

Tertiary Sector

Secondary Sector

Primary Sector



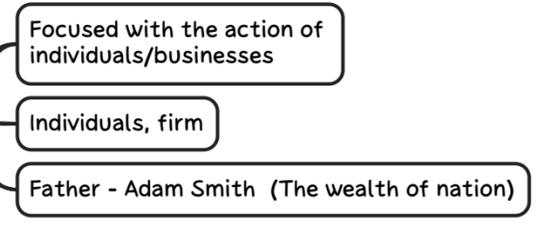
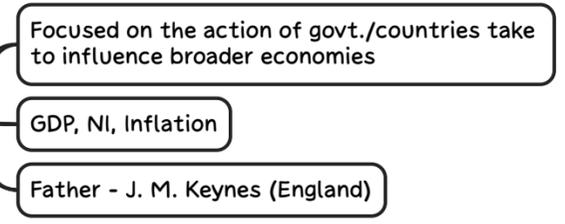
Sectors

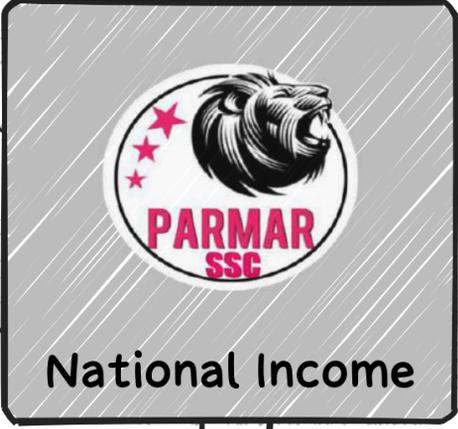
types of economic systems

Macroeconomics

Microeconomics

	Govt. has no share holding Capitalist	private has no ownership Socialist	Mixed
Ownership	Private ownership	Public ownership	Public+Private
Economic motive	Profit	Social welfare	Both
Govt. role	No role	Complete involvement	Limited role
Income distribution	Unequal	Equal	Less unequal
Economic freedom	Complete	Lack of freedom	Limited freedom
	eg: USA	eg: USSR, North Korea	eg: India





National Income

• $GDP_{FC} = GDP_{MP} - \text{Net Indirect Taxes}$ NNP_{FC} is also called National Income

• $GDP_{FC} = GDP_{MP} - (\text{Indirect tax} - \text{Subsidy})$

• $GDP_{FC} = GDP_{MP} - \text{Indirect tax} + \text{Subsidy}$

• $GDP - \text{Depreciation} = \text{Net DP}$

• $GDP + \text{NFIA} = \text{Gross NP}$

• Household income is not under GDP

Market Price
The market price is the final value of the product being sold, which includes indirect taxes

Factor Cost
Factor cost is the cost of factors of production, or total value of inputs, where indirect tax is not included

Green GDP = GDP - Environmental Damage
Potential GDP - Real GDP = Recessionary Gap

- the total of money earned within a country
- Intercountry: growth within various countries such as India, US, China, etc
- Intracountry: within the country what is growth in comparison to previous year
- Per Capita Income = $\frac{\text{National Income}}{\text{Population}}$

GDP

- Gross Domestic Product
- Total value of all final goods and services produced within the territory of a country
- developed by American Economist "Simon Kuznetsk" in 1934
- second hand goods are never counted

Real GDP vs Nominal GDP

More than Real GDP due to inflation

- Calculated on current prices
- Inflation not adjusted
- Base year is taken known as **Base effect**
- Calculated on constant prices
- It is inflation adjusted

Irvin Fisher mentioned it as: **Concept of Money Illusion**

GDP deflator is used to calculate this = $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

Personal Income

- total income of an individual earned from all the sources before taxes
- $PI = \text{National Income} + \text{Income received not earned} - \text{Income earned but received}$
- $PI = NI + \text{Transfer payment} - \text{Undistributed corporate profit}$
- eg: subsidy by govt.
- Personal Disposable Income: $PI - \text{tax}$

Purchasing Power Parity

- A common basket of goods
- India → GDP: 5th in the world
- PPP: 3rd after USA and China
- Economy is inflated

Measures & Aggregates

GNP

- Gross National Product
- Total value of all final goods and services produced by the nationals of the country
- $GNP = GDP - \text{Factor Income to Abroad} + \text{FI from Abroad}$
- $GNP = GDP + \text{Net factor income from abroad}$

NDP

- Net Domestic Product
- $NDP = GDP - \text{Depreciation}$
- Monetary value of an asset decreases over time due to various factors
- Financial year: 1 April to 31st March

