Indian Economy - Important terms

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Economy

↳ basic units.
1. households
2. production units.

Modern economy

↳ Types.

- Ownership and Management of Resources
  - Capitalist
    - private enterprises
    - E.g USA, UK.
  - Socialist
  - Mixed Economy
    - E.g India
- Development
  - Less Developed
    - lowest HDI
    - LDC
    - Bangladesh, Central African
  - Developed
    - Industrialised
    - USA, UK, France, Japan, Korea.
  - Developing
    - China, India.
- Trade
  - Open
    - GDP
  - Closed

UK.

Bangladesh,
Central African Republic,
South Sudan,
Sierraleone,

Japan
Korea.

public / state ownership enterprise

E.g China, Russia

INDIA as a mixed economy

→ 51% belonging to the state

Open Economy — India after 1991, Chile, Argentina.

Economy of India.

NSO 31st May, 2017.

2020 - 21 — ₹ 85,959. [per capita income]

Sectors of Economy

Primary Sector — Agriculture and Allied Sectors.

20.19% in GDP.

Secondary Sector. [Industrial sector] → 25.92% in the GDP.

↳ construction, manufacturing, electricity, gas, water supply. .

Tertiary Sectors.

↳ services.

↳ Business, transport, communication, banking, insurance . . .

54% — GDP contribution.

→ Quaternary Sector

↳ information services, computing, ICT.
Consultancy,
Research & Development.

2) Quinary Sector.

↳ top executives / officials — govt, science, media. universities, healthcare, culture,

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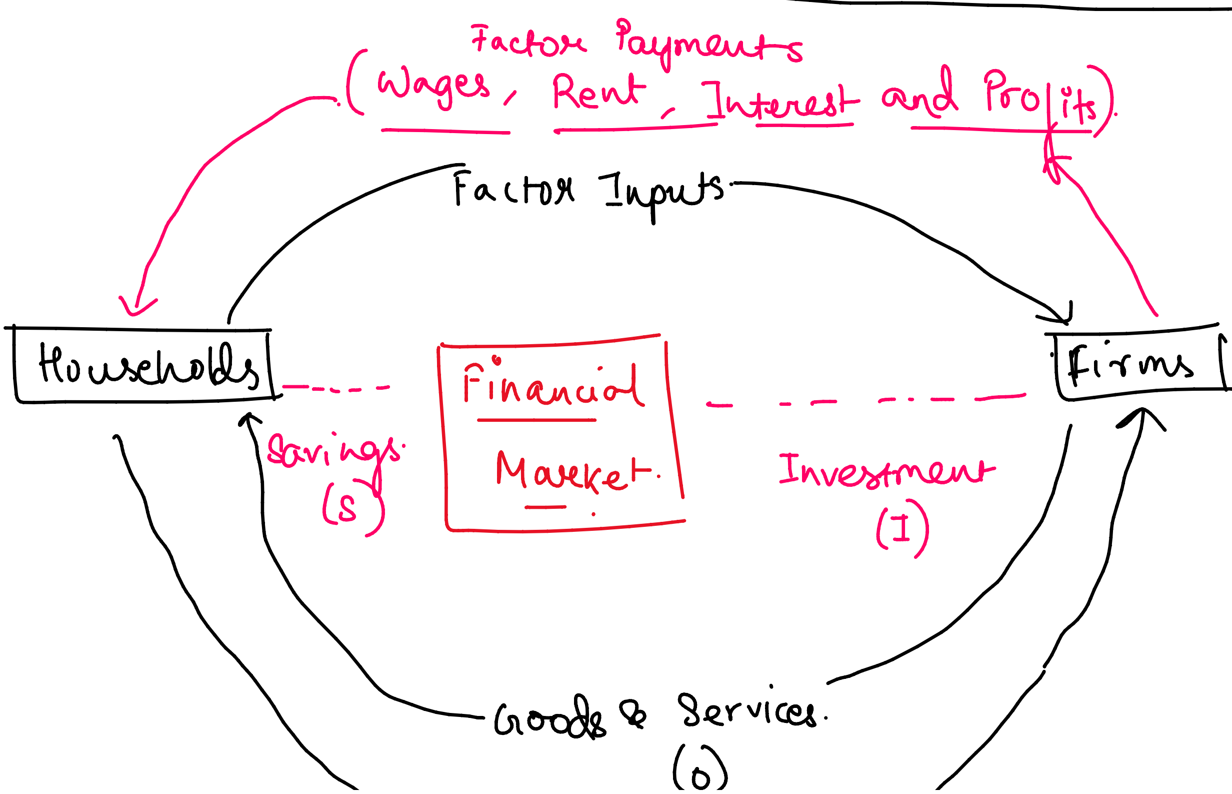
- Circular flow of Income and Product.
- Flow of Income. / Money Flow
- Flow of Product / Real Flow.



