

# Appolo Study Centre

## 9<sup>th</sup>, 10<sup>th</sup> New School Book

### Economics

S. No	Title	Page
<b>9<sup>th</sup> Std</b>		
1.	Understanding Development Perspectives, Measurement and Sustainability	3
2.	Employment in India and Tamil Nadu	9
3.	Money and Credit	13
4.	Tamil Nadu and Agriculture	20
5.	Migration	25
<b>10<sup>th</sup> Std</b>		
1.	Gross Domestic Product and its Growth : and Introduction	30
2.	Globalization and Trade	43



## **9th Economic**

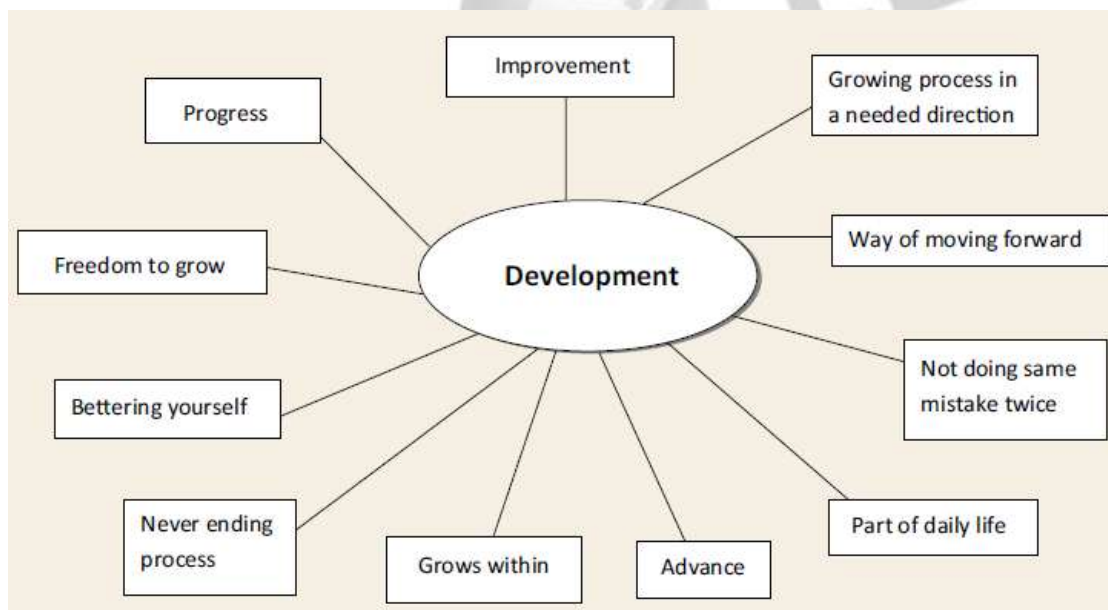
# 1. Understanding Development Perspectives, Measurement and Sustainability

## Introduction

The word 'development' is used widely. It refers to the progress of a particular field or a particular person. Similarly, the economic progress of a country is known as 'economic development'. However, the interpretation of the concept development keeps on changing from time to time, from person to person and its meaning gets extended further.

## Different Perspectives About Development

Every human being has an ambition or desire of his or her own to achieve progress in life. Similarly, we have ideas about how a country should progress. If our thinking turns towards progress and about the ways to achieve the many goals for progress, it leads to development.



From the above diagram, you will notice that other than income, people seek freedom to grow on their own. Thus, development refers to the improvement in quality of life such as higher income, better education, better health and nutrition, less poverty and more equal opportunity. The term 'economic development' refers to the overall growth of all sectors of the economy by adoption of new technologies. Economic development improves the living standards of the people as well as the status of the country.

## Indicators of Economic Development

The major indicators to measure the level of economic development are Net National Product (NNP), Per Capita Income (PCI), Purchasing Power Parity (PPP) and Human Development Index (HDI).

### Net National Product

The Net National Product (NNP) is considered as a true measure of national output. It is also known as national income. A rise in per capita income means an increase in aggregate real output. Hence, this is a better indicator than national income for measuring development.

G8 Countries	GDP per capita (Value in US dollars)	SAARC Countries	GDP per capita (Value in US dollars)	BRICS Countries	GDP per capita (Value in US dollars)
UK	40,03,000	Afghanistan	6610.24	Brazil	10,51,000
Russia	10,63,000	Bangladesh	1,666,000	Russia	10,63,00
Canada	47,66,000	Bhutan	3,22,000	India	1,99,000
France	42,42,000	India	1,99,000	China	9,38,000
USA	61,69,000	Maldives	132,000	South Africa	6,29,000
Italy	33,73,000	Nepal	882.93		
Japan	40,06,000	Pakistan	NA		
Germany	47,54,000	Sri Lanka	4,05,000		

For measuring a country's development, its income is considered to be one of the most important factors. Countries with higher income are considered to be more developed than those with lesser income. So, income itself is considered to be one of the indicators of economic development.

### Per Capita Income

However, for comparing the development of various countries, total income is not a useful measure. Since countries have different populations, comparing total income will not be suggestive of what an average person is likely to earn. Are people in one country better off than others in a different country? The average income is calculated by dividing the country's total income by its total population. The average income is also called per capital income. Calculations on the per capita income of all countries are calculated only in the US dollar in order to compare International level.

Per Capita Income according to the World Bank report, new income measurements of countries are classified as below (2017-18)	
Type of Countries	Per capita Income (US Dollar)
Low Income	< 1005
Lower Middle Income	1006 - 3955

Upper Middle Income	3956 - 12,235
High Income	> 12,235

### **Purchasing Power Parity**

Purchasing power parity is defined as the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the US. The technique of purchasing power parity allows us to estimate what exchange between two currencies is needed to express the accurate purchasing power of the two currencies in the respective countries. Recently, India became the third largest economy in terms of PPP. China became the largest defeating the US to the second position.

### **Human Development**

Human resource is necessary for the progress of any country. The term 'human resources' refers to the collective abilities of people, which can be utilised in the production sector. Human resource development means the development of a person's physical and mental abilities through education, health care and training. Therefore, investment in education and health of people can result in a high rate of returns in the future for a country.

For example, if a child is invested with good education and health, he or she may turn to be very productive in future in the form of higher earnings and greater contribution to the society. Human Development Index (HDI) which indicates all round development of the people in the society. In the past, economists believed that the rate of economic growth of nations could be increased only by increasing investment in physical capital. But they have realised over time that investment in human capital is as important as investment in physical capital.

<b>S. No</b>	<b>Country</b>	<b>HDI in 2010</b>	<b>HDI in 2015</b>
1.	India	0.580	0.624
2.	Russia	0.785	0.804
3.	China	0.700	0.738
4.	Pakistan	0.525	0.550
5.	Nepal	0.529	0.558
6.	Bangladesh	0.545	0.579
7.	South Africa	0.638	0.666
8.	Sri Lanka	0.746	0.766

S. No	Parameter	States						
		Andhra Pradesh	Karnataka	Kerala	Gujarat	Uttar Pradesh	Tamil Nadu	India
1.	Literacy Rate % (2011)	67.02	75.36	94	78.03	69.72	80.09	74.04
2.	Sex Ratio (Females per 1000 Males)2011	993	973	1084	919	912	996	943
3.	Enrolment in Higher Education % (2015-16)	30.8	26.1	30.8	20.7	24.5	44.3	24.5

### Sustainability of Development

Sustainable economic development is taken to mean development without damaging the environment and not compromising with the needs of the future generation. The consequences of environmental degradation do not respect national or state boundaries. Sustainability of development is comparatively a new area of knowledge in which scientists, economists, philosophers and other social scientists are working together. Natural resources can be divided into renewable resources and non-renewable resources. Groundwater is an example of a renewable resource. The question arises as to how sustainable development is possible if the resources are over-used rather than getting replenished. Non-renewable resources get exhausted after certain number of years of extracting and using them and they cannot be replenished.