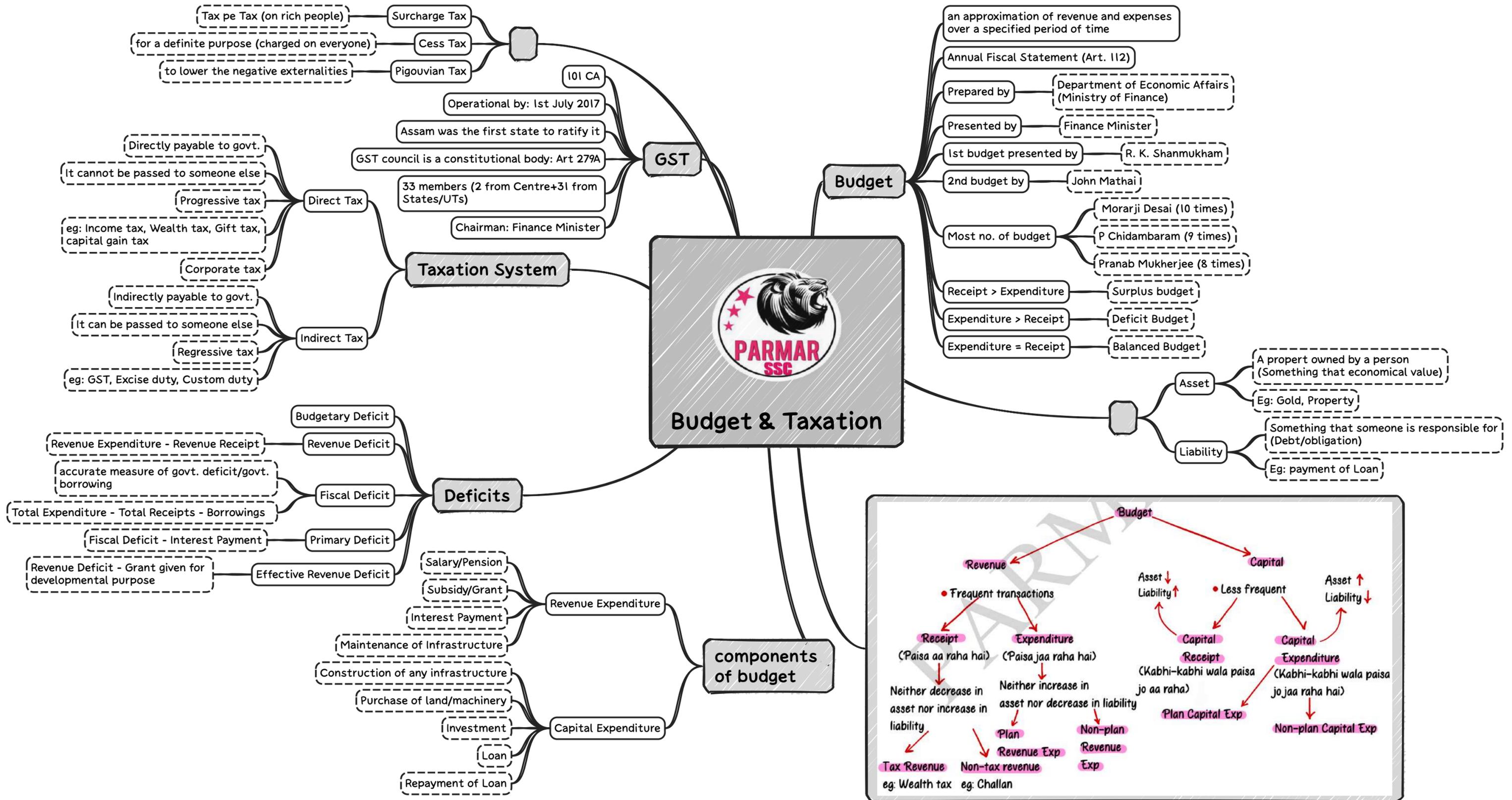
NNP

- Net National Products
- $NNP = GNP - \text{Depreciation}$

Methods to calculate GDP

GDP Calculation by National Statistical Office under MOSPLI (Ministry of Statistics & Program Implementation)

- Value Added Method
 - Also known as Production Method
 - Value added method = Output - Input
- Income Method
 - Compensation to employees
 - Operating surplus
 - Mixed income
- Expenditure Method
 - $C + G + I + (X - M)$
 - C: Consumption
 - G: Govt. expenditure
 - I: Investment
 - X: Export
 - M: Import





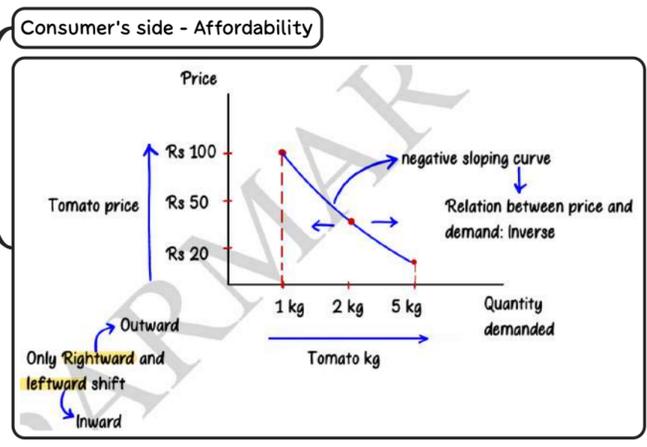
Demand

- Satisfaction - Utility
- Affordability
- Eagerness to buy something

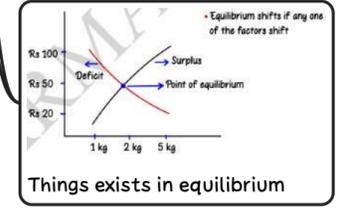
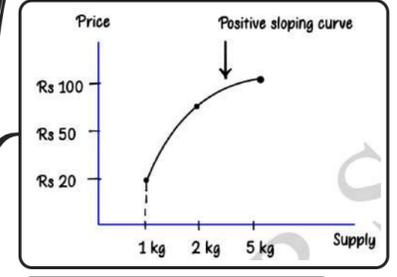
Marginal Utility

the addition satisfaction or benefit that a consumer derived from buying an additional unit of a commodity/service

