collected by the Central Government on an intra-state sale (Eg: Within Maharashtr(a)

SGST: Collected by the State Government on an intra-state sale (Eg: Within Mahaashtr(a)
IGST: Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

It is divided into five tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%.
As per Article 279A (1) of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A.

GST Council which will be a joint forum of the Centre and the States, shall consist of the following members: -
(a)Union Finance Minister - Chairperson
(b) The Union Minister of State, in-charge of Revenue of finance - Member
(c) The Minister In-charge of finance or taxation or any other Minister nominated by each State Government – Members

Economic Reforms-

Economic Reforms were introduced in 1991 in India. First Generation Reforms were aimed at stabilisation of Indian economy and were macro level in nature. It includes liberalisation & deregulation of industry, financial sector reforms, taxation reforms etc. Second Generation Reforms aimed at structural changes and are micro level in nature. It will include labour reforms, land reforms, capital market reforms, expenditure reforms and power sector reforms etc.
Disinvestment means to decrease the share of government in the industries.
In 1996, Disinvestment Commission was constituted to review, give suggestions and make regulations on the issue of disinvestment.
Shri G.V. Ramkrishna was the first Chairman of Disinvestment Commission.

In the year 1992, National Renewal Fund was constituted for rehabilitation of displaced labourers of sick industrial units affected due to industrial modernization, technological development etc.
"Navratna" is a company which is rising at world level. To encourage these companies, the government has given them complete autonomy. 11 such companies have been identified.
In the second phase of economic reforms programme, the main aim is to eradicate poverty from the country and development at the rate of 7 to 8%.
Some Important Terminology Relating to the New Economic Reforms Policy:
Privatisation —To increase participation of private sector in the public sector companies by capital investment or by management or both or to hand over a public sector unit to a private company is called Privatisation.
Liberalisation —Liberalisation is the process by which government control is relaxed or abolished. In this process privatisation is also included.

Globalisation —The process of amalgamation of an economy with world-economy is called Globalisation. It is signified by lower duties on import & export. By doing so, that sector will also get private capital and foreign technology.
Disinvestment —To reduce the govt. share in the public sector is called disinvestment.

Public Sector

In terms of ownership public sector enterprise (PS(E) comprises all undertakings that are owned by the government, or the public, whereas private sector comprises enterprises that are owned by private persons.
In case of private sector the main objective is maximization of profits whereas PSE's mainly aim for fulfillment of public, or social interest.

- The main Objectives of Public Sector are:
- To promote rapid economic development through creation and expansion of infrastructure;
- To generate financial resources for development;
- To promote redistribution of income and wealth;
- To create employment opportunities;
- To encourage the development of small scale and ancillary industries;
- To promote exports on the new side and import substitution on the other; and
- To promote balanced regional development.
- Navratna Maharatna & Mini Ratna

Navratna was the title given originally to nine Public Sector Enterprises (PSEs), identified by the Government of India in 1997 as its most prestigious, which allowed them greater autonomy to compete in the global market. The number of PSEs having Navratna status has been raised to 16, the most recent addition being Oil India Limited.

PSU companies are divided into three categories:

- Maharatna
- Navratna
- Miniratna CPSEs: Category I & Category I

Types of Poverty

(a)**Absolute poverty-**

It is based on assessments of minimum subsistence requirement or basic needs such as food,cloth,shelter,health etc

(b)**Relative poverty-**

It is based on the different parameters set for living of standard set up by different society.

Unemployment

Unemployment is a situation when a capable and willing to do job workforce does not get work. However, it can be of two kinds (i) voluntary unemployed and (ii) involuntary unemployed. Here we are concerned with the second category of unemployed persons.

In India unemployment is structural in nature due to lack of productive capacity and resource.

The main reasons for unemployment in India are slow economic development, population explosion, outdated technique, improper education system and limited effect of government planning.

Types of Unemployment

Cyclical unemployment: Cyclical unemployment is a factor of overall unemployment that relates to the cyclical trends in growth and production that occur within the business cycle.

Frictional unemployment: This kind of unemployment is temporary. It is the result of a situation when new industries drive out old ones and workers change over to better jobs.

