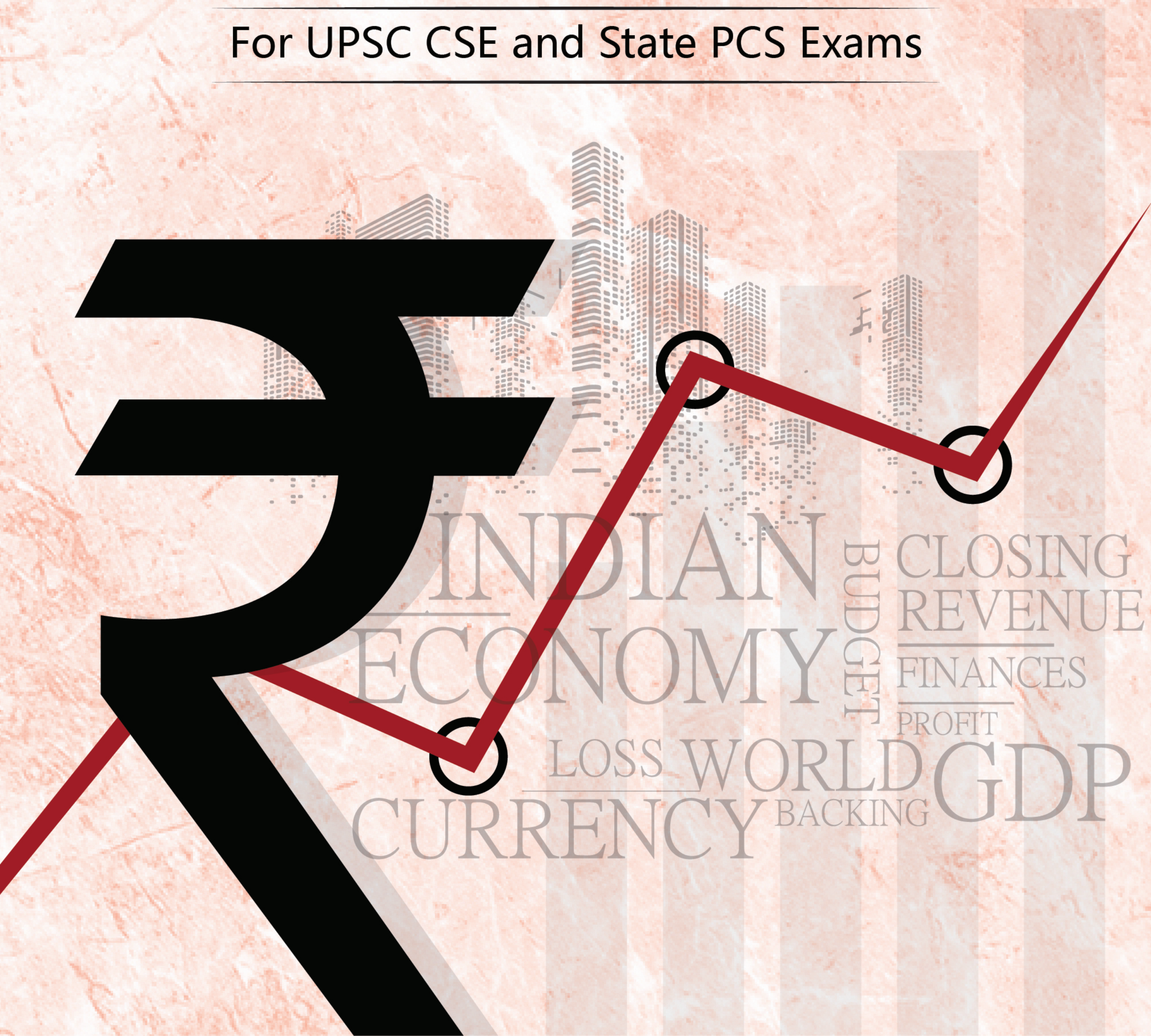
STUDY IQ PUBLICATIONS

2nd Edition

INDIAN ECONOMY

For UPSC CSE and State PCS Exams



From the Editorial Board

Indian Economy book launched by Study IQ Publications aims to address the syllabus of Indian Economy holistically from the UPSC Civil Services Examinations perspective. The book has been updated as per the latest examination pattern. This book covers both the Prelims and Mains section of GS Paper III (Economic development). The book has been prepared by experienced faculties and subject-matter experts, keeping in mind the challenges faced by the students while preparing for competitive exams.

The book addresses all the major dimensions of the syllabus like:

Introduction to Indian Economy: The book helps in understanding the basic concepts and structure of the Indian economy, Historical background, and evolution of the Indian economy.

Economic Planning and Policy: The book covers India's Five-Year Plans and their objectives, the Role of planning in economic development, and the analysis of major economic policies and reforms in India.

Macroeconomic Indicators: The book explores the Measurement and analysis of key macroeconomic indicators such as GDP, inflation, unemployment, and fiscal deficit. The book helps in understanding their significance and impact on the Indian economy.

Agriculture and Rural Economy: Agriculture, being a major part of GS-III, is widely covered in the book, like, the study of the agricultural sector- its importance and challenges, Role of agriculture in rural development and poverty alleviation, and Government policies and schemes aimed at promoting agricultural growth are thoroughly mentioned.