Demand Curve

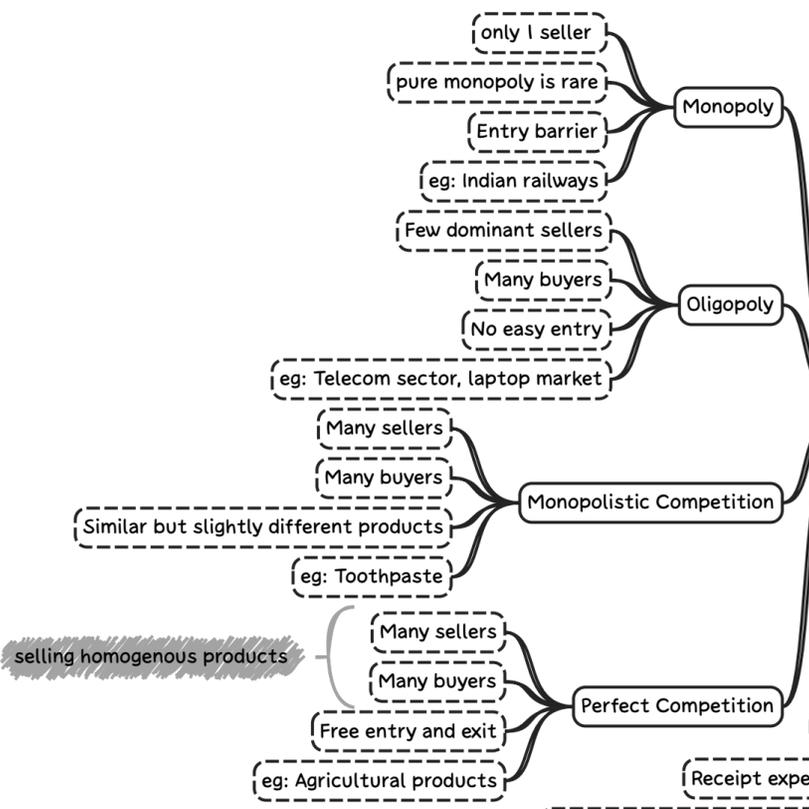


from producer's side/profitability



Supply Curve

Types of Market



People hold money for three purposes

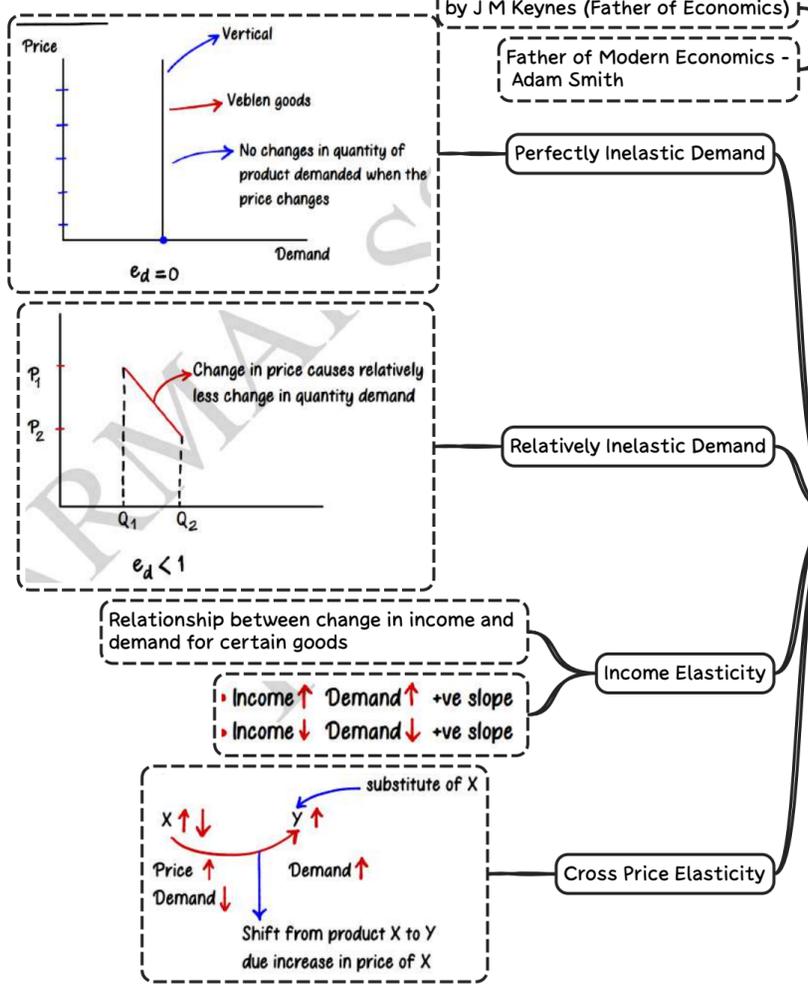
- Transaction motive
- Precautionary motive
- Speculative motive

Demand & Supply

Exceptions

- Giffen goods**
 - non-luxurious goods
 - eg: increase in price of wheat
- Veblen goods**
 - luxurious goods
 - Demand is perfectly inelastic
 - eg: iPhone, Mercedes