Open unemployment: It refers to those who have no work to do even though they are able and willing to do work.

Seasonal unemployment: This occurs at certain period of the work when work load is comparatively less, and hence people are rendered jobless. For example, in the period between past harvest and next sowing, agricultural laborers are unemployed. It means the unemployment of the farmers and farm labourers during non-crop seasons.

Educated unemployment: This is mainly found in urban areas. Those educated persons who are unable to get work come under this category.

Underemployment: It results when a person contributes to production less than what he or she is capable of, for example, an engineer working as a clerk is underemployed.

In India, the data relating to unemployment are collected by National Sample Survey Organisation (NASO). This Organisation has the following concepts with regard to unemployment:.

Terms related with Unemployment-

(a)**Labour force participation rate-**It is defined as the number of person in the labour force per 1000.

(b)**Working population-**In India those who are above 15 years and below 60 years are considered as the working population.

RESERVE BANK OF INDIA-

Functions of RBI as a central bank of India are explained briefly as follows:

Bank of Issue: The RBI formulates, implements, and monitors the monitory policy. Its main objective is maintaining price stability and ensuring adequate flow of credit to productive sector.

Regulator-Supervisor of the financial system: RBI prescribes broad parameters of banking operations within which the country's banking and financial system functions. Their main objective is to maintain public confidence in the system, protect depositor's interest and provide cost effective banking services to the public.

Manager of exchange control: The manager of exchange control department manages the foreign exchange, according to the foreign exchange management act, 1999. The manager's main objective is to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency: It's main objective is to give the public adequate quantity of supplies of currency notes and coins and in good quality. The Finance Ministry issues Currency Notes and Coins of rupee one, all other Currency Notes are issued by the Reserve Bank of India.

Developmental role: The RBI performs the wide range of promotional functions to support national objectives such as contests, coupons maintaining good public relations and many more.

Related functions: There are also some of the related functions to the above mentioned main functions. They are such as; banker to the government, banker to banks etc.

Banker to government performs merchant banking function for the central and the state governments; also acts as their banker.

Banker to banks maintains banking accounts to all scheduled banks.

Controller of Credit: RBI performs the following tasks:

- It holds the cash reserves of all the scheduled banks.
- It controls the credit operations of banks through quantitative and qualitative controls.
- It controls the banking system through the system of licensing, inspection and calling for information.
- It acts as the lender of the last resort by providing rediscount facilities to scheduled banks.

Supervisory Functions: In addition to its traditional central banking functions, the Reserve Bank performs certain non-monetary functions of the nature of supervision of banks and promotion of sound banking in India. The Reserve Bank Act 1934 and the banking regulation act 1949 have given the RBI wide powers of supervision and control over commercial and co-operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction and liquidation.

Promotional Functions: With economic growth assuming a new urgency since independence, the range of the Reserve Bank's functions has steadily widened. The bank now performs a variety of developmental and promotional functions, which, at one time, were regarded as outside the normal scope of central banking. The Reserve bank was asked to promote banking habit, extend banking facilities to rural and semi-urban areas, and establish and promote new specialized financing agencies.

Monetary Policy - Monetary policy is govern by RBI to control the amount of liquidity and avability of credit in economy through following instrument

Cash reserve Ratio - CRR is the amount of funds that the banks have to keep with the RBI. If the central bank decides to increase the CRR, the available amount with the banks comes down. The RBI uses the CRR to drain out excessive money from the system. Presently the Cash reserve Ratio is 4%.

Repo rate - The rate at which the RBI lends money to commercial banks is called repo rate. It is an instrument of monetary policy. Whenever banks have any shortage of funds they can borrow from the RBI.

A reduction in the repo rate helps banks get money at a cheaper rate and vice versa. The repo rate currently is 6%.It is used by commercial banks for short term by to meet their day-to-day obligations.

Reverse Repo Rate - It is the rate at which the RBI borrows money from commercial banks. Banks are always happy to lend money to the RBI since their money are in safe hands with a good interest.