Industry and Infrastructure: This chapter analysis the industrial sector in India, including manufacturing and services, the Role of infrastructure development in economic growth, and study the industrial policies, foreign direct investment (FDI), and the Make in India initiative.

Monetary and Fiscal Policies: Understanding the role of monetary and fiscal policies in stabilizing the economy is an important topic as per UPSC demand. The study of the Reserve Bank of India (RBI), monetary tools, and their impact and analysis of fiscal policies, budgeting, and government expenditure are explained in easy language in the book.

Financial Sector and Banking: The book determines the Overview of the financial sector, including banking, insurance, and capital markets. It explains the role of financial institutions and regulatory bodies and analyses recent developments such as digital banking, financial inclusion, and reforms.

Important Features of the Book:

- Focused on conceptual clarity, supported with **infographics**, diagrams and **examples**.
- Thoroughly updated with **economic data and schemes** from **Budget 2023-24** and **Economic Survey 2022-23.**
- Includes static and conceptual parts as well as fully updated current developments.
- **Previous Year Questions** are added for students to apply their knowledge and know the trends.

Detailed Table of Contents

1. Introduction to Economics 1
 1.1 Economics: Meaning 1
 1.2 Types of Economic Systems 1
  1.2.1 Capitalism 1
  1.2.2 Socialism 2
  1.2.3 Mixed Economy 3
 1.3 Basic Concepts in Economics 3
 1.4 Sectors in an economy 6
 1.5 Classification of Economics 7
  1.5.1 Microeconomics 7
  1.5.2 Macroeconomics 8
 1.6 Factors of Production 11
  1.6.1 Factor Market and Product Market 11
 1.7 Concept of Demand and Supply in an Economy 11
  1.7.1 Demand 11
  1.7.2 Supply 13
 1.8 Market Equilibrium 15

2. Money 16
 2.1 Evolution of Money 16
  2.1.1 Commodity Money 16
  2.1.2 Metallic Standard 18
  2.1.3 Paper Currency Standard 18
  2.1.4 Bank Money/Deposit Money 19
  2.1.5 Electronic Orders / Digital Payment 20
  2.1.6 Central Bank Digital currency 22
  2.1.7 Crypto Currency 24
 2.2 Functions of Money 25
  2.2.1 Primary Function 26
  2.2.2 Secondary Function 26
 2.3 Money Supply 26
  2.3.1 Measure of Money supply 27
  2.3.2 Reserve Money (M0) 27
 2.4 Demand of Money 27
 2.5 Determinants of Money Supply 28

2.6 Money Multiplier 29
2.7 Cashless Economy 29
2.7.1 Measures Taken To Promote Cashless Economy in India 30

3. Inflation 32
3.1 Types of Inflation 32
3.1.1 Based on Rate/Speed of Price Rise 32
3.1.2 Based on the mismatch between demand and supply 34
3.2 Causes of Inflation 37
3.3 Effects of Inflation 38
3.4 Measures of Inflation 41
3.4.1 Producer Price Index (PPI) 41
3.4.2 Wholesale Price Index (WPI) 41
3.4.3 Consumer Price Index (CPI) 43
3.5 Measures to Control Inflation 46
3.6 Concepts/terms related to Inflation 47

4. Monetary Policy 52
4.1 Types of Monetary Policy 52
4.1.1 Expansionary Monetary Policy 52
4.1.2 Contractionary Monetary Policy 53
4.2 Goals of Monetary Policy 53
4.3 Monetary Policy Framework in India 54
4.3.1 Evolution of Monetary Policy Framework in India 54
4.3.2 Present Monetary Policy Framework in India 55
4.3.3 Monetary Policy Committee (MPC) 55
4.4 Instruments Of Monetary Policy 56
4.4.1 Quantitative Tools 56
4.4.2 Qualitative tools 64
4.5 Priority Sector Lending (PSL) 65
4.6 Challenges in transmission of Monetary Policy in India 66

5. Banking 68
5.6.1 Functions Of Banks 68
5.1 Classification Of Banks 69
5.2 Banking Structure In India 70
5.2.1 Commercial Banks 70
5.2.2 Cooperative Banks 75