Goods & Services.
(O)

consumption
Expenditure (C)

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labour, land, investment, money, income, production, taxes, govt. expenditures.

Adam Smith - father of Economics. [1776]

Microeconomics

Macroeconomics.

National income,
employment
poverty
Balance of Payments,
inflation.

(i) Household Sector.

Consumers.

(ii) Producer Sector.

↳ business sector.

(iii) Govt. Sector.

↳ welfare agency + producer.

(iv) External Sector

↳ monetary transactions.

Factors of Production.

4 factors.

- Land - Natural resources
- Labour - Human skills and effort
- Capital - Equipment, materials
- Enterprise - Organisation / undertaking engaged in

Enterprise - Organisation / undertaking engaged in the process of production.

Economic Development

↳ Social justice

↳ fair distribution.

INDICATORS OF ECONOMIC DEVELOPMENT.

↳ HDI

↳ MPI

↳ WHR

↳ GII

↳ GHI

What is an Economy?

An economy refers to the system of production, distribution, and consumption of goods and services within a society or a geographic area. It involves the ways in which resources are allocated, businesses operate, and individuals make choices to satisfy their needs and wants. Economies can vary in size and structure, ranging from local and national economies to the global economy.

Key components and characteristics of an economy include:

1. **Resources:**
   - Economies are based on the availability and allocation of resources, including natural resources (such as land, minerals, and water), labor, and capital (financial and physical assets).

2. **Production:**
   - The production of goods and services is a fundamental aspect of an economy. This involves the transformation of inputs (resources) into outputs (products or services) through various processes and technologies.

3. **Distribution:**
   - Distribution involves the movement of goods and services from producers to consumers. It includes the transportation, logistics, and marketing channels that facilitate the flow of products through the supply chain.

4. **Consumption:**
   - Consumption refers to the utilization of goods and services by individuals, households, businesses, and government entities to satisfy their needs and wants. Consumer behavior, preferences, and spending patterns play a crucial role in shaping the economy.

5. **Markets:**
   - Markets are mechanisms that bring together buyers and sellers to exchange goods and services. Markets can take various forms, including physical locations, online platforms, and financial markets. Prices in markets play a critical role in signaling information about supply and demand.

6. **Government:**
   - Governments play a significant role in economies through the establishment of rules, regulations, and policies that influence economic activities. Governments may also engage in fiscal and monetary policies to manage economic stability and growth.

7. **Economic Agents:**
   - Economic agents are individuals, households, businesses, and governments that participate in economic activities. Their decisions, interactions, and behaviors collectively shape the dynamics of the economy.

8. **Sectors:**
   - Economies are often divided into different sectors based on the nature of economic activities. Common sectors include the primary sector (agriculture, mining), the secondary sector (manufacturing), and the tertiary sector (services).

9. **Trade:**
   - Trade involves the exchange of goods and services between different regions or countries. International trade is a significant aspect of the global economy, allowing nations to specialize in the production of certain goods and benefit from comparative advantages.

10. **Economic Indicators:**
    - Various economic indicators, such as Gross Domestic Product (GDP), unemployment rates, inflation rates, and others, are used to assess the overall health and performance of an economy.

11. **Economic Systems:**
    - Different economies operate under distinct economic systems, such as market economies, command economies, mixed economies, and traditional economies. These systems dictate the roles of markets, governments, and other institutions in resource allocation.

12. **Institutions:**
    - Economic institutions, including legal systems, financial institutions, and regulatory bodies, contribute to the functioning and stability of an economy. They provide a framework for economic activities and interactions.

What is a Capitalist, Socialist and Mixed Economy?

Capitalist, socialist, and mixed economies are three distinct economic systems that differ in their approach to the ownership of resources, means of production, and the role of government in economic activities. Here are the key characteristics of each:

1. **Capitalist Economy:**

   - **Ownership:** In a capitalist economy, the means of production, such as factories and businesses, are predominantly privately owned. Private individuals or corporations own and control resources, and decisions about production and distribution are driven by private enterprises seeking profits.

   - **Market Mechanism:** Capitalist economies rely on the market mechanism to allocate resources. Prices are determined by supply and demand, and the interactions of buyers and sellers in markets guide resource allocation and production decisions.

