

lack of
independent
decision
economic
policy
integrated

History of Indian Economy

* Existence of Colonisation

Concept of colonisation (also) refers to a system of political and social relations b/w two countries of which one is the ruler and other is its colony.

The ruling country not only has political control over the colony but it also determines the economic policy of the subjugated country.

Consequence of the above system involves -

1. Lack of independent decisions to be taken up by the people with regard to country's resources, development of agriculture, industry and trade relations with foreign countries.

2. The economic policies were to be in the favour of rulers whose aim was to arrest development.

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3. Integration of the economy of the colony with the " " ruling country

Exploitation during the Colonial period

1) Exploitation by the state sector → ~~Exp not done~~ → ^{considered as loan} ~~not for dev.~~

* British Govt. charged for exp. which were not remotely concerned with the people of this country.

* All these exp. done for India was termed as a loan granted to it thereby causing an additional burden.

2) Railways → Import
→ Tax
→ Absence of dev. of home

• Import of British capital

• Imposition of tax on Indian tax payers

Notes • Capital goods & raw materials were imported from England, thus the +ve role which the railway could play in the industrialisation of this country was denied to them

• Due to this approach instead of railways making any ~~loss~~ profit suffered a big loss - Favourable.

③ Investment in plantations - Rubber Plantation
• Cheap labour

* Due to a favourable geographical condition in India to grow tea and rubber the Britishers invested a huge sum for such a cultivation here.

* Cheap labour force was an additional factor which induced British capitalists to make investment in this sector.

④ Development of Jute Industry and Plantations - only country

British Capitalist had a very little interest in the development of Jute industry in India. The industry which they developed were such that they could not be developed elsewhere. In India one of such industries was the Jute Industry which was set up in Bengal and led to a limitless exploitation of the Indian workers.

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INDIAN ECONOMY.

HISTORY

- Agrarian Economy - Major popⁿ = agriculture
- Mixed Economy - Public Sector + Private Sector
- Underdeveloped Economy

Presently Indian economy is an underdeveloped and almost all important characteristic features of an underdeveloped economy were present in the Indian Economy at the time of independence and have not changed much since then

~~The~~ ^{Results} facts that made India an underdeveloped economy were -

- 1) low per capita income
- 2) Inequitable distribution of Income
- 3) High incidence of Poverty (orthodox method of prodⁿ)
- 4) Prevalence of Agriculture
- 5) High population growth and dependency ratio (low standard of living & reduction in inc. based on)
- 6) low level of human development
- 7) Unemployment
- 8) Scarcity of Capital due to low savings
- 9) Technological Backwardness (also underutilised)
- 10) Lack of entrepreneurs (low due to applicator of tech.)
- 11) Low HDI
- 12) Lack of infrastructure facility (Physical & Social)

- High focus upon R&D
- Improvement in HDI
- High Demographic Dividend
- 1m share of service sector
- Controlled Economy
- Check on Inflation
- Import Substitution

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Total Population of India - 121 crore
= 17% of world popⁿ

State with highest female Ratio = Kerala

Concept of Economic Growth and Development

Economic growth refers to a process where the real per capita income increases over a longer period of time

Economic Development

= Economic Growth + Inequality

Concept	Narrow	Broad
Scope	In indicators like GDP, Per Cap Income etc.	Improvement in unemployment, life expectancy, IMR, literacy and poverty rate
Term	Short Term process	Long Term process in poverty
Applicable to	Developed economies	Developing Economies
Assumed	Upward Movement in National Income	Upward Movement in Real National Income
Rate of Change	Quantitative	Qualitative
When it rises	Rises at a certain period of time	Continuous process

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Comparison

Scope

$E.C =$ Narrow Concept
 $E.D =$ Broader Concept
 $(E.C + \text{Decrease in } \dots)$

Nature =

$E.C =$ Quantitative Concept
 $E.D =$ Qualitative Concept

Applicability

$E.C =$ Applicable to the problems faced by developed countries

$E.D =$ Developing

Intervention by the Govt.