An increase in reverse repo rate can prompt banks to park more funds with the RBI to earn higher returns on idle cash. It is also a tool which can be used by the RBI to drain excess money out of the banking system.

Bank Rate - Bank rate is also called as the discount rate. It is the rate of interest which a central bank charges on the loans and advances provided to commercial banks.It is used for long term term.

Statutory Liquidity Ratio (SLR) - Every bank is required to maintain at the close of business every day, a minimum proportion of their Net Demand and Time Liabilities as liquid assets in the form of cash, gold and un-encumbered approved securities. The ratio of liquid assets to demand and time liabilities is known as Statutory Liquidity Ratio (SLR). RBI is empowered to increase this ratio up to 40%. An increase in SLR also restricts the bank's leverage position to pump more money into the economy.

Marginal Standing Facility Rate - RBI announced that MSF scheme has become effective from 09th May, 2011. Under this scheme, Banks will be able to borrow up to 1% of their respective Net Demand and Time Liabilities. The rate of interest on the amount accessed from this facility will be 100(i.e. 1%) basis point above the repo rate. This scheme is likely to reduce volatility in the over night rates and improve monetary transmission Overnight.

Money supply

The Reserve Bank of India (RBI) is the central bank of our country. It manages the monetary system of our country. It has classified the money supply of our country into four components.
They are :
M1 = Currency with the public. It includes coins and currency notes + demand deposits of the public. M1 is also known as narrow money ;
M2 = M1 + post office savings deposits ;
M3 = M1 + Time deposits of the public with the banks. M3 is also known as broad money ; and
M4 = M3 + total post office deposits.
Note: Besides savings deposits, people maintain fixed deposits of different maturity periods with the post office.

Fiat Money: Currency notes in circulation are normally referred to as fiat money. For example, one Rupee notes issued by the Government of India is Fiat money.The notes issued by the RBI are usually referred to as bank notes.They are in the nature of promissory notes.

Stock Exchange

The stock exchange is the market for buying and selling of stocks, shares, securities, bonds & debentures etc. It increases the market ability of existing securities by providing simple method for public & others to buy and sell securities.
Some Important Share Price Index of India
BSE SENSEX — This is the most sensitive share index of the Mumbai Stock Exchange. This is the representative index of 30 main shares. BSE is the oldest stock exchange of India, founded in 1875.
BSE 200 — This represents 200 shares of Mumbai Stock Exchange. Its base year is 1989-90.
DOLLEX — Index of 200 BSE Dollar Value Index is called DOLLEX. Its base year is 1989-90.
NSE-50 — From 28th July, 1998, its name is S & P CNX Nifty. National Stock Exchange has launched a new share Price Index, NSE-50 in place of NSE-100 in April 1996. NSE-50 includes 50 companies shares. This stock exchange was founded on Ferwani Committee’s recommendation in 1994.
CRISIL 500 — is the new share Price Index introduced by Credit Rating Agency CRISIL on January 18, 1996. It has 1994 as the base year.
The National Stock Exchange (NS(E) has launched a new version of its online trading software called ‘National Exchange for Automatic Trading’ (NEAT).

Types of Shares

A company may have many different types of shares that come with different conditions and rights.
Equity shares: An equity share, commonly referred to as ordinary share also represents the form of fractional or part ownership in which a shareholder, as a fractional owner, undertakes the maximum entrepreneurial risk associated with a business venture. The holders of such shares are members of the company and have voting rights.
Preference shares: Preference shares are shares which are preferred over common or equity shares in payment of surplus or dividend i.e preference shareholders are the first to get dividends in case the company decides to pay out dividends. Owners of preference shares gets fixed dividend.

Deferred shares: These shares are those shares which are held by the founders or pioneer or beginners of the company. They are also called as Founder shares or Management shares
Bonus shares: The word bonus means a gift given free of charge. Bonus shares are those shares which are issued by the company free of charge as bonus to the shareholders. They are issued to the existing shareholders in proportion to their existing share holdings.
Some Other Important terms
Devaluation :A devaluation is an official lowering of the value of a country's currency within a fixed exchange rate system. A currency's devaluation is the result of a nation's monetary policy.
Appreciation:Appreciation of the currency refers to the increase in the external value of the domestic currency occurred due to the operation of market forces.