Renewable resources	Non-renewable resources
Renewable resources are pollution free and environment friendly. These resources take a short time for renewal. Example: Solar energy, wind energy, water, wood, paper.	Non-renewable resources pollute and damage the environment. Million of years are needed for the formation of these resources. Example: Metals, glass, fossil fuels (coal, petroleum, natural gas, diesel)

To achieve real sustainability, we need to balance economic, social and environmental sustainability in equal harmony. In general, the question of development or progress is continuous. At all times, as a member of society and as individuals, we need to ask where we want to go, what we wish to become and what our goals are.

## Policies for Sustainable Development

### Use of Non-conventional Sources of Energy

India depends on thermal and hydro power plants to meet its power needs. Both these sources have an adverse environmental impact. Thermal power plants emit large quantities of carbon dioxide, which pollute the environment.

### Solar Power in India

Solar power is the conversion of energy from sunlight into electricity either directly using photovoltaic cells or indirectly using concentrated solar power. Solar panels absorb the sunlight as a source of energy to generate electricity. A solar electric system can reliably produce electricity for our home and offices. These distributed solar systems are often installed by home and business owners to reduce their electricity costs. Solar power in India is a fast-developing industry.

Tamil Nadu is the state with highest installed solar capacity in India. Tamil Nadu is one of the leading solar power producing states in India. As on 31 July 2017, the total installed capacity in Tamil Nadu is 1,697 MW.

### Environmental Policies in India

Environmental policies in India have been evolved considerably over the past three decades. These policies have covered a wide range of issues such as air, water pollution, waste management and biodiversity conservation. India faces challenges in economic development, which has to be achieved with limited resources, minimum externalities and in the presence of an uncertain climate. One of the approaches to overcome this challenge is through the path of sustainable development. The Supreme Court of India has interpreted and introduced new changes in environmental protection through a series of directions and judgements.

List of Environmental Acts in India		
S. No	Act	Action
1	National Green Tribunal Act, 2010	Environmental protection and conservation of forests and other natural resources
2	Biological Diversity Act, 2002	To provide for conservation of biological diversity
3	The Environment (Protection) Act, 1986	Providing for the protection and improvement of the environment.
4	Forest (Conservation) Act, 1980	Check deforestation and encourage afforestation

	Act, 1980	afforestation of non-forest areas.
5	Water (Prevention and control of pollution) Act, 1974	Provides maintenance and restoration and quality of all types of surface and groundwater.
6	Wildlife Protection Act, 1972	Providing protection to wild animals and birds.

Article 51A(g) of the Constitution states that “it shall be the duty of every citizen of India to protect and improve the natural environment including forests, lakes, rivers and wildlife and to have compassion for living creatures.” Development increases the quality of life. This means that people will have higher incomes, better education, better health and nutrition, less poverty and more equality of opportunity.

### **The Growth Story of Tamil Nadu**

Tamil Nadu is one of the states that achieving rapid progress over a relatively short period, though it started from appalling levels of poverty, deprivation and inequality. It is during that period, Tamil Nadu is much to the consternation of many economists, initiated bold social programmes such as universal midday meals in primary schools and started putting in place an extensive social infrastructure – schools, health centres, roads, public transport, water supply, electricity connections, and much more. Today, Tamil Nadu has some of the best public services among all Indian states, and many of them are accessible to all on a non-discriminatory basis.

- ❖ First, active social policies constitute an important aspect of this shared experience. This is particularly striking in the vigour of public education, but it also extends to other domains, such as health care, social security and public amenities.
- ❖ Second, these states have typically followed universalistic principles in the provision of essential public services. This is especially noticeable in the case of Tamil Nadu.
- ❖ Third, these efforts have been greatly facilitated by a functioning and comparatively efficient administration. The governments involved have delivered their services in traditional lines and these ‘old fashioned’ public institutions-functioning schools, health centres, government offices, Gram Panchayat and co-operatives have left much room for private initiatives at a later stage of development.
- ❖ Fourth, dealing with social inequality has also been an important part of these shared experiences. In each case, the historical burden of social



inequality has been significantly reduced in one way or another. In Kerala, Tamil Nadu and Himachal Pradesh, principles of equal citizenship and universal entitlements were forged through sustained social reform movements as well as fierce struggles for equality on the part of under-privileged groups-especially Dalits,.

- ❖ Fifth, these experiences of rapid social progress are not just a reflection of constructive state policies but also of people's active involvement in democratic politics. The social movements that fought traditional inequalities are part of this larger pattern.
- ❖ Last but not least, there is no evidence that the cultivation of human capability has been at the cost of conventional economic success, such as fast economic growth. Tamil Nadu have some of the highest per capita incomes and lowest poverty rates among all Indian states. Economic growth, in turn, has enabled these states to sustain and consolidate active social policies. This is an important example of the complementarity between economic growth and public support.

- Source: *An Uncertain Glory* by Nobel laureate Prof. Amartya Sen.

#### NOTE

- ❖ Final value of total goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year is known as Gross Domestic Product (GDP).
- ❖ The Ministry of Human Resource Development is responsible for the development of human resources in India. Its headquarters is situated at Shastri Bhavan in New Delhi.
- ❖ Human Development Report of the world prepared and released by UNDP Literacy rate of Tamil Nadu is the second highest among the southern states. Tamil Nadu's literacy rate is higher than the national average. The enrolment for higher education in Tamil Nadu is the highest in India.

## 2 Employment in India and Tamil Nadu

### Introduction

You know the basic needs of every human being are food, clothes and shelter. In the present world, one more essential need has to be added in this list. That is employment. To survive in the world, we all need employment to earn money. Those who are engaged in economic activities, in whatever capacity- high or low - are called employees. People who employ these workers and pay rewards for their work are called the employers.

Labour force of the economy is the number of people in the country who work and also capable of working. We take the age group of 15-60 years for the computation of workforce. Persons who are less than 15 years are considered as children, and person who have crossed 60 years of age are excluded as they are not physically fit to undertake productive occupation. If larger percentage of population is accounted by children and old-age persons, then the progress of the country would be very slow as the working force is very small. Besides, the small working force will have to maintain larger non-working force for feeding out of the small national product.

### Employment Structure in India

The nature of employment in India is multi-dimensional. Some get employment throughout the year; some others get employed for only a few months in a year. The economy is classified into three sectors: primary or agriculture sector, secondary or industrial sector and tertiary or service sector. The structure of employment denotes the number of workers engaged in different sectors of the economy. Though the occupational pattern varies from one country to another, one can find in Developing countries like India that a large work force will be engaged in primary sector, while a small proportion in secondary and tertiary sectors. Whereas, in well-developed countries, the proportion of workforce engaged in agriculture will be very small and a majority of labour force will be in the industrial and tertiary sectors. Employment has always featured as an important element of development policy in India. Employment growth has increased at an average rate of 2% during the past four decades since 1972-73.

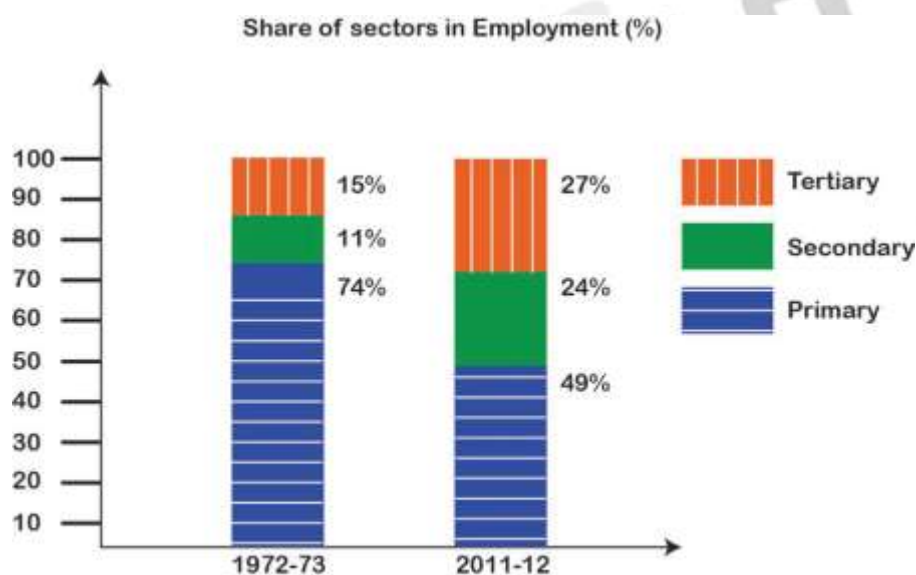
- ✓ **Primary sector:** Agriculture, forestry animal husbandry, poultry, dairy farming, fishing etc.
- ✓ **Secondary sector:** Manufacturing, small and large-scale industries and constructional activities.