5.3 Development Bank 78

5.3.1 NABARD 78

5.3.2 Mudra Bank 78

5.4 Non-Banking Financial Company (NBFC) 79

5.5 Understanding Financial Position Of A Bank 81

5.5.1 Bank Run 81

5.5.2 Capital Adequacy Ratio (CAR) 81

5.5.3 Basel Norms 82

5.6 Bad Loan 84

5.6.1 Types Of Loans: Based on Interest Rate 85

5.6.2 Types Of Loans: Based on Borrowers 85

5.6.3 Teaser loans 85

5.6.4 Non-Performing Assets (NPA) 86

5.6.5 NPA crisis in India 87

5.7 Measures To Tackle NPA Crisis In India 90

5.8 Committees on Banking Sector Reforms 94

5.8.1 Narasimham Committee-I (1991) 94

5.8.2 Narasimham Committee II (1998) 95

5.8.3 Nachiket Mor Committee (2013) 95

5.8.4 Urjit Patel Committee 2014 96

5.9 Merger of Public Sector Banks In India 96

5.9.1 Arguments in favour of Mergers 96

5.9.2 Arguments Against Mergers 97

5.10 Financial Inclusion 97

5.10.1 Need for Financial Inclusion in India: 98

5.10.2 Challenges/Issues towards financial inclusion in India 98

5.10.3 Measures taken to promote financial inclusion in India 98

5.10.4 National Strategy for Financial Inclusion 2019-2024 99

5.11 Recent Updates In Banking 100

5.11.1 Digital Banking Units 100

5.11.2 Development Financial Institutions(DFIs) 100

6. National Income 105

6.1 Meaning of National Income 105

6.2 Importance of National Income Analysis 105

6.3 Problems in Calculating National Income 106

6.4 Various Measures of national income 107

6.4.1 Gross Domestic Product (GDP) 107

6.4.2 Net Domestic Product (NDP) ... 110
6.4.3 Gross National Product (GNP) ... 111
6.4.4 Net National Product (NNP) ... 111
6.4.5 National Income ... 112
6.4.6 Personal Income ... 113
6.4.7 Disposable Income ... 113
6.4.8 Per Capita Income ... 113
6.4.9 GDP Deflator ... 113
6.5 Estimation of National Income ... 114
6.5.1 Value added method or Product Method ... 115
6.5.2 Income Method ... 115
6.5.3 Expenditure Method ... 116
6.6 GDP calculation in India ... 117
6.7 Gross Value Added ... 119
6.8 GDP and Welfare ... 120
6.9 Alternate ways to Measure Growth ... 122

7. Growth, Development and Planning ... 126
7.1 Economic Growth ... 126
7.2 Economic Development ... 126
7.3 Economic growth and Economic Development: A comparison ... 126
7.4 Need To Measure Economic Growth ... 127
7.5 Challenges to Economic Growth and Development in India ... 127
7.6 Measures to improve Economic growth and Economic Development ... 128
7.7 Planning in India ... 128
7.7.1 Meaning of Planning ... 128
7.7.2 Background of Economic Planning in India ... 129
7.7.3 Major Objectives of Economic Planning ... 130
7.8 Central Planning ... 130
7.8.1 Five Year Plans (FYP) ... 130
7.8.2 Twenty Point Programme ... 133
7.8.3 Member of Parliament Local Area Development (MPLAD) Programme ... 133
7.9 Multi-level Planning ... 134
7.9.1 Multi-level Planning in India ... 135
7.10 Bodies Associated with Planning in India ... 137
7.10.1 Planning Commission ... 137
7.10.2 NITI Aayog ... 138

7.11 Economic reforms in India 140
7.11.1 Liberalisation 141
7.11.2 Privatisation 142
7.11.3 Globalisation 143
7.11.4 Generations of Economic reforms 143
7.11.5 Impact of Economic Reforms on India 144

8. Taxation 147
8.1 Classification of Taxes 147
8.1.1 Based On Fairness 147
8.1.2 Based on who Pays the Taxes 149
8.2 Taxation in India 149
8.2.1 Direct Taxes in India 150
8.2.2 Indirect Taxes in India 156
8.3 Concepts Related to Taxation 163
8.4 Tax reforms in India 165
8.5 Tax Evasion and Tax Avoidance 166
8.5.1 Tax Avoidance 166
8.5.2 Tax Evasion 167
8.6 Black Money 168
8.7 Legislation to Prevent Black Money in India 170
8.8 Global Treaties and Agreements & Indexes related to taxation 171

9. Public Finance 174
9.1 Budget 174
9.1.1 Objective of Budget 175
9.1.2 Types of Budget 175
9.2 Components of a Budget 177
9.2.1 Budget Receipts 178
9.2.2 Budget Expenditure 179
9.3 Budget Deficit 181
9.4 Deficit Financing 182
9.4.1 Means of Deficit Financing 182
9.4.2 Impact of Deficit Financing 183
9.5 Public Debt 184
9.6 Recent Changes in Indian budgeting 187
9.7 Fiscal Policy 188
9.7.1 Instruments of Fiscal Policy 188

9.7.2 Types of Fiscal Policy 189
9.7.3 Major objectives of Fiscal Policy in India 190
9.8 India's fiscal policy architecture 191
9.8.1 Indian fiscal policy till 1991 191
9.8.2 Fiscal consolidation 192
9.8.3 Fiscal consolidation in India 192
9.8.4 Challenges of Fiscal consolidation 195

10. Financial Market 199
10.1 Functions of Financial Market 199
10.2 Types of Financial Market 200
10.2.1 Money Market 200
10.2.2 Capital Market 204
10.3 Depositary Receipts (DR) 215
10.4 Participatory Notes 216
10.5 Investment Funds 216
10.5.1 Types of Investment Funds 216
10.5.2 Types of Investors 219
10.6 Stock Exchange and Indices 220
10.7 Securities and Exchange Board of India (SEBI) 221
10.8 Commodities Market 222
10.9 Few Terms Related to Financial Markets 223