What do you mean by Revenue Expenditure and Capital Expenditure?

i. **Revenue Expenditure** :- It is the expenditure incurred for the normal running of government departments and provision of various services like interest charges on debt, subsidies etc.,
ii. **Capital Expenditure**:- It consists mainly of expenditure on acquisition of assets like land, building, machinery, equipment etc., and loans and advances granted by the Central Government to States & Union Territories.

Explain the four different concepts of Budget deficit.

These are the four different concepts of Budget Deficit.

(a) Budget Deficit:- It is the difference between the total expenditure, current revenue and net internal and external capital receipts of the government.

Formulae: B.D = B.E > B.R (B.D= Budget Deficit, B.E. Budget Expenditure B.R= Budget Revenue

(b) Fiscal Deficit:- It is the difference between the total expenditure of the government, the revenue receipts PLUS those capital receipts which finally accrue to the government.

Formulae: F.D = B.E - B.R (B.E > B.R. other than borrowings) F.D=Fiscal Deficit, B.E= Budget Expenditure, B.R. = Budget Receipts.

(c) Revenue Deficit: - It is the excess of governments revenue expenditures over revenue receipts.

Formulae: R.D= R.E – R.R., When R.E > R.R., R.D= Revenue Deficit, R.E= Revenue Expenditure, R.R. = Revenue Receipts.

(d) Primary Deficit: - It is the fiscal deficit MINUS Interest payments. Formulae: P.D= F.D – I.P, [P.D= Primary Deficit, F.D= Fiscal Deficit, I.P= Interest Payment.]

BALANCE OF PAYMENTS: MEANING AND COMPONENTS

The balance of payments of a country is a systematic record of all economic transactions between residents of a country and residents of foreign countries during a given period of time.

BALANCE OF TRADE AND BALANCE OF PAYMENTS

Balance of trade: Balance of trade is the difference between the money value of exports and imports of material goods (visible item)

Balance of payments: Balance of payments is a systematic record of all economic transactions between residents of a country and the residents of foreign countries during a given period of time. It includes both visible and invisible items. Hence the balance of payments represents a better picture of a country's economic transactions with the rest of the world than the balance of trade.

STRUCTURE OF BALANCE OF PAYMENT ACCOUNTING

A balance of payments statement is a summary of a Nation's total economic transaction undertaken on international account. There are two types of account.

1. **Current Account:** It records the following three items.

(a) Visible items of trade: The balance of exports and imports of goods is called the balance of visible trade.

(b) **Invisible trade:** The balance of exports and imports of services is called the balance ofinvisible trade E.g. Shipping insurance etc.

(c) **Unilateral transfers**: Unilateral transfers are receipts which resident of a country receive (or) payments that the residents of a country make without getting anything in return e.g. gifts.

The net value of balances of visible trade and of invisible trade and of unilateral transfers isthe balance on current account.

2.**CAPITAL ACCOUNT**: It records all international transactions that involve a resident of the domestic country changing his assets with a foreign resident or his liabilities to a foreign resident.

EXCHANGE

Foreign exchange rate-Foreign exchange rate is the rate at which currency of one country can be exchanged for currency of another country.

Fixed Exchange Rate- Fixed Rate of exchange is a rate that is fixed and determined
by the government of a country and only the government can change it.

Equilibrium rate of exchange- Equilibrium exchange rate occurs when supply of and
demand for foreign exchange are equal to each other.

Flexible exchange rate.- Flexible rate of exchange is that rate which is determined by
the demand and supply of different currencies in the foreign exchange market.

Appreciation of currencies-Appreciation of a currency occurs when its exchange
value in relation to currencies of other country increases.

Spot exchange rate-The spot exchange rate refers to the rate at which foreign
currencies are available on the sport.

Forward market- Market for foreign exchange for future delivery is known as the
forward market.

Balance of payments-

Balance of payments refers to the statement of accounts recording all economic
transactions of a given country with the rest of the world.