- ✓ **Tertiary sector:** Transport, insurance, banking, trade, communication, real estate, government and non-government services.

## Types of Employment: Organised and Unorganised Sectors

### Organised Sector

The organised sector is one that is incorporated with the appropriate authority or government and follows its rules and regulations. In India employees of central and state governments, banks, railways, insurance, industry and so on can be called as organised sector. This sector works according to certain rules and regulations given in the law. Organised sector has some formal processes and procedures. The employees in this sector are provided with job security and receive higher wages than those of the unorganised sectors. Organised sector gives good salary, fixed working hours, paid holidays and provides medical allowance and insurance also.



Source: NSSO

### Unorganised Sector

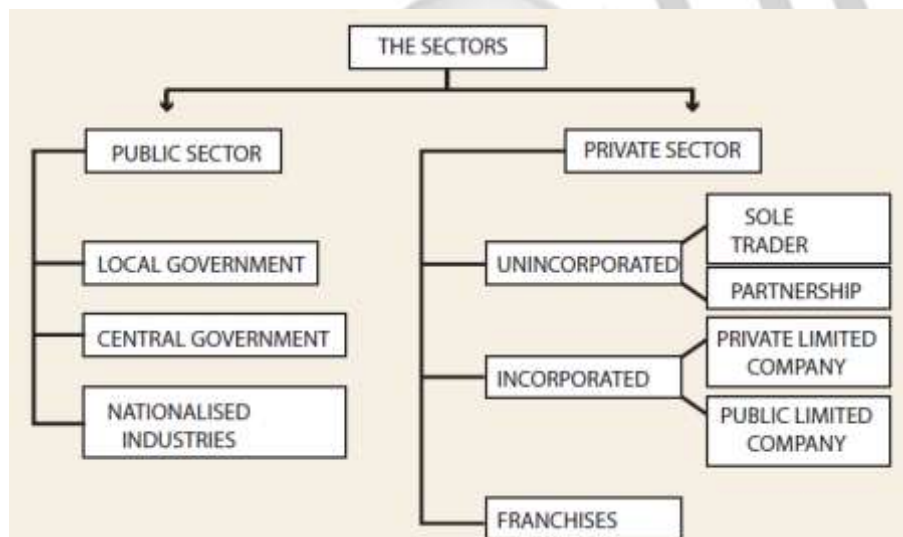
The unorganised sector of the economy characterised by the household manufacturing activity and small-scale industry. Jobs here are low paid and often not regular, mostly, they do not have paid leave, holiday, leave due to sickness and so on. Employment is not secure. When there is no work, people are asked to leave the job. This sector includes a large number of people who are employed on their own doing small jobs such as selling on the street, doing repair work and so on. In the unorganised sector, the employment terms are not fixed and regular. They do not enjoy any special benefits or job security. These enterprises are not registered with the government.

Public Sector	Private Sector
• NLC	• TVS Motors
• SAIL	• Ashok Leyland
• BSNL	• TATA Steel

## Public Sector vs Private Sector

Economic activities are classified into public and private sector based on who owns assets and is responsible for the delivery of services.

Differences between the Public Sector and Private Sector	
Public Sector	Private Sector
• Service motive	• Profit motive
• Government owns the assets	• Private individuals own the assets
• Wages are paid by the government	• Wages are paid by the owner of private enterprises.



## Employment Pattern

In recent years, there has been a change in the employment pattern and this has helped the employers to develop more flexible working patterns among their employees. The trends are (a) increasing self-employment (b) firms using fewer full-time employees and tending to offer more short-term contracts (c) there has been a growth in part-time employment. This may be due to lifestyle of the people.

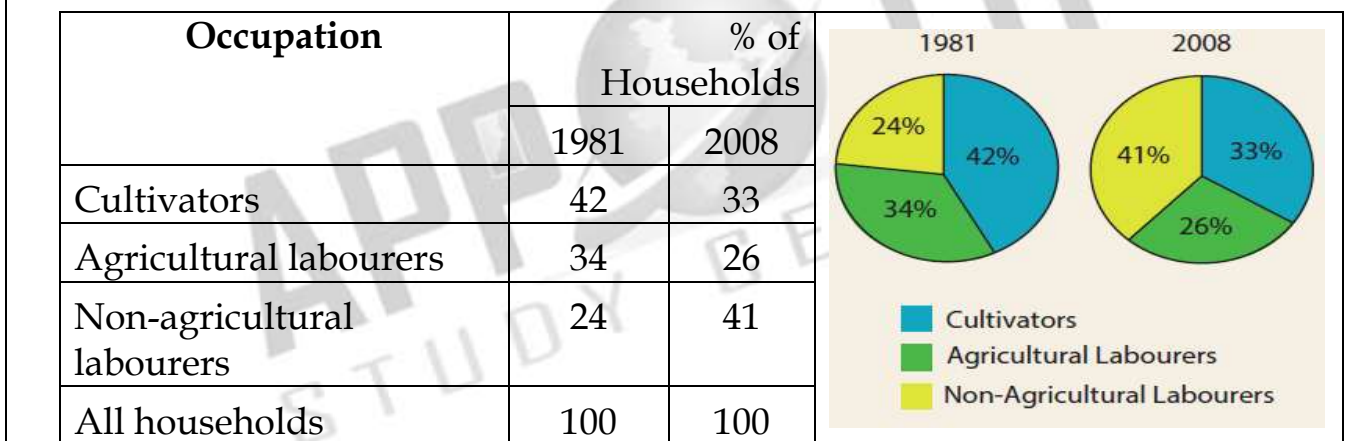
### Employment in Iruvelpattu: A case study

What is happening in the employment scenario can be understood not only from national or state level, but also from the study of the village economy. Iruvelpattu is one such village in Villupuram district in Tamil Nadu. This

village has been studied for more than 100 years by many scholars. This village is also called Slater village as Gilbert Slater was the first scholar working in the University of Madras to go with his students to study this village in 1916. Over the years, many scholars surveyed the occupation of villagers and collected many more details of each person in the village.

It was clearly observed that the government brought social security awareness among the people of the village through primary health care, provision of schools and maintenance of public distribution system. Though this village underwent many changes, it is still dependent on agriculture as the main occupation. Look at the following table or chart. You will notice that during 1981, out of 100 families, 24 were engaged in non-agriculture employment. In 2008, the member of families engaged in such employment increased to 41. During 1981-2008, the proportion of families engaged in agriculture has declined- both as agriculture labourers and as cultivators.

Employment details of households in Iruvelpattu (in%)



### Employment Trends in Tamil Nadu

Agriculture, despite a sharp decline in gross domestic product, continues to be the largest employer in Tamil Nadu. This is because the non-agriculture sectors are yet to generate enough employment to affect a shift of labour force. Most of the employment growth in Tamil Nadu has been contributed by the unorganised and informal sectors.

#### NOTE

- ❖ In the medieval period, Feroz Shah Th uqlaq, the Sultan of Delhi, had set up an 'Employment Bureau' to solve the unemployment problem.

### 3. Money and Credit

Almost all things used by man have a monetary value. In addition to that, the pay given for labour, wages and services are all fixed on the basis of money. The taxes and duties are also paid in the form of money. We would have seen our parents planning the expenses at our home every month. The monthly income, pending expenditure, savings, payment of interest etc., are all measured in terms of money. Not only at homes, but also the budgets of a country or states are also framed on the basis of money. The Government, as well as, private institutions and industries calculate their financial status through money. Thus, money plays a predominant and inseparable role in all our lives.