$E.C =$ Nil

Notes

$E.D =$ Present.
 (Policies, Schemes)

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01

National Income

value of all the final goods and services
+
produced by normal resident
+
whether operating within the domestic territory of a country or outside

value of all the final goods and services produced by domestically owned FOP within a given period

Normal Resident

12 Sunday Ordinary reside in the country in which they live and whose economic interest lies in that very country
May or may not be a citizen

— only his economic interest lies in that country

Domestic Territory

Refers to Geographical and the political boundary of a country

— Foreign embassies and international institutions located within the domestic boundary

+

~~embassies~~ embassies of the country (in ~~concern~~) ~~outside the~~ located outside the geographical territory

Domestic Product

Final Goods and services produced by all the enterprises located within

National Product
amt of final goods and services
~~Produced~~ produced by normal resident

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Net factor Income from abroad
Income Received - Income
Accruing

National Product at Market Price

Def + valued at the price
prevailing in the market

National Product at Factor Cost

Def + valued ~~as~~ as the sum
total of all the factor
payments

GDP_{MP} ⇒ value of all the final
goods and services produced
within the domestic
territory and valued at the
market price

Notes

GNP_{MP} ⇒ goods produced by
national resident & valued
at MP

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Saving, Investment and Capital formation in India

The pre-requisites for economic growth involves capital formation which directly depends upon upon the savings and investments.

Economic Growth = $\uparrow$ in real per capita income

Capital formation

||
Increase in productive activities

||
||

||
Increase in employment

||
Increase in real per capita income

Notes

Capital Formation 47

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Capital Formation is defined as the accumulation, mobilisation or the transfer of available resources in the productive activities ~~of the area~~ in a particular area and time.

The Capital formation depends upon two factors -

* Desired Rate of ~~the~~ Economic Growth

* Incremental Capital - Output Ratio

Desired Rate of economic growth

* There is a direct relation b/w the economic growth and capital formation i.e. higher growth leads to a higher capital formation

* Thus for this desired growth there is no ~~lower~~ ^{higher} limit ~~but~~ there is definitely a lower limit

* A rate of 6% per annum ~~is~~ increase in GDP ~~no way to~~ is considered as such ~~be~~ limit.

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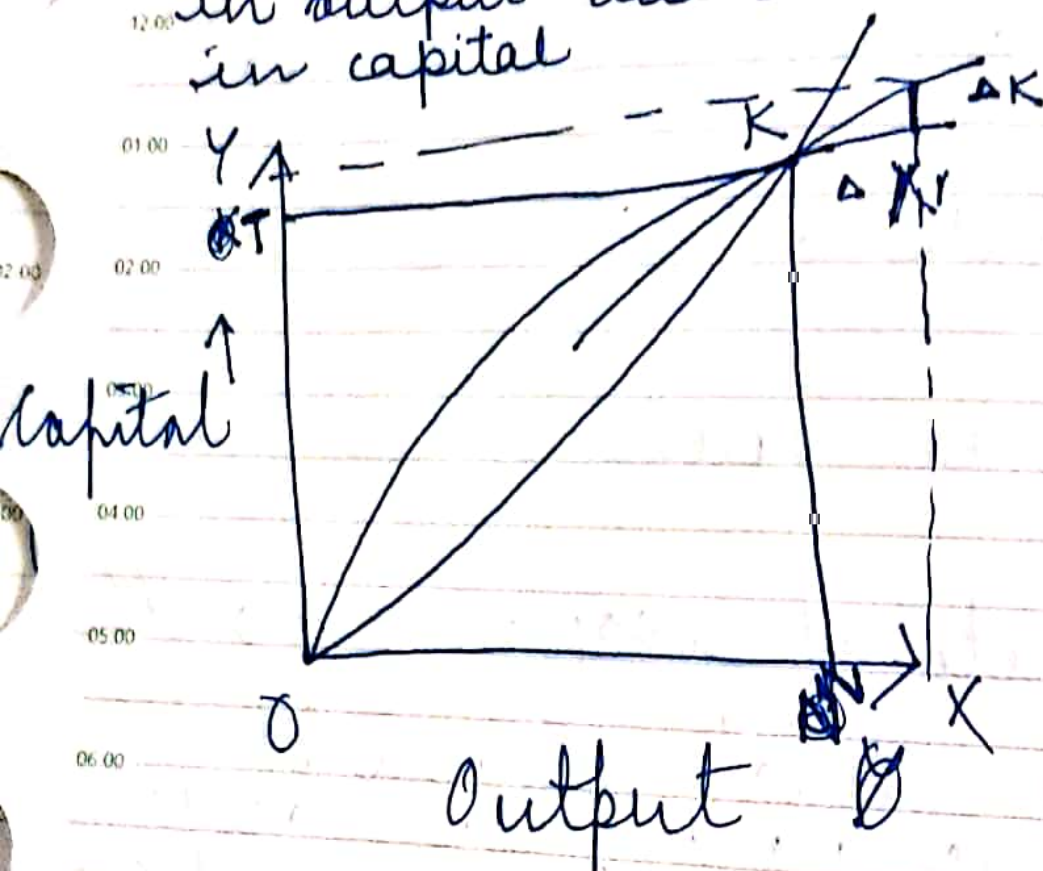
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Incremental Capital-Output Ratio