   - **Profit Motive:** The primary motivation in a capitalist system is the pursuit of profit. Businesses aim to maximize their profits, and individuals are incentivized to make choices that enhance their economic well-being.

   - **Limited Government Intervention:** Capitalist economies generally advocate for limited government intervention in economic affairs. The role of the government is typically to enforce property rights, contracts, and regulations to maintain a functioning market.

   - **Examples:** The United States, United Kingdom, and many Western countries have capitalist economies, although these economies often have elements of mixed economies as well.

2. **Socialist Economy:**

   - **Ownership:** In a socialist economy, the means of production are owned and controlled by the state or by the community as a whole. The goal is to eliminate private ownership of major industries and redistribute wealth more equitably.

   - **Central Planning:** Socialist economies often rely on central planning to allocate resources. Central authorities, such as the government or a central planning board, make decisions about production levels, resource allocation, and distribution of goods and services.

   - **Social Welfare:** Socialist systems typically emphasize social welfare and aim to address inequalities. Social services such as healthcare, education, and social security are often provided by the state to ensure a basic standard of living for all citizens.

   - **Common Ownership:** Socialism promotes the idea of common ownership, where the benefits of production are shared collectively rather than being concentrated in the hands of private individuals or corporations.

   - **Examples:** Historically, countries like the former Soviet Union, China under Mao Zedong, and Cuba have implemented socialist economic systems. Some modern European countries, like Sweden and Norway, incorporate elements of socialism within a mixed economy.

3. **Mixed Economy:**

   - **Ownership:** In a mixed economy, there is a mix of both private and public ownership of the means of production. Certain industries and services may be privately owned, while others are owned or heavily regulated by the government.

   - **Market and Planning:** Mixed economies combine elements of market mechanisms and central planning. While market forces play a role in resource allocation, the government may intervene to address market failures, regulate industries, and promote social welfare.

   - **Government Intervention:** The degree of government intervention can vary in mixed economies. Governments may engage in economic planning, provide public goods and services, regulate industries, and implement social welfare programs.

   - **Flexibility:** Mixed economies allow for flexibility and adaptability. They can incorporate market-driven innovation and competition while also addressing social and economic inequalities through government intervention.

- **Examples:** Many countries around the world, including the United States, Canada, Germany, and Australia, have mixed economies. The specific mix of market and government involvement can vary widely among these nations.

Developed, less developed and developing economies

1. **Developed Economies:**
   - **Characteristics:**
     - High levels of industrialization and technological advancement.
     - High standard of living and quality of life for a significant portion of the population.
     - Advanced infrastructure, including transportation, communication, and healthcare.
     - Diversified and mature economies with well-established financial and service sectors.
     - High levels of education and skilled workforce.
   - **Examples:** The United States, Canada, Germany, Japan, Australia, and most Western European countries are typically classified as developed economies.

2. **Less Developed Economies (LDEs):**
   - **Characteristics:**
     - Lower levels of industrialization and technological development compared to developed economies.
     - Lower per capita income and a larger percentage of the population living in poverty.
     - Limited access to education, healthcare, and basic infrastructure.
     - Economies may be heavily dependent on agriculture or primary industries.
     - Higher susceptibility to economic fluctuations and external shocks.
   - **Examples:** Many countries in Africa, Asia, and parts of Latin America are often classified as less developed economies. Specific countries may include those facing challenges in terms of economic development and poverty reduction.

3. **Developing Economies:**
   - **Characteristics:**
     - Transitional economies that are in the process of industrialization and economic growth.
     - Moderate levels of industrialization, with a focus on diversifying the economy.
     - Improving standards of living and increasing access to education and healthcare.
     - Emerging infrastructure development and investment in key sectors.
     - Potential for economic growth and a shift from primary to secondary and tertiary industries.
   - **Examples:** China, India, Brazil, Mexico, and many countries in Southeast Asia are often classified as developing economies. These nations have experienced rapid economic growth and are in the process of advancing towards developed status.

Open and Closed Economy

An open economy and a closed economy refer to the extent to which a country engages in international trade and financial transactions. These terms describe the level of economic integration and interaction with the global economy. Here are the key characteristics of open and closed economies:

1. **Open Economy:**
   - **Definition:** An open economy is characterized by a high degree of economic interaction and integration with the rest of the world. This includes the exchange of goods, services, capital, and sometimes labor across national borders.