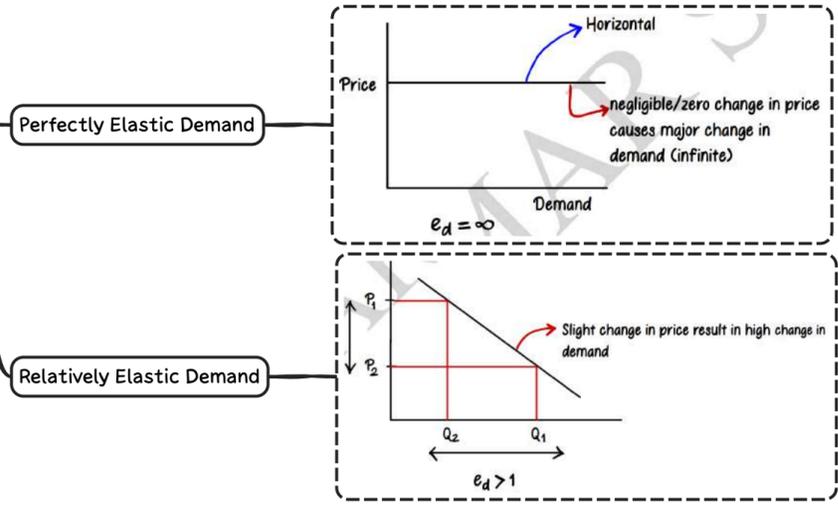
Price Elasticity

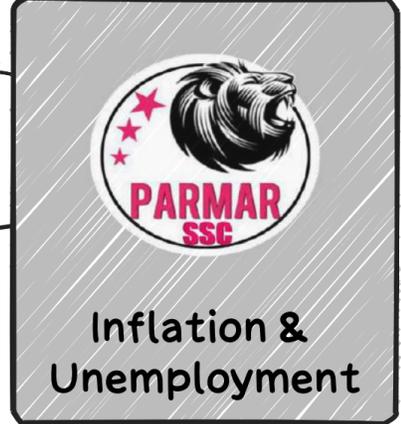


Changes in price (usually -ve) affect the changes of demand

$$e_d = \frac{\% \text{ change in demand}}{\% \text{ change in price}}$$

Price Elasticity





Inflation & Unemployment

Inflation

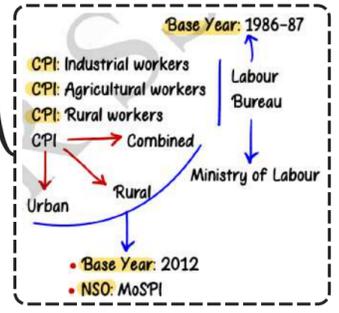
- Increase in general level of prices of goods & services
- Purchasing power decreases in case of inflation
- Irwin Fisher
 - Money illusion concept
 - $MV = PT$
- During inflation the debtor/borrower benefits more than the lender

Cause of Inflation

- Demand Pull
 - Demand side inflation
 - "Too many dollars chasing too few goods"
- Cost Pull
 - Supply side inflation
 - Increase in cost of any factors of production & input cost

Measurement of Inflation

- WPI
 - Wholesale Price Index
 - More weightage to manufactured goods
 - does not capture the changes in the prices of services
 - Base Year - 2011-12
 - Published by: Office of Economic Advisor (OEA) Ministry of Commerce & Industry
- CPI
 - Consumer Price Index
 - More weightage to food items
 - Checked from consumers perspective
 - Base Year - 2011-12
 - Published by: National Statistic Office (NSO) Ministry of Statistics & Program Implementation (MoSPI)
 - RBI uses CPI (combined) to target inflation



Types of Inflation

- Creeping — 3-4%
- Walking — 4-10%
- Running — 10-20%
- Galloping — 20-100%
- Hyper — 100%

Disinflation

Rate of inflation is decreasing

Deflation

- opposite of disflation
- Fall in the general level of prices
- Purchasing power increases

Types of Unemployment

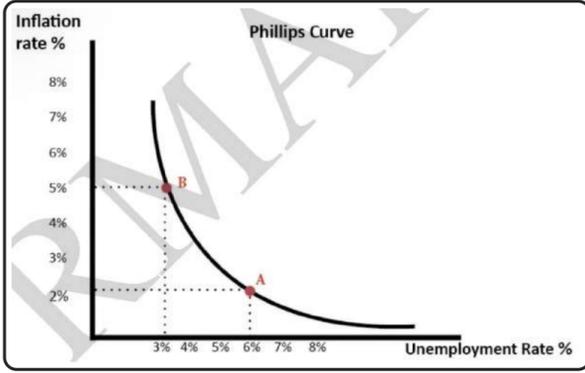
- Structural unemployment
 - a mismatch between worker's skill & availability of job
 - eg: technology advancement, like machinery replacing farmer labour
- Educated unemployment
 - degree - unemployment, seen in Urban part of India
- Frictional unemployment
 - type of unemployment while searching for a new job
 - eg: an employee leaving current job to move to a better one (seen in Urban)
- Disguised/Hidden unemployment
 - when some people seem to be employed but are not, marginal productivity is zero
 - eg: Agriculture sector
- Cyclical unemployment
 - Recession in economy (upturn & downturn)
 - When economy revives, there is opportunity to employment, seen in Urban
 - eg: Great Recession
- Seasonal Unemployment
 - Employment based on the seasonal basis
 - Seen more rural part of India
 - eg: Light or fireworks sellers during Diwali

Stagflation

- Inflation (inc.) & Unemployment (inc.)
- No economic activity
- Great Depression - 1929-1939
- Great Recession - 2007-2009

Philips Curve

Inflation (inc.) & Unemployment (dec.) have inverse relationship



IIP

- Index of Industrial Production
- Base Year: 2011-12
- Published by - NSO (MoSP)
- 8 core industries have 40% contributions
 - Refinery products
 - Electricity
 - Steel
 - Crude oil
 - Natural gas
 - Cement
 - Fertilizer
 - Crude Oil