#### **Barter System**

If there arises a question, “Has man always used money?”, the answer would be ‘no’. How? When did money enter into the lives of men? In this lesson, let us learn about the evolution of money over the years. Ancient man hunted and gathered food. He lived in caves and forests. In later stages, he invented weapons for hunting and gathering food. Later, he invented fire and learnt to practise agriculture. He used mud to build houses and settle down in a place and also to make earthenware.

When the agricultural yield was high, they made handicrafts. When there was surplus in agricultural produce and other articles like earthenware, they exchanged it with people who needed them. For example, if a community had excess food stuff, they would exchange that with those who had excess pots. Likewise, when a particular grain grew in abundance in a region, it was exchanged for a different crop in another region. These articles which were exchanged through barter system can be termed as the first form of trade.

#### **Coins**

The barter system flourished wherever civilizations thrived. This system was active not only within a civilization, but also among civilizations. This was the initial form of international trade. During archaeological excavations in Egypt and Iraq (Mesopotamia), articles used during the Indus valley civilization were excavated. As years went by, there were issues found in barter system. For example there were problems in the exchanging needed goods. A person who had paddy was in need of earthenware for instance. But, the person who had pots and other utensils was not in need of paddy.

Thus, the needs of many people were not fulfilled. Measuring the quantity and value of the goods exchanged were found very difficult. To solve these issues, they

fixed a common item with a standard value, for the effective exchange of goods. It was usually in the form of some metal. Metals were rare to find and could be maintained for a long time and never lost their value. Hence, the metals can be termed as the first form of money.

These may be the reasons why metals were chosen. Gold, silver and copper were the metals used first. They were called ancient currency. Leather, beads, shells, tobacco, salt, corn and even slaves were exchanged as barter, say economists. The later Cholas allowed the traders to have their own army. Historical evidences state that during this period, small traders and producers gave credit to the Tamil traders to support their export needs.

### **Natural Money**

The metals such as silver and gold gained importance gradually all over the world. So, these metals were used as standard value in the exchange of goods. There is called as natural money.

### **Paper Money**

As days went by, issues arose because while trade prospered, there were insufficient reserves of gold and silver. Mines also had a limited reserve of these metals. An alternative was found and coins were made using metals with lesser value. These were used to buy and sell goods of lesser value. It was used as the money of the poor people. Hence these coins were printed in large numbers. Paper money came into being as the next stage. This money was without form and people started saving in banks. The Great Economic Depression was also prompted the saving habit of the people. Money has become an inseparable part of everyone's life today. It has changed its form in the economic front. Money transactions are done through many ways in the electronic world.

### **History of Money**

- 1. Barter System 9000 B.C (B.C.E):** During this period, exchange of goods was done through barter system. Man exchanged the surplus goods for other goods that he needed.
- 2. Coins 1100 B.C (B.C.E):** The Chinese have used small coins during this period. These coins were made in bronze. Countries bordering the Indian Ocean used shells as a medium of exchange.
- 3. Currency 600 B.C (B.C.E):** King Alyattes of Lydia announced publically that official currency will be used for trade. Lydia is a part of Turkey today. This Transaction of money spread throughout the Mediterranean region.

4. **Gold Coin 1250 A.D (C.E):** The florin, a gold plated coin was introduced in Europe
5. **Marco Polo 1290 A.D (C.E):** Paper money spread to Europe through the travels of Marco Polo
6. **Printing of Currency 1661 A.D (C.E):** When new paper money was printed in Sweden, it was not much welcome.
7. **Electronic Transfer 1860 A.D (C.E):** Through telegramme an effort was under taken to transfer money electronically.
8. **Credit Card 1946 A.D (C.E):** John Biggins invented the credit card
9. **Mobile Banking 1999 A.D (C.E):** European banks introduced mobile banking
10. **NFC 2008 A.D (C. E)** Near field communication (NFC) was introduced in Britain. In 2016, it came to India> It takes only about 7 to 8 seconds to transact money through NFC.

### **Electronic Transactions**

One has to visit the bank and fill in a challan or produce a cheque to withdraw money from his account. Now this practice is gradually vanishing. Instead, one can easily withdraw the necessary amount from an Automated Teller Machine (ATM), with the help of an ATM debit card. One can easily withdraw the money needed at any time at ATMs located everywhere. A person can deposit money in their account without visiting the branch.

- ✓ Similarly, credit cards are also available, through which things are bought on credit and the amount can be paid later.
- ✓ Nowadays, instead of using cheques or Demand Drafts (DDs), online transactions through net banking are carried out. Through this, money is transacted to anyone who lives anywhere across the globe.
- ✓ Technology has advanced so much that even mobile banking is widely used nowadays.

### **Role of the Reserve Bank of India**

A government has the responsibility to regulate money supply and oversee the monetary policy. Hoarding of money must be avoided at all costs in a country's economy. Only then money can be saved in banks. A major portion of the savings in banks are used for the development of industries, economic growth and various development schemes for the welfare of the poor. All the



major and important banks were nationalised (1969) in India. The Reserve Bank of India (RBI) regulates the circulation of currency in India.

The Reserve Bank of India started its operations on 1st April 1935. It was permanently moved to Mumbai from the year 1937. RBI was nationalised in 1949. 85% of the printed currency is let for circulation. According to the statistics available as on August 2018, currency worth of 19 lakh crore are in circulation. (source - Reserve Bank of India)

### **Educational Loans**

- ✓ Educational loan attempts to meet the educational aspirations of the society.
- ✓ A student is the main borrower.
- ✓ A parent, spouse or sibling can be the co-applicant.
- ✓ It is offered to students who want to pursue higher education in India or overseas.
- ✓ It can be taken for a full time, part - time or vocational course and Graduation or Post Graduation.
- ✓ There is no security required for the loan amount up to ` 4 lakhs
- ✓ The loan is repaid by the student generally after the employment.
- ✓ Students can apply through "Vidya Lakshmi Portal Education Loan Scheme".

### **Relationship between Money and Prices**

There is a close relationship between volume of circulation money and the price of things. 90% of the products are manufactured with the main aim of sales or meant for services. Growing crops and production are done on a commercial basis, rather than on a subsistence level. This phenomenon also increased the importance of the market and money.

The relationship between money and price is connected with the Monetary policy. There is a close relationship between the growth of money supply and inflation. Price controls play a very important role in a country's economic stability. This role is played by the Central Bank of our country, RBI in India. Currency is the medium of exchange in a country. The Indian currency is called the Indian Rupee (INR). In a country the foreign currency is called foreign exchange. Purchasing capacity of all currencies in the world are compared using the US dollar as the standard currency. This value differs from country to country. Most of the international trade transactions are carried out in US dollar.

## How is currency printed in India?

One rupee and two rupee notes were first printed in India in the year 1917. The Reserve Bank of India is empowered to issue the Government of India notes since 1935. 500 rupee note currency was introduced later. In 1940, one Rupee notes were issued again. Till 1947, the currency notes with the image of King George VI were in circulation. After Independence, the Government of India issued currency notes.

In 1925, the British government established a government press at Nasik in Maharashtra. Currencies were printed three years later. In 1974, a press was started in Dewas, Madhya Pradesh. (Security Printing and Minting Corporation of India Ltd.) In the 1990s, two more presses were started in Mysuru, Karnataka and Salboni in West Bengal to print bank notes.

The Reserve Bank of India has the authority to decide the value of currency to be printed and how the amount should reach its destination safely. Around ten thousand workers are employed here. Countries like Sri Lanka, Bhutan, Iraq and Africa have drawn contracts for printing their currencies and sent to the respective countries. Though the RBI has the power to print up to ten thousand rupee notes, at present a maximum of up to rupees two thousand is printed.