11. External Sector 226
11.1 Balance of payments (BOP) 226
11.2 Components of Balance of Payments 227
11.2.1 Current Account 227
11.2.2 Capital Account 228
11.2.3 Foreign exchange reserves 230
11.3 Deficits of Current and Capital Account 231
11.3.1 Current Account Deficit 231
11.3.2 Capital Account Deficit 234
11.3.3 Balance of Payments Surplus and Deficit 234
11.4 Balance of payment (BOP) crisis of 1991 in India 236
11.5 Foreign Exchange Market 237
11.5.1 Foreign Exchange Rate 237
11.5.2 Exchange Rate Systems 238
11.5.3 Types of Exchange Rates 239

11.5.4 Various changes in Exchange rates 240
11.5.5 Foreign Exchange Reserves - India 241
11.6 Exchange Rate Management System: India 241
11.7 Currency Convertibility 243
11.7.1 Convertibility of the Rupee 244
11.8 Foreign Trade 245
11.9 Trade Agreements 247
12. Agriculture 251
12.1 Few facts related to Agriculture sector 251
12.1.1 Share in GDP 251
12.1.2 Growth 251
12.1.3 Share in Workforce 252
12.1.4 Crop production 252
12.1.5 Agricultural exports 252
12.2 Agriculture development in India- Green Revolution 253
12.2.1 The Green Revolution 253
12.2.2 Components of the Green Revolution 253
12.2.3 Second Green Revolution 254
12.2.4 Evergreen revolution in India 254
12.3 Cropping Pattern 255
12.3.1 Significance of cropping pattern 255
12.3.2 Factors that determine cropping pattern in India 255
12.4 Agricultural inputs 256
12.4.1 Seeds 256
12.4.2 Fertilisers 257
12.4.3 Water/Irrigation 262
12.4.4 Farm Mechanisation 266
12.5 Agricultural finance 268
12.5.1 Sources of Agricultural finance in India 268
12.5.2 Measures taken to enhance agricultural credit 269
12.5.3 Income Support for farmers 270
12.6 Agriculture Insurance 271
12.6.1 Need of Agriculture Insurance in India 271
12.6.2 Pradhan Mantri Fasal Bima Yojana (PMFBY) 271
12.7 Agriculture Subsidies 272
12.7.1 Need of Agriculture subsidies 272
12.7.2 Types of Agriculture subsidies 272

12.7.3 Issues related to Agriculture subsidies 274
12.7.4 Suggestions 274
12.7.5 Agriculture subsidies and World Trade Organisation (WTO) 274
12.8 Agriculture Pricing Policies 276
12.8.1 Need for Agriculture Pricing Policy 276
12.8.2 Minimum Support Price 276
12.8.3 Fair and Remunerative Price (FRP) 278
12.8.4 A Comparison between FRP and MSP 280
12.8.5 Essential Commodities Act, 1955 280
12.9 Agriculture Marketing 280
12.9.1 Significance 281
12.9.2 Problems in Agriculture Marketing in India 281
12.9.3 Government initiatives related to Agriculture Marketing in India 282
12.10 Procurement, Storage And Warehousing 283
12.10.1 Procurement of Food grains 283
12.10.2 Procurement Policy in India 284
12.10.3 Storage and Warehousing 284
12.10.4 Government Initiatives for Augmenting Storage capacity 285
12.11 Public Distribution System (PDS) 286
12.11.1 Objectives of Public Distribution System 287
12.11.2 Significance of PDS 287
12.11.3 Functioning of PDS 287
12.11.4 Evolution of PDS in India 287
12.11.5 National Food Security Act, 2013 288
12.11.6 One Nation One Ration Card (ONRC) 288
12.11.7 Limitations of PDS in India 288
12.11.8 Recommendations of Shanta Kumar Committee on PDS and NFSA related issues 289
12.12 Buffer Stock Policy 289
12.13 Food Security 291
12.13.1 Provisions related to Food Security in India 292
12.13.2 Challenges of Food Security in India 292
12.13.3 Food Security related Schemes in India 292
12.13.4 Food Security to Nutritional Security 293
12.14 E-Technology in aid of farmers 294
12.14.1 Significance of e-Agriculture 294
12.14.2 E-technology Initiatives 294
12.14.3 Drone Technology in Agriculture 295

12.15 Agriculture Export 296
12.15.1 Major Schemes & Initiatives to boost Agri exports 296
12.15.2 Challenges and Opportunities in Agri Exports 297

13. Allied Sectors 299
13.1 Livestock Sector 299
13.1.1 20th Livestock Census (2019) 300
13.1.2 Significance of Livestock sector 301
13.1.3 Dairying 302
13.1.4 Poultry farming 303
13.1.5 Government Initiatives for Livestock development in the country 305
13.2 Inland fisheries in India 307
13.2.1 Government Initiatives 308
13.3 Seaweed Cultivation 309
13.4 Apiculture/Beekeeping 310
13.4.1 Application areas of Beekeeping 311
13.4.2 Challenges in beekeeping 311
13.4.3 Government Initiatives 312