Money & Banking

Functions of RBI

its regulates Banks

- Banking Regulation Act, 1949
- License
- CRR/SLR
- Regulate ban

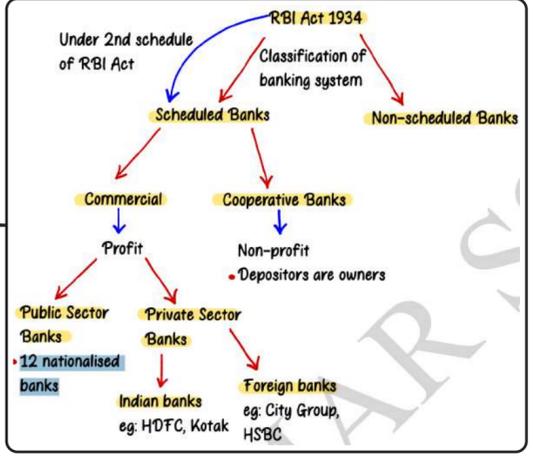
Currency printing

- except Rs.1 note (under Ministry of Finance)
 - legal tender - FIAT Money
 - Plastic Money - Credit card, debit card, etc.
 - Hot Money - Assets such as stocks, deposits, bonds, etc
- Currency Printing Coins → ₹1 note
- Nasik
 - Dewas
 - Mysore
 - Salboni
 - Mumbai
 - Hyderabad
 - Calcutta
 - Noida

Monetary Policy

Lender of last resort and Bank of Banks

Classification of banking system



History of Banking

- 1st bank - 1770 (Bank of Hindustan)
 - 1806 - Imperial Bank of Calcutta
 - 1840 - Imperial Bank of Bombay
 - 1843 - Imperial Bank of Madras
 - 1st Indian owned bank - Allahabad Bank, in 1865
- Merged 1921 - Imperial Bank of India
1955 - State Bank of India

Regional Rural Banks (RRBs)

- RRB Act 1976
 - to enhance financial activities in rural areas
 - eg: Grameen Banks
 - 1st - Pratham Grameen Bank (2nd Oct 1975, Moradabad, UP)
- 15% holding by State
35% holding by Sponsor Banks (sponsors RRBs)
50% holding by Centre

SIDBI

- 2nd April 1990
- Headquarter: Lucknow

Non-Banking Financial Companies (NBFC)

- Provides micro loans/micro financial services
- Minimum requirement of Micro Finance Loans: 75% of total assets
- Estd. through recommendation of a committee: Malegam Committee, 2010 (also sees issues of MFIs)
- To qualify for NBFC MFI license they should have at least 75% of assets in Microfinance
- Eg: Bajaj Finance, Muthoot Finance, Mahindra and Mahindra
- They are registered under Companies Act of 1956
- Gives loans and advances on gold
- They cannot accept Demand Deposits
- Deposits not guaranteed
- They are regulated by RBI
- They need not maintain CRR and SLR

MUDRA scheme

- Micro Finance, collateral free loans
- Micro Units Development and Refinance Agency, launched in 2015

3 types loan

- loans upto 50,000 - Sishu
- loans upto 50,000-5 lakhs - Kishore
- loans upto 5 lakhs-10 lakhs - Tarun

Micro Finance Institution

- They offer financial services to low income population
- eg: Loan, Savings, Insurance
- Microfinance loans is given to households having income less than Rs.1.25 lakhs/annum
- loans upto 50,000
- loans upto 50,000-5 lakhs
- loans upto 5 lakhs-10 lakhs
- gave concept of Grameen Model Banks, 1970 and was given Nobel Prize
- Father of Micro Finance system - Muhammed Yunus (Bangladesh)
- 1st Micro Finance institution in India - SEWA Bank (1974)

Business Model

- group of 10-20 people come together to find ways to improve their living conditions
- Group of below poverty line (BPL)
- Usually in rural areas
- group of 4-10 people
- Could be a small business venture for profit
- Self Help Groups (SHG)
- Joint Liability Group

NABARD

- National Bank for Agriculture and Rural Development
- Set up - 12 July 1982, on recommendation of B. Sivaraman Committee (1979)
- Through NABARD Act 1981
- Headquarter - Mumbai
- Provide finance for agriculture and rural development
- Regulate - RBI
- Supervise - NABARD
- Supervises cooperative banks and RRBs
- Does not deal directly with people
- Provides financing through PMAY, KCC, Ru Pay Kisan Cards

Other Financial Institutions

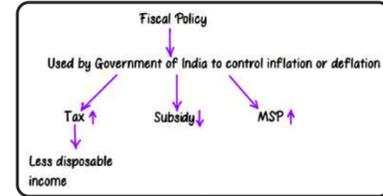
- National Housing Bank (1988, through Act of 1987)
- Securities and Exchange Board of India (through SEBI Act of 1992, established on 12 April 1988)
- Statutory body
- Headquarter - Mumbai
- Function: To protect the interests of investors
- Chairman - Madhabi Puri Buch (1st women, 1st non IAS chairman)
- Insurance Regulatory and Development Authority of India (Estd. through IRDAI Act of 1999 as a statutory body April 2000)