## Foreign exchange rate equivalent to US Dollars

Country	Currency	Equivalent Value for 1 US Dollar (July 2018)
India	Rupee	68.72 rupees
England	Pound	0.76 pound
European Union	Euro	1.14 euro
Canada	Dollar	1.31 dollar
Japan	Yen	111.15 yen
China	Yuan	6.76 yuan
Saudi Arabia	Riyal	3.75 riyal
Australia	Dollar	1.35 dollar
Malaysia	Ringgit	4.05 ringgit
Pakistan	Rupee	124.2 rupees
Sri Lanka	Rupee	159.8 rupees

**Functions of Money:** When money replaced the barter system, a lot of practical issues were solved. Money acts a medium of exchange, a unit of measurement, a store of value and a standard of deferred payments. It plays an important role in transactions.

**Medium of Exchange:** Money should be accepted liberally in exchange of goods and services in a country.

**Unit of Account:** Money should be the common, standard unit of calculating a country's total consumer goods, products, services etc. For example, if a book costs ` 50, it means that the price of the book is equal to 50 units of money. Money is used to measure and record financial transactions in a country.

**A Store of Value:** Money is used as a store of purchasing power. It can be used to finance future payments.

### **Credit**

Farmers avail credit during monsoons for buying seeds, agricultural input and other expenses. Traders and small entrepreneurs need credit for their needs. Even large industries receive credit to take up their new projects.

#### **Credit is available from:**

- ✓ Formal financial institutions like nationalised and private banks and co-operative banks
- ✓ Informal financial institutions
- ✓ Micro credit is received through Self Help Groups (SHG)

As far as nationalised banks and co-operative banks are concerned the interest to credit is comparatively lesser and there is guarantee for the pledged, goods.

#### **Money supply is divided into four:**

- M1 = Currency held with the public + cash Reserves in commercial and Co-operative banks + cash reserves in the RBI.
- M2 = M1 + Money saved in Post office and bank savings Accounts
- M3 = M1 + Time Deposits in Commercial and co-operative banks
- M4 = M3 + Post office savings Money

### **Informal Financial Institutions**

Informal financial institutions are easily approachable to the customers with flexible procedures. But there are issues like the safety of items pledged high rates of interest and modes of recovery. People who live in a particular place or those who are involved in a certain work join together as a group and start saving. These are called as Self Help Groups. The nationalised banks

provide help to these groups through micro-credit. . Credit given through Self Help Groups for street vendors, fishermen, especially women and the poor really make a difference in their life.

In Tamil Nadu, all the banks have 10,612 branches; across the state. They carry on a total transaction of around 15 lakh crore rupees during the financial year (2017-2018). A few salient features of the Tamil Nadu Bank transactions are given in the table below

<b>Tamil Nadu - Banking Statistics</b>	
Banking Activates (April 2017 - March 2018)	Rupees (approximately)
Deposits Received	7.17 Lakh crore
Loans sanctioned	7.84 lakh crore
Loans to micro & small enterprises	1.40 lakh crore
Priority sector Loans including Agriculture	3.56 lakh crore
Loans to weaker section	1.04 lakh crore
Education Loan	1.67 lakh crore
<b>Credit Deposit Ratio</b>	<b>109.34%</b>

#### NOTE

- ❖ During his rule(1540-1546) Sher Shah Suri set up a new civic and military administration and issued a coin of silver weighing 178 grams, which was termed the Rupiya. The silver coin remained in use during the Mughal period, the Maratha era and in British India as well.
- ❖ Dr. B.R. Ambedkar's Ph.D.thesis on 'The Problem of the Rupee - Its origin and solution' was the reference tool and provided guidelines for the Reserve Bank of India Act of 1934.

## 4. Tami Nadu Agriculture

Most of the people of Tamil Nadu depended on agriculture at the time of independence and even after 40 years of independence. That situation is being changed in the recent years. It has been noticed that the number of farmers in Tamilnadu has got reduced during the last 10 years according to the 2011 census data. Similarly the number of agricultural workers also reduced during the same period. According to the 2001 census, 49.3% out of the total population of workers were involved in agriculture. The percentage has reduced to 42.1 in the next 10 years. In 2011 there were three crore 29 lakh workers in Tamil Nadu of which 96 lakh were agricultural workers.

In 2011, nearly 55% of the women were involved in agriculture whereas nearly one third (35.3%) of the male population was involved in agriculture during the same year. A major portion of the workers involved in agricultural activities are landless labourers. All the land holders do not have the same amount of land. Many have very little land and very few people hold large areas of land. During 2015-16, there were 79,38,000 cultivators in Tamil Nadu. But five years earlier there were 81,18,000 cultivators. There was a reduction of 1,80,000 cultivators in these five years. Similarly, the area under cultivation also reduced from 64.88 lakh hectares to 59.71 lakh hectares during the same period. That is, the state of Tamil Nadu had lost nearly 1,03,400 hectares on an average during these five years.

Most of the cultivators in Tamil Nadu are micro farmers who cultivate in an area less than 1 hectare. Micro farmers account to around 78% of the total cultivators, while the area cultivated by these micro farmers is just 36%. Small farmers cultivating 1-2 hectares of land cover 14%, while the land cultivated by them is 26%. Cultivators of schedule caste farmers are only one percent in Tamilnadu. 96% of this one percent are small, micro farmers. The total land area under agriculture is shrinking fast not only in Tamil Nadu, but also throughout India. The number of marginal Sectors of people involved in agricultural activities. Types of land usage farmers has increased in India. In contrast, the number of marginal farmers is decreasing in Tamil Nadu. This shows that the farmers are doing other occupations.

### **Types of land usage**

The total geographical area of Tamil Nadu is one crore 30 lakhs and 33 thousand hectares. Out of this only one third of land is used for agriculture (45,44,000 hectare). 17% of the land is used for non agricultural use. Nearly the

same size ( 2125 thousand hectares) of land are forests. About 4% of the total land is unusable. One tenth of the land is barren. Other fallow lands are 13 percent. So nearly one-fourth of the land is barren and we have to be concerned of the increasing size of the barren land. Grazing land and cash crops occupy slightly more than 5% of the total land area.

The size of the total cropping land in Tamil Nadu is 4,544 thousand hectare and this keeps on changing every year. Sufficient rains at the proper period will increase this extent of land. Failure or shortage in rainfall leads to the reduction of land usage for cultivation. A small part of this area gives a chance to crop more than once in a year. The extent of this area also changes every year. This land extent was 9 lakh hectares in next year but was reduced to 6 lakh hectare, due to lack of rainfall. This area will be more or less stable only when there is a stable and reliable water source.

If there is good water for a land, more than one crop can be cultivated in a year. In some land, two or even three crops can be cultivated. If one hectare land is cultivated once in a year, then the net land and the cultivated land is also one hectare only. If the land is cultivated twice, then the net land area is only one hectare, but the cultivated land area accounts to two hectare. If calculated in the same way for Tamil Nadu for the year 2012 -13, it is 45 lakh 44 thousand hectare net land area whereas the cultivated land comes to around 51 lakh 40 thousand hectare. So, it is clear that 5,96,000 hectares is cultivated more than once. While reliable water supply increases, the possibility of cultivating the land more than once increases. Thus when the total area of cultivable land area increases, it results in the increase of agricultural production. In 2012-13, out of the total cultivated land, nearly 72 percent is used for food crops and the remaining for non-food crops.

### **Water resources for agriculture**

There are no perennial rivers in Tamil Nadu. Tamil Nadu receives the required water from the Northeast and Southwest monsoons. When the South West monsoon rains are high in the catchment areas of the Cauvery River in Karnataka dams get filled and in turn the Cauvery River in Tamil Nadu gets water.

Northeast monsoon (Oct-Dec) is a major source of water for Tamil Nadu. The Northeast monsoon rains are stored in reservoirs, lakes, pond and wells for cultivation. Conventional water bodies like lakes, ponds and canals provide water for agriculture in Tamil Nadu. 2,239 canals run through Tamil Nadu covering a length of 9,750 km. There are 7,985 small lakes, 33,142 large lakes, 15

lakh open wells and there are 3,54,000 bore wells in the state where agriculture is carried out with the help of these water resources.