- **Key Features:**
  - **International Trade:** Open economies actively engage in international trade, importing and exporting goods and services with other countries.
  - **Capital Flows:** There is significant movement of capital across borders, including foreign direct investment (FDI) and portfolio investment.
  - **Exchange Rates:** Open economies typically have flexible exchange rates that are influenced by market forces.
  - **Global Economic Influences:** Economic conditions in other countries can impact the performance of an open economy. Factors such as changes in global demand, commodity prices, and interest rates can affect the domestic economy.
  - **Examples:** The United States, Germany, China, and many other large economies are considered open economies due to their extensive international trade and financial transactions.

2. **Closed Economy:**
- **Definition:** A closed economy, also known as a self-sufficient or autarkic economy, is characterized by minimal or no interaction with the global economy. It relies on domestic production and consumption without significant involvement in international trade or financial markets.
- **Key Features:**
  - **Limited International Trade:** Closed economies produce and consume goods and services domestically, with minimal reliance on imports or exports.
  - **Capital Isolation:** Capital flows, such as foreign direct investment and international borrowing, are limited or restricted.
  - **Fixed Exchange Rates:** Closed economies may have fixed exchange rates, where the value of their currency is tied to another currency or a commodity.
  - **Limited Exposure to Global Economic Conditions:** Economic conditions in other countries have minimal direct impact on a closed economy.
  - **Examples:** Historically, some countries pursued closed or autarkic policies, especially during periods of economic self-sufficiency or protectionism. However, in the contemporary globalized world, fully closed economies are rare.

All about the Economy of India

1. **GDP and Growth:**
- India is one of the world's largest economies by GDP (Gross Domestic Product). It has experienced significant economic growth over the past few decades. However, growth rates have varied, and the economy faced challenges, including the global economic slowdown and the impact of the COVID-19 pandemic.

2. **Sectors:**
- The Indian economy is diverse and includes several key sectors:
  - **Agriculture:** Agriculture plays a crucial role, employing a significant portion of the population. However, there have been efforts to modernize the sector and address issues such as low productivity and farmer income.
  - **Services:** The services sector, including information technology, business process outsourcing, finance, and other services, has been a major driver of economic growth.
  - **Industry:** Manufacturing and industrial sectors contribute to economic output, with a focus on sectors like automotive, textiles, and pharmaceuticals.

3. **Demographics:**
- India has a large and youthful population, which can be a demographic advantage. However, challenges related to employment, skill development, and providing opportunities for the growing population remain.

4. **Infrastructure:**
 - Infrastructure development is a priority for India. The government has invested in projects related to transportation, energy, and urban development to support economic growth.

5. **Foreign Direct Investment (FDI):**
 - India has sought to attract foreign investment through various economic reforms and liberalization measures. Key sectors for FDI include retail, manufacturing, and services.

6. **Monetary Policy:**
 - The Reserve Bank of India (RBI) is the country's central bank and formulates monetary policy to maintain price stability and support economic growth.

7. **Fiscal Policy:**
 - The government plays a crucial role in shaping fiscal policy. Budgets outline government spending priorities and revenue generation efforts.

8. **Reforms:**
 - India has undertaken various economic reforms to enhance the business environment, attract investment, and streamline regulations. Reforms include the introduction of the Goods and Services Tax (GST) and initiatives to improve ease of doing business.

9. **Challenges:**
 - India faces challenges such as poverty, inequality, and regional disparities. Additionally, issues related to infrastructure bottlenecks, regulatory complexities, and bureaucratic hurdles have been areas of concern.

10. **Global Trade:**
 - India is an active participant in global trade. It has trade relationships with various countries and is a member of international organizations like the World Trade Organization (WTO).

11. **Digital Economy:**
 - The digital economy has seen significant growth in India, with a rising number of internet users, increasing digital transactions, and a focus on digital inclusion.

Different Sectors of the Indian Economy.

The Indian economy is broadly categorized into three main sectors, each playing a distinct role in the country's economic development. These sectors are:

1. **Primary Sector (Agriculture):**
 - **Overview:** The primary sector is dominated by agriculture and related activities. Despite the ongoing process of industrialization and urbanization, a significant portion of the Indian population is engaged in agriculture.
 - **Key Features:**
 - **Crops:** India produces a variety of crops, including rice, wheat, sugarcane, cotton, and various fruits and vegetables.
 - **Livestock:** Livestock farming, including dairy and poultry, is an essential component of the agricultural sector.
 - **Challenges:** The sector faces challenges such as low productivity, dependence on monsoons, and issues related to land fragmentation.