14. Food Processing Sector 313
14.1 Food Processing 313
14.2 Types of Food Processing 313
14.3 Methods of Food Processing 314
14.4 Food Processing Sector in India 316
14.4.1 Scope of Food Processing Sector in India 316
14.4.2 Food Processing Industry 317
14.4.3 Segments in india's Food Processing Industry 318
14.4.4 Significance of Food Processing Industry 318
14.5 FDI in India's Food Processing Industry 320
14.6 Initiatives adopted by government to support Food Processing Industry in India 320
14.6.1 National Food Processing Policy, 2019 320
14.6.2 Pradhan Mantri Formalisation of Micro Food Processing Enterprises Scheme (PMFME) ... 321
14.6.3 Pradhan Mantri Kisan SAMPADA Yojana (PMKSY) 321
14.6.4 Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) 322
14.6.5 Operation Greens 322
14.6.6 One District One Product (ODOP) Scheme 322
14.7 Food Fortification 323

15. Land Reforms....325
15.1 Land Reforms....325
15.1.1 Objective of land reforms....325
15.1.2 Major components of land reforms in India....325
15.1.3 Purpose of land reforms....326
15.2 Bhoodan and Gramdan Movement....326
15.3 History of land reforms in India....327
15.3.1 Pre-independence....327
15.3.2 Post-independence....327
15.4 Phases of land reforms in India....327
15.4.1 First phase (1949-72)....327
15.4.2 Second Phase (1972 - 85)....331
15.4.3 Third Phase (1985 - 95)....333
15.4.4 Fourth Phase (1995 Onwards)....334
15.5 Evaluation of Land Reforms in India....339
15.5.1 Positive Impact of land reforms....339
15.5.2 Factors responsible for success of land reforms....339
15.5.3 Limitations on Implementation of Land Reforms....339

16. Industrial Policy and Manufacturing....341
16.1 Indian Industry....341
16.2 Indian Industrial Policy....342
16.2.1 Objectives of Indian Industrial policy....342
16.3 Evolution of Indian Industrial Policy....343
16.3.1 Pre-1991 Industrial Policy....343
16.3.2 New Industrial Policy, 1991....347
16.4 Manufacturing sector....348
16.4.1 Significance of Manufacturing Sector....348
16.4.2 Challenges of the Manufacturing Sector....349
16.4.3 Suggestions to Improve the Manufacturing Sector....350
16.4.4 Initiatives for Industrial Development and Manufacturing in India....351
16.5 Industries : Classification....357
16.5.1 Classification of Industries (based on ownerships)....357
16.5.2 Industries: Privatisation and Disinvestment....358
16.5.3 Core Industries of India....360
16.6 Sectors in Industry....361
16.6.1 Steel....361

16.6.2 Crude Oil and Natural Gas 364
16.6.3 Textile Sector 367
16.6.4 Electronics Industry 369
16.6.5 Pharmaceuticals 372
16.6.6 Coal sector 373

17. MSMEs Sector 377
17.1 Definition of MSME 377
17.1.1 Classification of MSME 377
17.1.2 Definition of MSMEs - Old and New 377
17.2 MSMEs in India 378
17.2.1 Attached Organizations in MSME Ministry 379
17.2.2 Significance of MSME sector to Indian Economy 379
17.2.3 Problems of MSME sector in India 380
17.3 Reforms taken for the development of MSME sector in India 381
17.4 Government schemes for the development of MSME sector 383
17.5 Some portals related to MSMEs 385

18. Infrastructure 387
18.1 Infrastructure 387
18.1.1 Categories of Infrastructure 387
18.2 Challenges in implementing Infrastructure projects in the country 388
18.2.1 Access to Financing 388
18.2.2 Land Acquisition 388
18.2.3 Regulatory framework- delay in clearances and implementation 388
18.2.4 Environment Impact Assessment (EIA) 388
18.2.5 Capacity of private players 389
18.2.6 Poor Contract enforcement in india 389
18.2.7 Issues related to labour 389
18.2.8 Way Forward 389
18.3 Government measures related to Infrastructure development 390
18.3.1 National Bank for Financing Infrastructure and Development (NaBFID) 390
18.3.2 National Infrastructure Pipeline 390
18.3.3 National Monetisation Pipeline (NMP) 391
18.4 Transportation 392
18.4.1 Road Transport 392
18.4.2 Decarbonising Road Transportation 395
18.4.3 Railways 398

18.4.4 Civil Aviation 405
18.4.5 Drone Regulation in India 407
18.4.6 Inland Waterways Transport (IWT) 409
18.4.7 Coastal Shipping and Port development 411
18.5 Logistics Sector 413
18.5.1 Need for a developed Logistics sector 414
18.5.2 Reasons of high logistics cost in India 414
18.5.3 Government measures to improve logistics sector 415
18.6 Urban Infrastructure 418
18.6.1 Challenges in implementing Urban Infrastructure projects 418
18.6.2 Urban Infrastructure and related government schemes 419
18.7 Communications 424
18.7.1 Factors responsible for exponential growth of the sector in last few years 425
18.7.2 Challenges in developing Communications Infrastructure 425
18.7.3 Government measures 426
18.8 Energy 428
18.8.1 Sources of energy 429
18.8.2 Electricity/Power 429
18.8.3 Natural Gas 436
18.8.4 Non Fossil fuel based Energy 439
18.8.5 Energy Efficiency 447

19. Service Sector in India 450
19.1 Significance of Service Sector in India 450
19.2 Key Sub-Sectors in India’s Services Sector 452
19.2.1 IT-BPM / Software Sector 452
19.2.2 E-Commerce 454
19.2.3 Tourism and Hospitality 455
19.2.4 Real Estate Sector in India 457
19.2.5 Banking and Digital Financial Services 460
19.2.6 Space Sector 461