The area of land that is irrigated using water from lakes is very low. Nearly 3.68 lakh hectares of land obtain water from lakes. The canals provide water to 6.68 lakh hectares. Bore wells irrigate 4.93 lakh hectares and open wells provide water to 11.91 lakh hectares of land. Agriculture in Tamil Nadu is dependent mostly on groundwater. Use of ground water for agriculture creates many hardships too. There would be no sufferings if the amount of water taken from the underground and the amount of water that goes into the underground during the rainy season are equal. On the contrary, as the amount of water taken increases, the ground water goes down resulting in complete dryness or change into unusable water.

The Union Ground Water Board is constantly monitoring the level and nature of ground water. This continuous monitoring has categorized the Panchayat Union (blocks) in terms of the amount of groundwater used. 139 blocks in Tamil Nadu are identified as excessive users of groundwater and 100 blocks as nearing the stage of excessive usage of groundwater. 11 blocks have been identified with reduced water quality. Only 136 blocks have enough quantity and quality water for usage. From this, we come to know that:

1. Tamil Nadu agriculture is dependent on groundwater.
2. It is very urgent and necessary to regulate the usage of underground water.
3. This is very important for sustainable farming.

## **Irrigation and crop types**

### **Crops in Tamil Nadu**

All cultivated crops can be classified as food crops and non-food crops. 57 percentage of the total land under food grain cultivation is irrigated. In 2014-15, 59 percentage of food crops and 50 percentage of non food crops were irrigated in Tamil Nadu. The total area of land cultivated in Tamil Nadu was 59 lakh and 94 thousand hectares in 2014-2015. Out of this non-food crops were 76%.

Paddy cultivation is carried out at a large scale of 30 percent cultivated land area and other food crops in 12 percent area. Millets are cultivated in a very low percentage of area. Sorghum(Cholam) cultivation in 7 per cent land area, cumbu in one percent and ragi in 1.7 per cent. Other millets occupy 6 per cent in the year 2014 - 2015. The area cultivatable land changes every year as a result of many factors such as rainfall, availability of water, weather and market prices.

## **Micro irrigation**

Micro irrigation technology is a very good remedial measure to tackle shortage in irrigational water. This irrigation technology helps to have a higher yield when compared to the traditional irrigation methods. As only required amount of water is supplied at regular intervals, it increases the ability of water usage and productivity of the crop resulting in reduction of labour expenses and weed growth in the field. As the fertilizer is distributed through water, it increases the usage of fertilizer and the yield. As Tamil Nadu gets insufficient rainfall, the government has taken many measures to implement micro irrigation for proper distribution of water to crops that require more water.

## **Virtual water**

The term 'virtual water' was introduced by Tony Allen in 1990. The water consumed in the production process of an agricultural or industrial product is called 'virtual water'. It is the hidden flow of water when food or other commodities are traded from one place to another. For instance, it takes 1340 cubic metres of water (based on the world average) to produce one metric ton of wheat. That is, if one metric ton of wheat is exported to another country, it means that 1340 cubic metres of water used to cultivate this amount of wheat is also being exported. India is the largest global freshwater user. India has been the fifth largest exporter of virtual water in the world.

## **Decadal growth in agricultural production**

The total quantity of food grains produced in Tamil Nadu in the year 2014 - 2015 was one crore 27 lakh 35 thousand tonnes. Paddy alone accounted to 80 lakhs tonnes. The contribution of paddy to the total amount of food production is 62%. Maize production was 20%, corn 7%, ragi 3% and another 3% occupied by black gram, while other food crops contributed a very meager amount to the total food production in Tamil Nadu. The amount of production varies depending on the amount of land being cultivated.

## **The yield of productive crops**

The amount of production depends not only on the area but also on the productivity of crops. Production capacity of paddy in Tamil Nadu was 4,429 kg per hectare in 2014-2015. This capacity was 3,039 kilograms in 2010-2011 revealing the increase in productivity. Next to paddy, maize stands second in the production (8,824 kg/hectare). 2,093 kg/hectare corn, 3,077 kgs of rye (cumbu) and 3348 kgs of ragi were produced during the same period.



Black gram, one of the largest cultivated pulses, produced 645 kg per hectare. Production of sugarcane and ground nut (Manila) were 107 tons and 2,753 kg per hectare respectively. The productivity of crops continues to increase. For example the productivity of paddy in 1965 - 66 was 1,409 kg. It increased to 2,029 kg in 1975-76 and 2,372 kg in 1985-86. It increased to 2,712 kg after a decade. The production was 4,429 kg in the year 2014-15. In the past fifty years, the productivity of paddy has increased more than three times.

The food grain production capacity, has increased about 3.5 times between 1965-66 and 2014-15. Similarly, the total food grain production has risen by 2.5 times during this period. In 1965-66, the total food grain production was slightly more than 50 lakh tonnes and in 2014-15, the production increased and was slightly below one crore 28 lakh tonnes. We find that both the productivity and food production in Tamil Nadu continue to increase. However, the area under food grain cultivation has reduced in the same period. Though there was a reduction in the area of production, the total amount of production has been maintained and there is an increase of productivity.

#### NOTE

- ❖ River Cauvery is the 3rd largest river in South India. Its length is 765 km. The dams constructed across Cauvery in Tamil Nadu are Mettur Dam, Kallanai

## 5. Migration

### Concept of Migration

In any settlement-village or town-change in population occurs due to birth, death and migration. Of these three components of population change, birth and death is clearly identifiable events while migration poses the maximum amount of problem with regards to its definition and measurement. As almost everyone keeps moving most of the time, it is not easy to define which of these moves have to be classified as migratory moves.

### In the Census of India, migration is enumerated on two bases

- i. **Place of birth:** If the place of birth is different from the place of enumeration (known as life-time migrant).
- ii. **Place of residence:** If the place of last residence is different from the place of enumeration (known as migrant, by place of last residence).

### Extent of Migration in India and Tamil Nadu

In India, the Census of 2011 enumerated a total population of 121 crores, of which 45 crore people were reported as migrants, according to the definition of the place of last residence. Similarly, in Tamil Nadu out of 7.2 crore people, 3.13 crore people were counted as migrants, in 2011. That is, the percentage of migrants was 37 percent in the country, while it was at a much higher rate in Tamil Nadu at 43 percent.

Generally, one tends to associate migration with urban areas. However, we find that in India as well as Tamil Nadu, the extent of migration is much higher in rural areas compared to urban areas. In 2011, 37 percent of the population are counted as migrants in rural areas while the corresponding percentage in urban India is 27 percent. In Tamil Nadu, migrants account for 41 percent in rural areas and 35 percent in urban areas, in 2011. That is, the mobility of population in rural areas is greater than that in urban areas.

Further, one usually associates mobility with males rather than females. However, an examination of data clearly indicates that a larger proportion of females are reported to be migrants compared to males. In the country as a whole, 53 percent are female migrants while 23 percent are male migrants, in 2011. In Tamil Nadu, the picture is very similar, with more than half the females (52%) reporting their status as migrants, by place of last residence, and 35 percent are male migrants.

Now, why is there such a large percentage of migration among women? 70 percent in India and 51 percent in Tamil Nadu report marriage as the reason for migration of females in 2011. That is, marriage and the movement associated with marriage appear to be a major factor responsible for women's mobility in India and Tamil Nadu. Movement related to work and employment appears to be the driving force for migration, among men. Of all the male migrants in India, 28 percent report 'work' as the major reason for their migration, in 2011. The corresponding percentage in Tamil Nadu is 26 percent.

To sum up, in Tamil Nadu, two out of every five persons is reported to be a migrant in the year 2011. Incidence of migrants is higher in rural areas and larger among women. Tamil Nadu has a history of migration and people have moved for various reasons such as trade, business, employment etc, to various countries. During the colonial period, labourers had moved to other colonies seeking work and wages. In the more recent period workers from Tamil Nadu have been moving to countries in the Gulf, United States of America and Australia. In 2015, an independent research study was conducted to understand the level, nature and pattern of migration in Tamil Nadu. This study has made some interesting findings, as discussed below:

- ✓ Of the total migrants in Tamil Nadu, 65 percent have migrated or moved abroad while 35 percent have moved within the country.
- ✓ Chennai district has recorded the maximum number of emigrants followed by Coimbatore, Ramanathapuram and Tiruchirapalli districts.
- ✓ Cuddalore, Karur, Thiruvannamalai, Vellore, Namakkal, Salem, Dindigul, Krishnagiri, Nilgiris and Dharmapuri districts record low number of emigrants.