IRDAI

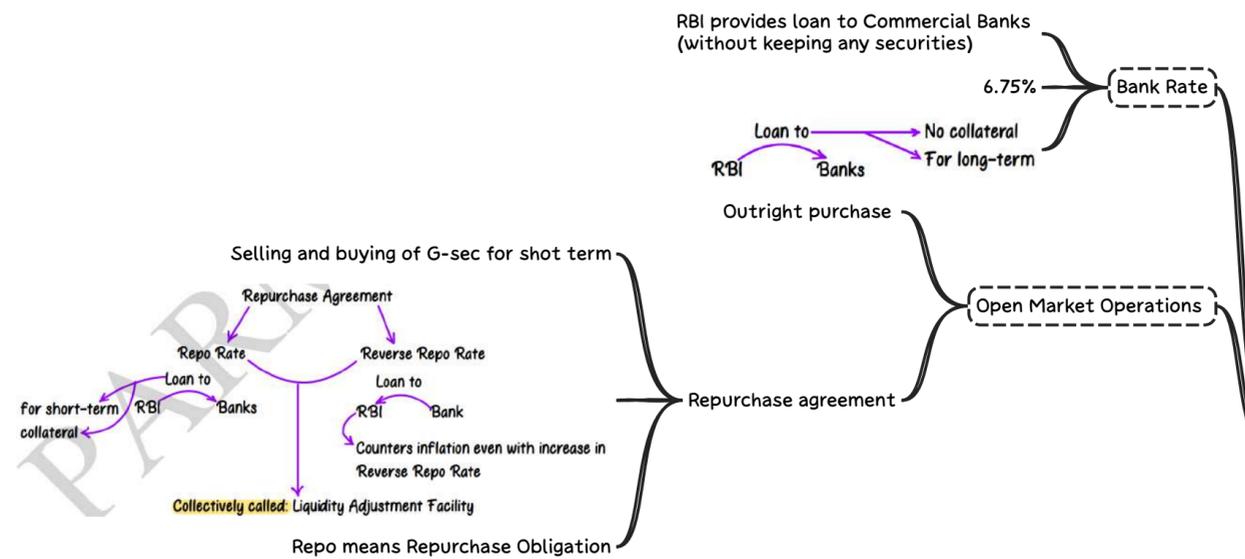


Monetary Policy

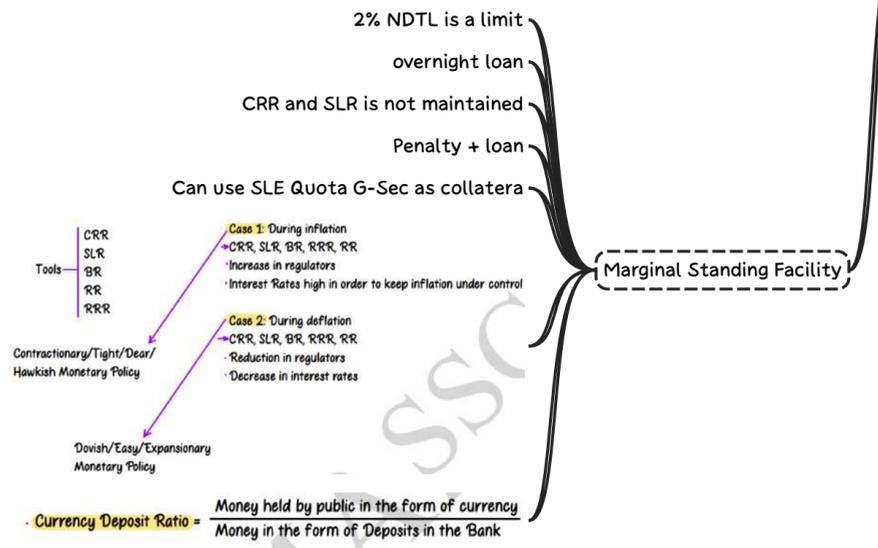
Fiscal Policy



Quantitative tools



Monetary Policy Tools



Qualitative tools

<p>Rationing of Credit</p> <ul style="list-style-type: none"> Certain amount is fixed for industrial, household and other purposes Credit supply for each commercial bank is fixed Add text here 	<p>Change in marginal requirements</p> <ul style="list-style-type: none"> Margin is increased for unnecessary sectors Margin is decreased for necessary sectors Add text here
<p>Regulation of consumer credit</p> <ul style="list-style-type: none"> Instalment amount, down payment, loan duration are all fixed in advance Used to control inflation in country Add text here Add text here 	<p>Moral suasion</p> <ul style="list-style-type: none"> Credit limit for each sector is imposed by rules and regulations Guidelines and regulations are fixed by central bank for speculative purposes Add text here

Balance Sheet

Different Assets and Liabilities of a Commercial Bank

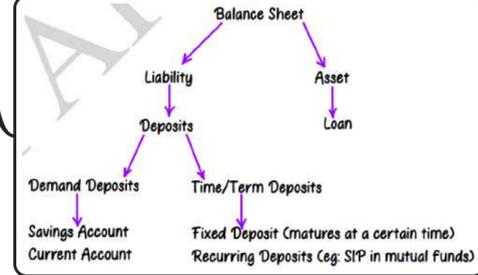
BALANCE SHEET			
LIABILITIES	AMT	ASSETS	AMT
Initial Money Invested	Share Capital	Vault Cash	
Sometimes bank borrows money from RBI	Loan taken from Central Bank if any	Deposits with Central Bank	
Saving Account, Current Account	Demand Deposits	Loans	
Fixed Deposits/Recurring Deposits	Term Deposits	Investment in Government Securities	

Initial Money Invested → Cash kept in Bank for Withdrawal by customers

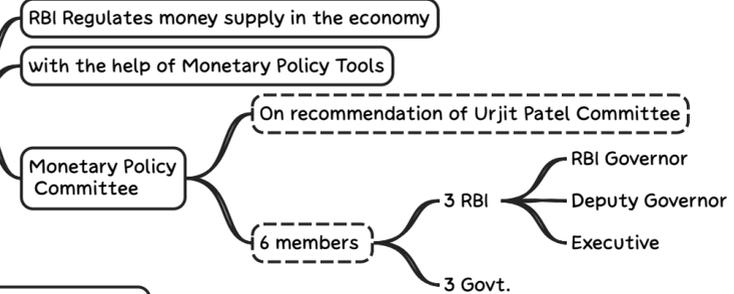
Sometimes bank borrows money from RBI → Amount deposited by Bank with RBI