20. Unemployment and Labour 464
20.1 Unemployment 464
20.2 Sources of data on unemployment 464
20.3 Types of Unemployment in India 465
20.4 Causes of Unemployment 466
20.5 Formal and Informal Sector 466

20.5.1 Formal/Organised Sector 466

20.5.2 Informal/Unorganised Sector 467

20.6 Informalisation of Indian workforce 467

20.6.1 Government initiatives for the Informal/Unorganised Sector 468

20.7 Impact of Unemployment 469

20.8 Government Initiative to Control Unemployment 469

20.8.1 PMKVY – Pradhan Mantri Kaushal Vikas Yojana 470

20.9 Labour reforms in India 471

20.9.1 Need for reform and codification of India's Labour Laws 472

20.10 Labour codes introduced by the Government 472

20.11 Issues and Concerns against the New Consolidated codes 477

21. Poverty and Inequality 480

21.1 Poverty 480

21.1.1 Types of Poverty 480

21.1.2 Measurement of Poverty 481

21.1.3 Poverty Estimation in India 482

21.1.4 Various Committees constituted to Estimate Poverty in India 482

21.1.5 Indices/Methods to Measure Poverty 484

21.1.6 Causes of Poverty in India 487

21.1.7 Effects of Poverty 488

21.1.8 Feminisation of Poverty 488

21.1.9 Policies and Programmes towards Poverty Alleviation 489

21.1.10 Challenges related to eradicating poverty 491

21.1.11 Strategies for combating poverty (As per NITI Aayog) 491

21.2 Inequality 492

21.2.1 Methods to measure Inequality 492

21.2.2 Inequality and Economic Growth (Kuznets curve) 493

21.2.3 Dimensions of Inequality in India 494

21.2.4 Causes of Inequality 495

21.2.5 Impact of persistent economic inequality 495

21.2.6 Measures to deal with Inequalities 496

22. Inclusive Growth 498

22.1 Salient features of Inclusive Growth 498

22.2 Elements of Inclusive Growth 498

22.3 Need for Inclusive growth 500

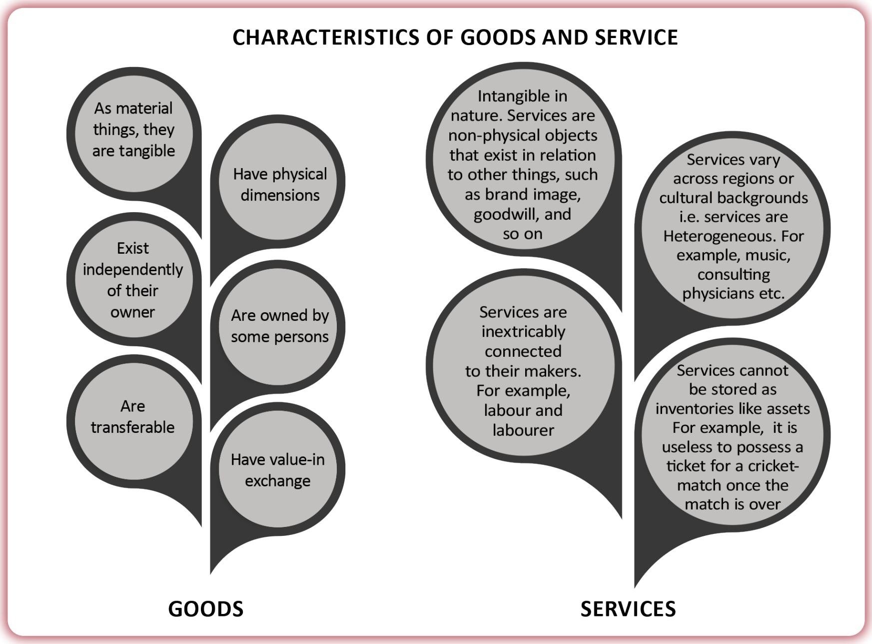
22.4 Reasons for inequality in India 500

22.5 Challenges to Inclusive growth 501
22.5.1 Suggestions for Inclusive Growth 502
22.6 Measuring Inclusive growth 503
22.6.1 Inclusive Development Index 503
22.6.2 Social Progress Index: India 503
22.6.3 Global Slavery Index 504
22.6.4 Financial Inclusion Index 504
22.7 Measures taken by India since independence to promote inclusive growth 505
22.7.1 Components of inclusive growth-11th Five year plan 505
22.7.2 12th Five Year Plan discusses the following aspects of inclusiveness 505
22.7.3 NITI Aayog's strategy for inclusive growth 505
22.7.4 Policy approaches for inclusive growth 506
22.8 Reasons why India has not been able to achieve inclusive growth in the economy 507
22.9 Sustainable Development 508
22.9.1 Sustainable Development Goals (SDGs) 510
22.10 Schemes for Inclusive Growth 510