This study also provides information about the sex and destination of migrants Tamil Nadu.

- ✓ Of the total migrants who go to foreign countries, nearly 20% have chosen to go to Singapore, while 18% to the United Arab Emirates, 16% to Saudi Arabia, 13 % to the United States of America; and Malaysia, Kuwait, Oman, Qatar, Australia and England are also referred as important destinations for migrants from Tamil Nadu in the year 2015.
- ✓ Of the international migrants, 15 percent are women, while 85 percent are men.

On the question of educational qualifications of migrants from Tamil Nadu, the study reveals that in 2015 about 7 % were illiterates; 30 % have completed Class X; 10 % have completed Class XII; 15 % had undergone vocational

training; 11 % were graduates; 12% were professionally qualified and 11 % had Post Graduate degrees.

The study clearly reveals various occupations undertaken by the migrants: highly skilled professions on one hand and low skilled occupations on the other, along with a large number of semi-skilled occupations.

### **Factors underlying Migration**

The extent and nature of migration in any society is basically determined by the nature of the development process experienced by that society. That is, the type and scale of development achieved by the agricultural and industrial sectors in an economy would determine the migratory patterns. In India and Tamil Nadu, though the agricultural and industrial sectors have grown over the years, inequalities still exist in asset and income distribution. Endemic poverty continues to be a major problem.

<b>Reasons for Migration in India</b>	
<b>Reasons</b>	<b>Percentages %</b>
Work /Employment	14.7%
Business	1.2%
Education	3 %
Marriage	43.8%
Moved after birth	6.7%
Moved with household	21%
Others	9.6%

The growth processes have also created spatial inequalities, by leading to enclaves of growth. The migration patterns observed in a developing society such as ours correspond to these inequalities (economic, social, spatial etc) created by the development processes. Therefore, any migrant stream would consist of heterogeneous sub-streams. For example, if we consider the rural-urban migrant stream, it would comprise of rural rich and the rural poor, each with its own reasons and motivation for migration, the mode of migration, the outcome or consequence of migration etc.

Poorer sections of the population migrate as a survival strategy, in response to distressing conditions in rural areas. Migrants from better-off sections migrate to improve their living standards. Further, spatially, there would be a tendency for migrants to converge on enclaves of growth-either in urban areas or in rural areas. The pattern of migration is very complex, comprising of a number of streams:

- ✓ rural to rural; rural to urban; urban to rural; urban to urban
- ✓ short, medium and long distance migration streams
- ✓ long-term stable migration and short-term circulatory type of movements

Each of these streams would consist of different types of migrants, (from different social classes) each with its own reason for migration. The extent and nature of these migrant streams would essentially depend on.

- ✓ pressures and aspirations experienced by people at the origin of migration
- ✓ constraints imposed on mobility at the origin of migration
- ✓ opportunities at the destination and availability of information regarding these opportunities and
- ✓ the cost of migration

### Migration Policies

Policies to address the problem of migration in developing countries like India essentially aim at the following:

- ✓ To reduce the volume of migration: As a large part of migration is a reflection of poverty and insecurity faced by large sections of the rural people, the focus of intervention has to be in rural areas. Rural development policies to reduce poverty and insecurity would be essential to reduce the rate of migration.
- ✓ To redirect the migrant streams: Redirection of migrant streams, away from big metropolitan cities is a desirable policy option. This policy can help in reducing spatial inequalities by suitable strategies, such as developing a more dispersed pattern of urbanisation.

### NOTE

- ❖ The largest migration corridor in the world in 2010 was Mexico - U.S.A. The Arctic tern has the longest migration distance of any bird in the world.

# 10<sup>th</sup> Economics



# 1. Gross Domestic Product and Its Growth: An Introduction

**The GDP is defined follows:**

The GDP is the market value of all the final goods and services produced in the Country during a time period. Every part of the definition is important.

**Goods and services:** as you know by now, goods are tangible items while services are activities which are intangible.

**Market value:** This is the price at which goods and services are sold in the market.

The GDP measures all the goods and services produced in the country. For this, we have to add all the goods and services produced. However a nation produces a wide range of goods like rice, shoes, trains, milk, clocks, books and bicycles. If only the quantities are taken into account, there is no meaningful way to add these up. For example, how do you add 1000 litres of milk with 500 clocks?! Likewise there is no meaningful way to add the quantities of services since a wide range of services are produced, such as the work done by doctors, police, fire brigade, teachers, bus drivers and district collectors.

When we cannot add the quantity of one type of good with another type of good or one type of service with another type of service, certainly there is no sensible way to add the quantities of goods produced with those of services produced! How would we add the quantity of milk produced in the country with the service produced by teachers?!

The GDP solves this problem by measuring the goods and services in the currency of the country, which is the rupee in the case of India. The rupee values are derived from the prices at which the goods and services are sold in the market. Only those goods and services with a market value are included in the GDP.

This implies that unless a good or service is sold in the market, it is not included in the GDP. For example if you pay ` 50 to get a manuscript typed in a computer centre, the service is included in the GDP since it is sold in the market. If you type the manuscript yourself, the service typing a manuscript is not included in the GDP since you did not purchase it for a price in the market.

**Final goods and services:** Economists Tyler Cowen and Alex Tabarrok say that “final goods and services” are the goods and services which will be used or consumed and will not form a part of other goods and services. The goods and

services which will be used for producing other goods and services and will form a part of the goods and services produced are called “intermediate goods”.

Only the final goods are included in the GDP. Intermediate goods are not counted in calculating the GDP because their value is included in the final goods. So if the intermediate goods are included in the GDP it will result in what is called “double counting”. For example, a cup of tea bought in a hotel is a final good because it is consumed and does not form a part of producing something else. So the market value of the cup of tea, being a final good, is included in the GDP. Sugar which is mixed in the tea is an intermediate good because it is used in making tea and forms a part of the tea served. Suppose the tea is priced ` 10 a cup, of which the value of sugar used is ` 2. So the price of the cup of tea includes the ` 2 price of the spoon of sugar. If this value of sugar is included in the GDP, it will be counted twice: as a spoon of sugar and again as a part of the cup of tea. This is “double counting” and to avoid it the intermediate goods like sugar are excluded from GDP.

Should the market value of utensils used to brew the tea be included in the GDP? You may argue that since the utensils are bought not as final goods but to produce tea, they are intermediate goods and so they should not be included in the GDP. However the utensils, unlike sugar, do not form a part of the final good, the cup of tea. For this reason they should be included in the GDP. National Income ‘National Income is a measure of the total value of goods and services produced by an economy over a period of time, normally a year’. Commonly National Income is called as Gross National Product(GNP) or National Dividend.

## **Various terms associated with measuring of National Income**

### **1. Gross National Product (GNP)**

Gross National Product is the total value of (goods and services) produced and income received in a year by domestic residents of a country. It includes profits earned from capital invested abroad.

$$\text{GNP} = C + I + G + (X-M) + \text{NFIA}$$

C = Consumption

I = Investment

G = Government Expenditure

X-M = Export - Import

NFIA = Net Factor Income from Abroad)



## 2. Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the total value of output of goods and services produced by the factors of production within the geographical boundaries of the country.

## 3. Net National Product (NNP)

Net National Product (NNP) is arrived by making some adjustment with regard to depreciation that is we arrive the Net National Product (NNP) by deducting the value of depreciation from Gross National Product.