Saving Account, Current Account → Loan Given to Public

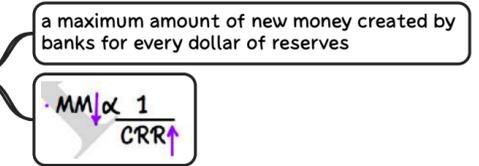
Fixed Deposits/Recurring Deposits → Amt invested in Government Banks



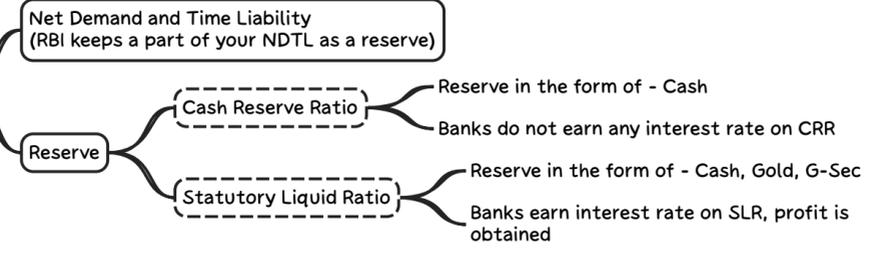
in case of Inflation/Deflation



Money Multiplier



NDTL





SARFAESI Act 2002

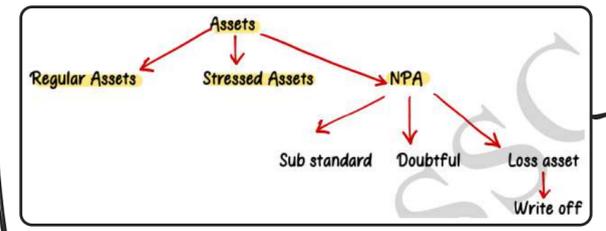
- Securitisation And Reconstruction of Financial Assets & Enforcement of Security Interest Act
- Provides power to the bank/any financial institution to seize the property of a defaulting borrower
- Wilful Defaulter: who would not pay to banks even if he has the ability to do so
- Insolvency & Bankruptcy Code, 2016: Consolidates the existing laws on bankruptcy

Bad Banks

- Financial entity setup to buy NPAs
- Recovery of NPAs
- 2021 budget: 2 bad banks to be established
- National Asset Reconstruction Company Ltd. (NARCL)
- India Debt Resolution Company Ltd. (IDRCL)

Non Performing Assets (NPA)

Delay is more than 90 days



Liquidity

- the ease with which an asset or security can be converted into ready cash without affecting its market price
- Demand Deposit is more liquid than Term Deposit
- Cash > Cheque > Bonds
- Fiduciary money: Mutual agreement, Eg: checks, bitcoins

Types of Money

- Currency in circulation: Currency with public, Currency with bank
- Deposits with Bank: Demand Deposit (Saving Account, Current Account), Term Deposit (Fixed Deposit, Recurring Deposit)
- Deposits with RBI: Bank Deposits with RBI, Other deposits with RBI
- Postal Deposit: Demand Deposit, Term Deposit (same as bank)

Monetary Aggregates

- M0: Monetary Base/High Powered Money/Reserve Money, Currency in circulation, Bankers deposit with RBI, Other deposits with RBI eg: deposits of Governmental/Quasi-Judicial authority (components)
- M1: Currency with public, Demand Deposits, Other deposits with RBI (Narrow Money)
- M2: M1 + Saving deposits with Post Office
- M3: M1 + Time deposits with Bank, Actual Money Supply (Broad Money (M3 - priority))
- M4: M3 + All deposits with Post Office
- Liquidity Order - M1 > M2 > M3 > M4

by Irving Fisher

Money illusion

The tendency to think of money in nominal terms rather than real terms

Wages - 1%	Wages + 5%
Inflation - 2%	Inflation + 7%
Real wages = +1%	Real wages = - 2%

Quantity Theory of Money

Velocity of Circulation: How many times a dollar, euro, etc. is spent purchasing finished goods and services.

All Transactions: All the goods and services sold within an economy.

$$M \times V = P \times T$$

Money Supply: All the money in the economy

Price Level: The price level of all goods and services in an economy

purchasing power of money decreases

When Money Supply ↑ keeping other factors constant (Velocity of circulation/transactions) → Price level of goods ↑

eg: Currency printing → Banks

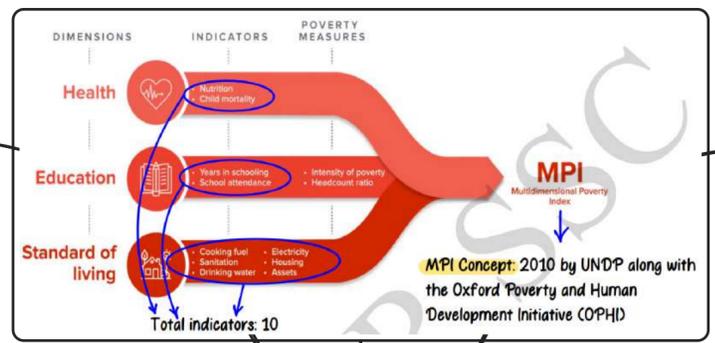
Quantity theory of money

Basel Norms

- Basel is a place in Switzerland
- Headquarter of Bank of International Settlements (BIS) - Basel, Switzerland
- Basel Committee, 1974 by G10
- 3 norms:
 - BASEL I - 1988: Focused on Credit Risk, Min. capital requirement at 8% of Risk Weighted Assets (RWA) Capital Adequacy Ratio
 - BASEL II - 2004
 - BASEL III - 2008: Capital Adequacy Ratio: 15% of RWA, NBFC cannot accept Demand Deposits, CRR/SLR maintenance: No
- Capital: Tier 1 (12.9%), Tier 2, Tier 3