23. Population and Demography 512
23.1 Population 512
23.2 Theories of Population 513
23.2.1 Malthusian theory 514
23.2.2 Optimum Population theory 514
23.2.3 Zero Population Growth 514
23.2.4 Demographic transition theory 515
23.3 Trend in India 516
23.3.1 Phases of Population Growth in India 516
23.3.2 National Family Health Survey (NFHS-5) data on India's demographic trends 517
23.4 Demographic Dividend of India 517
23.4.1 Opportunities associated with India's demographic dividend 518
23.4.2 Challenges for India's demographic dividend 518
23.4.3 Steps to reap India's demographic dividend 519
23.5 Various reports on Population Trends 521
23.5.1 State of World Population 2022 Report 521
23.5.2 World Population Prospects 2022 522

24. International Financial Institutions 523
24.1 Important Financial Institutions 523
24.1.1 The Bretton Woods institutions 523
24.1.2 World Trade Organization (WTO) 528
24.1.3 Asian Infrastructure Investment Bank (AIIB) 534
24.1.4 Asian Development Bank (ADB) 535
24.1.5 New Development Bank (NDB)/ BRICS BANK 535

SAMPLE PAGES



What happens if a commodity is provided free to the public by the Government?

When we have the opportunity to access public services for free, this would always come at the cost of somebody paying for it, so here the **opportunity cost** is transferred from the consumers of the product to the tax-paying public.

Types of Goods and Services

- **Free Goods:** Free goods are available in abundance. Man does not need to incur any expenditure to own or use them**. For example** air, and sunshine.
- **Economic Goods:** These are not available in plenty and are scarce in supply. Man has to spend money to own or use them. **For example**, cars, refrigerators etc.
- **Public Goods:** These are available to everyone to consume, regardless of who pays and who doesn't. **For example,** National defence, Law enforcement.
- **Private Goods:** These are consumed by a single person or a household. **For example,** food and drink.
- **Consumer Goods:** These are purchased by the household for **final consumption.** They are not used for further production processes. The common types of the consumer goods are as follows:
    - **Durable goods:** These goods do not quickly wear out, have a longer life span and can be used repeatedly for several years. **For example,** TV, Car etc.
    - **Semi durable goods:** These goods can be used for a period of one year or slightly more. **For example**: clothes.
    - **Non-durable goods**: These goods are single-use consumption goods. They have a short shelf life. **For Example**: bread, fruits etc.

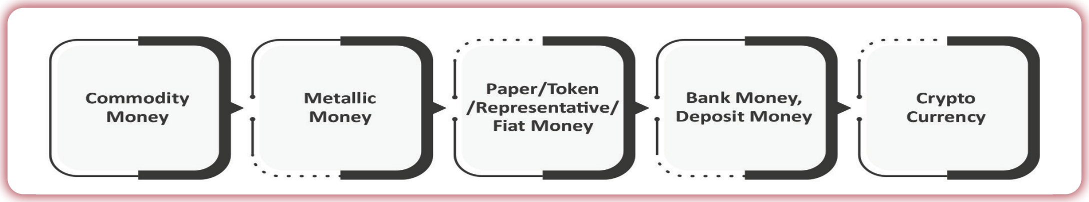
MONEY

2

Money is a medium of exchange that is widely accepted in transactions for goods, services, and debts. It is a generally recognized form of payment within a particular country. Money serves as a unit of account, a store of value, and a medium for facilitating economic transactions.

In its physical form, money can take the shape of coins or banknotes, representing a specific denomination. However, with the rise of digital technologies, money has also become increasingly digital, existing in electronic form as balances in bank accounts or digital wallets.

EVOLUTION OF MONEY



COMMODITY MONEY

Commodity money is a **physical item that is readily interchangeable** with another item of the same type. **It has intrinsic Value.** In this system, the money itself holds value because it is made of or represents a valuable commodity. **Example**: Iron Nails, Bear Pelts, Cocoa Beans, Whale Teeth, Gold Nugget.

Challenges associated with commodity money

- **Nature:** Some commodities can be bulky and heavy, making them less convenient for everyday transactions compared to lighter and more portable forms of currency. **Few commodities are perishable in nature and can result in loss of value.**
- **Standardization:** Commodity money needs to be standardized in terms of weight, purity, and quality to ensure consistent value and acceptability. This can be challenging to achieve, leading to variations and difficulties in trade.
- **Can lead to Hyperinflation: C**ommodity money sees inflation is through the debasement of the currency. Debasement means that money, typically metal coins, is devalued because there is less precious metal in the coin than the value stamped on its face. Governments may debase coins by adding copper, tin, or other less valuable alloys to coins as they are minted, while still saying they are worth. Individuals may also debase gold or silver coins by clipping the edges or filing off shavings from coins, melting those small amounts down, and selling them. This results again in coins in circulation that contain less precious metal than indicated.
- **Price fluctuations:** Commodity money has intrinsic value but risks large price fluctuations based on changing commodity prices. If silver coins are used, for instance, a large discovery of silver may cause the value of the silver currency to plunge, resulting in inflation.

Open Market Operations (OMO)

Under open market operation **Central Bank buys and sells government securities in the financial market to influence the money supply in the economy.** It is conducted by the Reserve Bank of India (RBI). When there is excess liquidity in the market, RBI resorts to the sale of securities, thereby absorbing the extra rupee liquidity in the market. Similarly, when the liquidity is tight in the market, RBI buys back the securities, thereby increasing liquidity in the market.

