Basics of Indian Economy

Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

Measuring health of economy:
Gross Domestic Product (GDP): Aggregate of goods and services produced by a country within its boundary in a financial year.
Net Domestic Product (NDP): GDP – Depreciation
Gross National Product (GNP): GDP + Incomes from abroad – Foreign repatriable earning
Net National Product (NNP): GNP – Depreciation

What Does The Term PPP In Relation To GDP Refer To?
If we measure the GDP per capita of all countries in the same currency, say the US Dollar, we might present a misleading picture of how well-off people in different countries are. This is because exchange rates do not correctly reflect the purchasing power of currencies within their own economies. For example, although one US dollar is worth almost Rs 50, a dollar in the US would not be able to buy as much as Rs 50 does in India.
To correct for this and make international comparisons more meaningful, we use the notion of purchasing power parity (PPP). In effect, what we are doing here is to make the conversion based on a notional exchange rate (one that tells you how many rupees you would need to buy the same things as you could with a dollar in the US).

India – An overview

Indicator	**Amount**	**Rank**
GDP (Official Exchange Rate)	$ 1.798 trillion	10
GDP (PPP)	$ 4.421 trillion	5
GDP per capita (PPP)	$ 3700	165
Growth rate	6.8%	35
Unemployment Rate	9.8%	109
Population below poverty line	29.8%	-
Exports	$ 307.2 billion	20
Imports	$ 475.3 billion	12

India vis-à-vis USA/China

Indicator	**India**	**USA**	**China**
GDP (Official Exchange Rate)	$ 1.798 t	$ 14.83 t	$ 7.181 t
GDP (PPP)	$ 4.421 t	$ 15.08 t	$ 11.3 t
GDP per capita (PPP)	$ 3700	$ 48300	$ 8400
Growth rate	6.8%	1.8%	9.2%
Unemployment Rate	9.8%	9%	6.5%
Population below poverty line	29.8%	15.1%	13.4%
Exports	$ 307.2 b	$ 1.497 t	$ 1.904 t
Imports	$ 475.3 b	$ 2.236 t	$ 1.66 t

Poverty line in India is defined by national norms of a minimum of 2400 cal/day and 2100 cal/day consumption for rural and urban areas respectively.

Central problems of economics
1. Problem of allocation of resources: what to produce and in what quantity; how to produce; for whom to produce.
2. Problem of fuller utilization of resources: ensure that resources do not remain under-utilized.
3. Problem of growth of resources: to combat their scarcity, the resources must grow gradually.

To address these problems planning is needed.

Imperative planning: Government sets targets and uses its agencies and resources to achieve them.
Indicative Planning: Government acts as facilitator. Unlike a centrally planned economy, indicative planning works through the market rather than replacing it. To this end, the planning process specifically brings together both sides of industry (the trade unions and management) and the government.

Planning in India

Planning Commission estd. in 1950 formulates five-year plans for social and economic development of India. The Eighth Five Year Plan introduced indicative planning in India. Following it government agencies act as facilitators.

Growth through FYPs

Plan Period	Target	Actual
First (1951-56)	2.1%	3.6%
Second (1956-61)	4.5%	4.0%
Third (1961-66)	5.6%	2.4%
Fourth (1969-74)	5.7%	3.3%
Fifth (1974-79)	4.4%	5.0%
Sixth (1980-85)	5.2%	5.4%
Seventh (1985-90)	5.0%	5.7%
Eighth (1992-97)	5.6%	6.78%
Ninth (1997-2002)	6.5%	5.35%
Tenth (2002-2007)	8.1%	7.7%
Eleventh (2007-12)	9% (later revised to 8.1%)	7.9%
Twelfth (2012-17)	8.2%	-

Some Targets of 12th FYP
- Agricultural growth of 4%
- Industrial growth of 10%
- $1 trillion investment in infrastructure
- More investment in health and education
- Better targeting of subsidy
- Bring down poverty ratio by 10%

Direct cash transfer of subsidy
The government has announced that direct cash transfer of subsidies to the bank accounts of the recipients would start in 51 out of India's 659 districts from January 2013 and would be gradually extended to the rest of the country by April 2014.
It is proposed that the cash equivalent of all subsidies, such as kerosene, LPG cooking gas, food, fertiliser, scholarships, old-age pensions, NREGS (there are some 42 government schemes), would be eventually transferred directly to the Aadhaar-based bank accounts of all the recipients.
According to some estimates, the loss in subsidy distribution is as high as 40 percent, which will potentially be eliminated through the implementation of the scheme.