Liquidity Adjustment Facility LAF

- Liquidity Trap: A situation in economy where people love to hold their money despite of any changes in interest rates which renders any Monetary Policy ineffective. No spending, happens when rates will increase, Speculative Demand: perfectly elastic.
- Money Market: Short-term loans, Call Money (to be paid within a day), Notice Money (to be paid within 2-14 days)
- Capital Market: Long-term loans
- Treasury Bills: issued by RBI, less than 1 year
- Maturity Bills: types (91 days, 182 days, 364 days), They are always listed on discount rate, No rate of interest



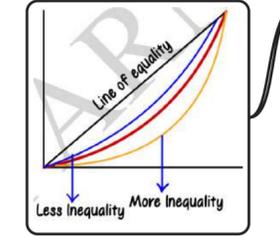
Poverty

- Absolute Poverty - severe deprivation of Basic Human needs
- Relative Poverty - Household income lower than the median income
- Subjective Poverty

Lorenz Curve

wealth distribution, talks about income inequality

Gini Coefficient: - 0 to 1
 0 - perfect equality
 1 - perfect inequality



Poverty Estimation

Pre Independence

- 1st done by - Dadabhai Naroji, gave unofficial poverty line through his book - Poverty and UnBritish Rule in India
- He made the earliest estimation of poverty
- National Planning Committee, 1938 by Subash Chandra Bose
1st Chairman: J L Nehru
- Bombay Plan, 1944

Dandekar & Rath Committee 1971

- Made the 1st systematic assessment of Poverty
- Used the data of NSSO (National Sample Survey Office) Under MoSPI
- Expenditure based poverty line

Alagh Committee 1979

- Nutrition based poverty line
- Rural - 2400 Calories
- Urban - 2100 Calories

Lakdawala Committee 1993

- Poverty line based on CPI-IW (Rural), CPI-AW (Urban)
- State-wise poverty line

Tendulkar Committee 2009

- Health and Education should also be taken under Basic Needs
- Poverty line based on Purchasing Power Parity: if someone is spending more than 33/day (not poor), not more than 33/day (poor)
- Uniform Reference Period replaced by Mixed Reference Period (Health/education)
- Poverty Line (2011-12)
 - Rural - 816/month
 - Urban - 1000/month
- % of people below poverty line - 21.9% (2011-12)
 - Rural - 25.7%
 - Urban - 13.7%
- Poverty Ratio - 29.5%
 - Rural - 30.9%
 - Urban - 26.4%
- Head count Ratio
 - Proportion of Population BPL
 - Head count ratio = $\frac{\text{No. of multidimensionally poor people}}{\text{Total Population}}$

Rangarajan Committee 2014

- Created categories within nutritional requirements
 - Calories
 - Protein
 - Fat
- Also, talked about Modified Mixed Reference Period

IMF (International Monetary Fund)

Headquarter - Washington D.C

- UN Monetary and Financial Conference
- Bretton Woods Conference, 1944 → 44 Nations → 730 delegates
- IMF → World Bank
- HQ: Washington, D.C.

NOSTRO - Own account/money in your bank
 Eg: Bank X has an account with Bank Y in Bank Y's home currency

VOSTRO - Your account/money in our bank
 Eg: City Banks partners with HDFC Bank based in India and opens an account with the denoted currency INR

FERA - Foreign Exchange Regulation Act, 1973

FEMA - Foreign Exchange Management Act, 1999 (replaced by)

Depreciation - Decreases of value of domestic currency
 Exporters will benefit in case of depreciation

Appreciation - Increase of value of domestic currency

Devaluation - it is Official Depreciation

Revaluation - it is Official Appreciation

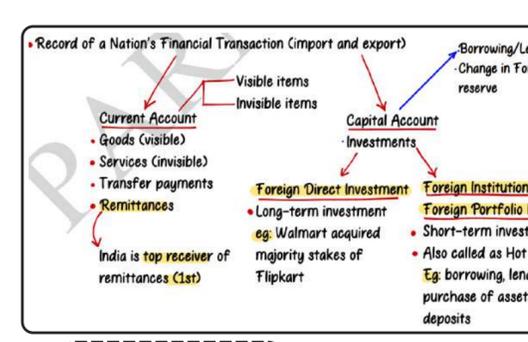
Foreign currency assets

Gold reserves

Empty of FOREX Reserves

Special Drawing Rights (SDR) - Currencies - USA, Euro, Yen (Japan), Yuan (China) & Pound (Britain)

Reserve Tranche Position: required quota to be maintained within the IMF



Balance of Payment

then PM - P V Narasimha Rao then Finance Minister - Manmohan Singh

LPG Reforms: Liberalisation, Privatisation, Globalisation

1st - Argentina, 4th - Pakistan

Debaters in IMF

Current Account Deficit (CAD) - 3.3% of GDP (currently)

Value of imports > Value of Exports

Twin Deficit = CAD + Fiscal Deficit

Balance of Payment Crisis

1991 - Balance of payment crisis in India

Due to market forces Floating Exchange Rates

Government interference Fixed Exchange Rates