The Incremental Capital-output ratio is defined as the increase in output due to the increase in capital



Savings

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Unit - 1: History of the Indian economy; Concepts of growth and capital formation in India.

FEB

MAR

APR

MAY

JUN

Domestic Savings.

The " " is defined as the excess of current income over current expenditure and for the purpose of estimating domestic savings. The economy has been divided into three broad institutional sectors



financial savings
 (net deposits, investment in shares and debentures, govt securities, insurance policies)

Physical Assets
 (Machinery, equipment, stocks held by individuals)

$$a + 40\%$$

$$A = a^2$$

~~$a^2 + 40\%$~~

$$a + 40 = a^2$$

$$a =$$

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Private Sector

- 1) Non Govt ~~Public~~ ~~Financial~~ Institution, private Inst., Co-op
- obtained from the analysis of balance sheets, profit and loss a/c of companies

2) Public Sector

- * comprises of Govt administrative departments and enterprises.
- * The saving of the public sector is defined as the excess of current receipt over current expenditure. and this net receipt is estimated from the results of the analysis of their annual a/c's.

Current Savings

Notes

Household =

Public =

Private sector =

Reasons for low Rate of Savings

in Institutions in India.

- 1) Low per capita Income
- 2) Exemption of agricultural income from income tax.

⇒ large amt spent on unproductive consumption

⇒ Increased demand for unnecessary goods,

- 3) Demonstration effect in Indian Cities

* Goods of conspicuous consumption

(Q) Failure of the private co-operative sector

lack of ~~income~~ * higher input prices

* Misuse of funds by the

Investment

* The domestic capital formation basically refers to the

The Rate of Investment has grown considerably during the years which is clear from the data of Economic Survey -

1st Five Year Plan = 8.4% per annum

4th " " " 17% " "

9th " " " 25.1%

11th 36.7%

and

Even after a considerable increase in investment it cannot be considered as satisfactory because -

* The rate of investments were always lesser than the targets laid down

* Investment rate in the Third World Countries have been higher than that of India

Company's directors and higher executives

⑤ Failure of the Public Sector

Measures To Raise Savings

Household Sector

- Restriction on the production of unnecessary durable goods
- Exemption limit on savings from income tax should be raised
- Inflationary price should be kept within reasonable limits
- Development of banking habit

Private Corporate Sector

- Restrictions on the expenditure of company's directors

Note: Ceilings must be fixed on Salaries

- Distribution of dividends must be controlled by the State

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Public Sector

- With the increased commercialisation of agriculture there should be ^{no} justification for the exemption of agriculture income from income tax
- loopholes in the tax collection must be checked
- exp on unproductive activities must be restricted
- efficiency of the ~~govt~~ public sector undertaking must be raised

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Causes of Gap b/w Desired and Actual Rate of Investment

1. Inadequate Rise in the Rate of Saving

2. Failure of Public S.E. Enterprises

— long gestation period

— low level of efficiency

— underutilisation of installed capacity

3. Defective economic planning

4. Inadequate and defective resource mobilisation

5.