Sectoral Composition of Labour Force and sectoral contribution to GDP (in %)

Country		Agriculture	Industry	Services
India	*Labour Force*	*17.2*	*26.4*	*56.4*
	Contribution to GDP	52	14	34
USA	*Labour Force*	*1.2*	*19.2*	*79.6*
	Contribution to GDP	0.7	20.3	79
China	*Labour Force*	*10*	*46.6*	*43.3*
	Contribution to GDP	36.7	28.7	34.6

Government Initiatives:

Agriculture:

- Co-operatives
- Contract farming
- Micro finance
- Diffusion of technological know-how

Industry

- 1991 Reforms
- Facilitation of technology
- International collaborations (FDI and acquisitions)
- Promoting Small and Medium Enterprises (SMEs)

Services

- FDI inflows
- Better management through regulatory bodies
- Rural penetration
- Benchmarking by government companies

Some terminology

Contract farming

Agricultural production carried out according to an agreement between a buyer and farmers. Benefits such as the assured market and access to support services for the farmers. It is also a system of interest to buyers who are looking for assured supplies of produce for sale or for processing.

Microfinancing

Providing banking facility to people belonging to lower and middle economic strata in rural and semi-urban areas who are otherwise outside the coverage of formal banking system.

Foreign Direct Investment (FDI)

Investment made by a foreign individual or company in the productive capacity of another country. It grants the investor control over the acquired asset.

Foreign Institutional Investment (FII)

The term is used most commonly in India to refer to outside companies investing in the financial markets of India. These include investments in hedge funds, insurance companies, pension funds and mutual funds.

Benchmarking

Benchmarking is the process of comparing one's business processes and performance metrics to industry bests or best practices from other industries. Dimensions typically measured are quality, time and cost.

Growth vs Development
Economic growth is a narrower concept than economic development.
The definition of economic development given by Michael Todaro is an increase in living standards, improvement in self-esteem needs and freedom from oppression as well as a greater choice.

Human Development Index (HDI) was devised and launched by Pakistani economist Mahbub ul Haq, followed by Indian economist Amartya Sen in 1990.
Starting with the 2011 Human Development Report the HDI combines three dimensions:
1. A long and healthy life: Life expectancy at birth
2. Education index: Mean years of schooling and Expected years of schooling
3. A decent standard of living: GNI per capita (PPP US$)

India has an HDI Rank of 134

Deficit Financing
- Promoted by JM Keynes
- Practice in which government spends more money than it receives as revenue
- Helps in stimulating growth
- Extra money to fund more expenditure comes from printing extra money or external borrowing. Extra money in pockets will create demand. It will facilitate production. Jobs will be created. Economy will be back on track.
- More money in market, however, also leads to inflation.

Inflation
In a broad sense, inflation is that state in which the prices of goods and services rise on one hand and value of money falls on the other.

Inflation is of two types—
1. Cost Push Inflation: Due to an increase in production cost that gets translated into higher price for that item.
2. Demand Pull Inflation: When the item being purchased is in short supply

Monetary policy
Monetary and credit policy is the policy statement, through which the RBI targets a key set of indicators to ensure price stability in the economy.
It is declared twice a year and helps in taming inflation.

Fiscal policy
It is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy.
Union budget that is prepared every year is used to shape the fiscal policy of the country.

Budgeting is done at two levels:
1. Revenue budget - done for short time, recurring in nature – eg: maintenance of roads
2. Capital budget - done for longer time, non-recurring in nature – eg: construction of roads

Deficits
Budget deficit = Total expenditure – Total receipts

Fiscal deficit = Total expenditure – Total receipts excluding borrowings
Fiscal deficit gives the signal to government about total borrowing needs

Primary deficit = Fiscal deficit – Interest payment on the borrowing