Retail Direct scheme

It was **introduced by RBI in 2021** to allow retail investors to directly buy G-Sec from RBI's e-KUBER platform. Retail Investors need to open their "**Retail Direct Gilt (RDG)"** account on the platform after they can buy **securities issued by both Union and State governments (including T-Bills) and Sovereign Gold Bonds** directly from the RBI. Both residents and non-resident Indians can open a RDG account. There is **no application fee** to open this account. Investors will be able to buy primary issuances of G-Sec as well as trade G-Sec in the secondary market through RBI's NDS-OM trading system. Earlier, There was no facility for the retail investors to directly buy G-Sec which they could do only through investing in mutual funds.

Operation Twist

It is an unconventional monetary policy adopted by several central banks across the world **to control their interest rates, inflation and investment** in their countries. Operation Twist was **first used by the United States** Federal Reserves in 1961 to stimulate the US economy. **RBI deployed this policy in 2019** a**nd 2020** to twist the yield of government securities to bring liquidity into the markets. This is done by **simultaneous buying and selling government securities**—both short-term and long-term—through Open Market Operations (OMOs).

Prices of securities are largely determined by the supply-demand factor. When supply is low or demand is high, bond price increases and bond yield decreases; When supply is high or demand is low, bond price decreases and bond yield increases.

So, **when RBI wants to increase the price of government securities, it buys and holds them, which lowers the supply and increases the demand, causing their price to rise.** Similarly, **when RBI wants to decrease the prices of government securities, it starts selling them , which increases the supply and lowers the demand, causing their price to decrease and yields increase.**

Prices of G-sec are also affected by the demand for corporate bonds because If demand for corporate bonds is high, then demand for G-sec will be low and investors will start selling their G-sec at low prices to buy corporate bonds which would increase the yield on the G-Sec.

Why did RBI introduce Operation Twist?

- During 2019 there was a slowdown in the Indian economy and banks were also reluctant to give loans to companies due to high Non Performing Assets (NPAs) and low demand.
- So, operation twist was deployed to help these companies to raise money from the market by issuing corporate bonds.
- RBI tried to reduce the yield on long term G-Sec to make these corporate bonds attractive to the investors and help these companies in raising money from the market.
- Hence, RBI started selling short-term G-Sec and buying long term G-Sec. With a maturity period of 10-years or more.
  - Simultaneous buying and selling of G-Sec did not affect liquidity in the market.

can now be **discounted** with a bank before its maturity. On Maturity, the bank gets the payment from the drawee i.e. the buyer of goods. When trade bills are accepted by commercial banks it is known as Commercial Bill. So trade bill is an instrument which enables the drawer of the bill to get funds for a short period to meet the working capital requirements.

Example of Trade Bill

Suppose that Horlics Company sells goods worth Rs. 10 lakhs to Amul Company on credit. To ensure payment, Horlics Company can draw a trade bill on Amul Company for the amount due, with a maturity period of 60 days. Amul Company can accept the bill, indicating that they agree to pay the amount due on the due date. The **trade bill can be transferred to a bank or financial institution for discounting,** which means that the seller can receive the payment earlier, at a discounted rate.

Let's say that Horlics Company discounts the trade bill with a bank at a discount rate of 8% per annum. The bank pays Rs. 9.2 lakhs to Horlics Company, which is the discounted value of the trade bill. On the due date, Amul Company is required to pay the face value of the trade bill (Rs. 10 lakhs) to the bank. The **bank earns a profit of Rs. 80,000** (i.e., the difference between the face value and the discounted value of the trade bill) as interest.

Trade bills typically have a maturity period of 30, 60, or 90 days, after which the buyer is required to pay the amount due.

Unorganized Money Market

Their activities are not regulated like organized money markets in India, but they are recognized by the government. Unorganized money markets have been present in India since ancient times. The unorganized money market in India can be further divided **into given categories:**

Traditional Money Lenders: People can go to traditional money lenders to borrow money during an emergency situation. They can borrow without using collaterals. However, the Interest rates charged are very high. Collaterals are an asset or something valuable that you agree to give to somebody if you cannot pay back money that you have borrowed.

Chit Fund: A chit fund is a r**otating saving scheme** that has been a part of India's financial system for more than a century now. In a chit fund scheme, a group of people contribute periodically towards the chit value for a duration equal to the number of investors (members or subscribers). The amount collected is given to the person, who is either selected through a lucky draw (lottery system) or an auction. In the auction allotment system, the person who bids the lowest bid (agrees to claim the lowest amount) gets the money. This type of auction system is known as a reverse auction. The amount forgone by the winning bidder is then distributed among the other members equally after deducting the foreman's commission and other charges.

For example: Five members A, B, C, D and E invest Rs 10000 in a chit fund for a year. The total pooled money becomes Rs 50000. Now, after a month, the lottery will be drawn. Now let's assume C bids the least, let's say Rs 15,000. Then Rs 15 000 will go to C, and the remaining amount, i.e. Rs 35000, will be divided between A, B, D and E. This chit fund will again continue the next month with all of them investing again. However, this time C will not be allowed to bid.

Indigenous Bankers: Indigenous bankers are individuals or private firms which receive deposits and give loans and thereby, operate as banks.

Money Lender: They constitute the most localized form of money market in India and operate in the most exploitative way with very high rates of interest.