2. **Secondary Sector (Industry):**
 - **Overview:** The secondary sector comprises manufacturing and industrial activities. It involves the processing of raw materials into finished goods and the creation of value-added products.
 - **Key Features:**
 - **Manufacturing:** India has a diverse manufacturing base, including sectors like textiles,

chemicals, pharmaceuticals, automobiles, and electronics.
   - **Infrastructure:** The development of infrastructure, including energy, transportation, and telecommunications, is crucial for industrial growth.
   - **Challenges:** The sector faces challenges related to infrastructure bottlenecks, regulatory complexities, and the need for technological advancements.

3. **Tertiary Sector (Services):**
  - **Overview:** The tertiary sector is the largest and fastest-growing sector of the Indian economy. It encompasses a wide range of services that contribute significantly to GDP and employment.
  - **Key Features:**
   - **Information Technology (IT) and Business Process Outsourcing (BPO):** India has emerged as a global hub for IT and BPO services, providing software development, back-office support, and other services to international clients.
   - **Financial Services:** Banking, insurance, and other financial services play a crucial role in the tertiary sector.
   - **Healthcare and Education:** Services related to healthcare and education are essential components of the tertiary sector.
   - **Tourism:** India has a growing tourism industry, attracting visitors with its cultural, historical, and natural attractions.
  - **Challenges:** While the services sector has seen remarkable growth, challenges include skill development, ensuring quality in service delivery, and addressing issues related to informal employment.

In addition to these three main sectors, there is a growing emphasis on newer sectors that are increasingly important for India's economic development:

4. **Quaternary Sector (Knowledge-based Services):**
  - This sector involves knowledge-based services, including research and development, information services, and innovation. It plays a crucial role in driving technological advancements and enhancing competitiveness.

5. **Quinary Sector (Human Services):**
  - The quinary sector includes services that focus on human well-being and quality of life, such as healthcare, education, and social services. These services contribute to human development and societal progress.

Microeconomics and Macroeconomics

1. **Microeconomics:**
  - **Definition:** Microeconomics is the branch of economics that deals with the behavior of individual economic agents, such as households, firms, and industries. It examines how these entities make decisions regarding the allocation of resources and the interactions that occur in specific markets.
  - **Key Concepts:**
   - **Supply and Demand:** Microeconomics analyzes the forces of supply and demand that determine the prices of goods and services in specific markets.
   - **Utility and Preferences:** It explores how individuals make choices based on their preferences and utility, taking into account factors such as budget constraints.
   - **Firm Behavior:** Microeconomics studies the behavior of firms, including production decisions, cost minimization, and pricing strategies.
   - **Market Structures:** It examines various market structures, including perfect competition, monopoly, oligopoly, and monopolistic competition, and analyzes how these structures affect market outcomes.
   - **Factor Markets:** Microeconomics delves into the markets for factors of production, such as labor and capital, exploring how wages, rents, and interest rates are determined.

2. **Macroeconomics:**

- **Definition:** Macroeconomics is the branch of economics that focuses on the overall performance of the economy, studying aggregate phenomena such as national income, unemployment, inflation, and economic growth. It deals with the economy as a whole.
- **Key Concepts:**
  - **Gross Domestic Product (GDP):** Macroeconomics examines the total output of goods and services in an economy, as measured by GDP.
  - **Unemployment:** It analyzes the level of unemployment in the economy and explores factors affecting employment and job creation.
  - **Inflation:** Macroeconomics studies the overall price level in the economy and investigates the causes and consequences of inflation.
  - **Fiscal Policy:** It explores the impact of government spending, taxation, and budgetary policies on the overall economy.
  - **Monetary Policy:** Macroeconomics examines the role of central banks in controlling the money supply, interest rates, and influencing economic conditions.
  - **Economic Growth:** It investigates the factors that contribute to long-term economic growth, including technological progress, capital accumulation, and productivity improvement.

Interconnectedness:
- While microeconomics and macroeconomics focus on different levels of analysis, they are interconnected. Microeconomic decisions by individuals and firms collectively contribute to macroeconomic outcomes. Similarly, macroeconomic conditions can influence the behavior of individual economic agents.

Policy Implications:
- Microeconomics and macroeconomics have implications for economic policies. Microeconomic policies might focus on specific industries or market structures, while macroeconomic policies address broader issues such as inflation, unemployment, and overall economic stability.

Time Frame:
- Microeconomics often looks at relatively short-term decision-making by individuals and firms, while macroeconomics takes a broader and often longer-term perspective, examining trends and patterns in the overall economy.