( $NNP = GNP - \text{Depreciation}$ )

## 4. Net Domestic Product (NDP)

Net Domestic Product (NDP) is a part of Gross Domestic Product, Net Domestic Product is obtained from the Gross Domestic Product by deducting the Quantum of tear and wear expenses (depreciation)  $NDP = GDP - \text{Depreciation}$

## 5. Per Capita Income (PCI)

Per capita Income or output per person is an indicator to show the living standard of people in a country. It is obtained by dividing the National Income by the population of a country.  $\text{Per capita Income} = \text{National Income} / \text{Population}$

## 6. Personal Income (PI)

Personal income is the total money income received by individuals and households of a country from all possible sources before direct taxes, therefore, personal income can be expressed as follows

( $PI = NI - \text{corporate Income Taxes} - \text{Undistributed corporate profits} - \text{social security contribution} + \text{Transfer payment}$ ).

## 7. Disposable Income (DI)

Disposable income means actual income which can be spent on consumption by individuals and families, thus, it can be expressed as  $DPI = PI - \text{Direct Taxes}$

(From consumption approach  $DI = \text{Consumption Expenditures} + \text{Savings}$ )

## Gross Domestic Product (GDP)

- **Produced in the country:** GDP of India includes only the market value of goods and services produced in India. For example the market values of

apples produced in Kashmir are included in our GDP since Kashmir is in India. The market values of apples produced in California, even if they are sold in Indian markets, are not included in our GDP because California is in the U.S.

- **Produced during a time period:** The GDP of a country measures the market value of goods and services produced only during the specified time period. The goods and services produced in earlier periods are not included. If an year is the specified time period, the GDP of 2018 will include the market value of goods and services produced only during 2018. So a bicycle produced in 2017 will not be included in the GDP measure for 2018.

In India the GDP is measured both annually and quarterly. The annual GDP is for a financial year which is from April 1 of say 2017 to March 31, 2018. This is written as 2017-18. The quarterly GDP estimates are for each of the four quarters into which India's financial year is divided:

First quarter, denoted Q1: April, May and June  
Second quarter, or Q2: July, August, September  
Third Quarter or Q3: October, November, December  
Fourth Quarter, or Q4: January, February, March.

The annual GDP for financial year 2017 - 18 will include only the goods and services produced during this financial year and will exclude the goods and services produced in the previous years. Likewise GDP for Q2 will include only the goods and services produced in Q2 and will not include the goods and services produced in Q1.

### **Gross Domestic Product (GDP) definition**

Gross Domestic Product (GDP) represents the economic health of a country. It represents a sum of a country's production which consists of all purchases of goods and services used by individuals, firms, foreigners and the governing bodies. The monetary value of all the finished goods and services produced within a country's border in a specific time period.

$$\text{GDP} = C + I + G + (X - M)$$

C = Consumption I = Investment

G = Government Expenditure

(X - M) = X = Exports - M = Imports

### **Methods of GDP Calculating**

1. **Expenditure Approach:** In this method, the GDP is measured by adding the expenditure on all the final goods and services produced in the country

during a specified period. The different types of expenditure are shown in this equation:  $Y = C + I + G + (X - M)$

2. **The Income Approach:** This method looks at GDP from the perspective of the earnings of the men and women who are involved in producing the goods and services. The income approach to measuring GDP (Y) is  $Y = \text{wages} + \text{rent} + \text{interest} + \text{profit}$
3. **Value-Added Approach:** A cup of tea served to you in a hotel is a “final good”. The goods used to produce it, tea powder, milk, and sugar, are “intermediate goods” since they form a part of the final good, the cup of tea. One way to measure the market value of the cup of tea is to add the value produced by each intermediate good used to produce it. Each intermediate good, the tea powder, milk and sugar, adds value to the final output, the cup of tea. In the value-added approach the value added by each intermediate good is summed to estimate the value of the final good. The sum of the value added by all the intermediate goods used in production gives us the total value of the final goods produced in the economy.

### Importance of GDP

1. Study of Economic Growth.
2. Unequal distribution of wealth.
3. Problems of inflation and deflation.
4. Comparison with developed countries of the world.
5. Estimate the purchasing power.
6. Public Sector.
7. Guide to economic planning.

### Limitations of GDP

The GDP is the most widely used measure of the state of the economy. While appreciating its usefulness, we should be aware of some of its limitations.

1. **Several important goods and services are left out of the GDP:** The GDP includes only the goods and services sold in the market. The service provided by parents to their children is very important but it is not included in the GDP because it is not sold in the market. Likewise clean air, which is vital for a healthy life, has no market value and is left out of the GDP.
2. **GDP measures only quantity but not quality:** In the 1970s schools and banks did not permit the use of ballpoint pens. This is because the ones available in India were of very poor quality. Since then, not only has there been a substantial increase in the quantity of ballpoint pens produced in India but

their quality has also improved a lot. The improvement in quality of goods is very important but it is not captured by the GDP.

### **3. GDP does not tell us about the way income is distributed in the country:**

The GDP of a country may be growing rapidly but income may be distributed so unequally that only a small percentage of people may be benefitting from it. 4 The GDP does not tell us about the kind of life people are living: A high level of per capita real GDP can go hand-in-hand with very low health condition of people, an undemocratic political system, high pollution and high suicide rate.

### **Composition of Gross Domestic Product (GDP)**

Indian economy is broadly divided into three sectors which contribute to the GDP namely Agriculture and allied activity, Industry and Services.

#### **1. Primary Sector: (Agricultural Sector)**

Agricultural sector is known as primary sector, in which agricultural operations are undertaken. Agriculture based allied activities, production of raw materials such as cattle farm, fishing, mining, forestry, corn, coal etc. are also undertaken.

#### **2. Secondary Sector: (Industrial Sector)**

Industrial sector is secondary sectors in which the goods and commodities are produced by transforming the raw materials. Important industries are Iron and Steel industry, cotton textile, Jute, Sugar, Cement, Paper, Petrochemical, automobile and other small scale industries.

#### **3. Tertiary: (Service Sector)**

Tertiary sector is known as service sector it includes Government, scientific research, transport communication, trade, postal and telegraph, Banking, Education, Entertainment, Healthcare and Information Technology etc.. In the 20th century, economists began to suggest that, traditional tertiary services could be further distinguished from "quaternary" and "quinary" service sectors.

### **Contribution of different sectors in GDP of India**

Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 92.26 lakh crore in 2018-19. Services sector accounts for 54.40% of total India's GVA of 169.61 lakh crore Indian rupees. With GVA of ` 50.43 lakh crore, Industry sector contributes

29.73%. While, Agriculture and allied sector shares 15.87%. India is 2nd larger producer of agriculture product. India accounts for 7.39 percent of total global agricultural output. In Industrial sector, India world rank is 6 and in Service sector, India world rank is 8.

Contribution of Agriculture sector in Indian economy is much higher than world's average (6.4%). Contribution of Industry and Services sector is lower than world's average 30% for Industry sector and 63% for Services sector. Gross value added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption; it is a balancing item of the national accounts' production account. GVA is linked as a measurement to Gross Domestic Product (GDP), as both are measures of output. The relationship is defined as  $GVA + \text{taxes on products} - \text{subsidies on products} = GDP$   $GVA = GDP + \text{subsidies} - (\text{direct, sales}) \text{ taxes}$ .

Year	Agriculture (%)	Industry (%)	Service (%)
1950- 51	51.81	14.16	33.25
1960- 61	42.56	19.30	38.25
1970- 71	41.95	20.48	37.27
1980- 81	35.39	24.29	39.92
1990- 91	29.02	26.29	44.18
2000- 01	23.02	26.00	50.98
2010- 11	18.21	27.16	54.64
2011 - 12	17.86	27.22	54.91
2012- 13	17.52	26.21	56.27
2013- 14	18.20	24.77	57.03
2015- 16	17.07	29.08	52.05
2016- 17	17.09	29.03	52.08
2017-18	17.01	29.01	53.09

## Economic Growth and Development

As per the economist Amartya Sen, economic growth is one aspect of economic development. Also, united nation see it like this “Economic development focuses not only on man’s materialistic need but it focuses on overall development or rise in its living standards.

### Economic Growth

It is the quantitative measure which considers the rise in the output produced in an economy or nation in a particular period in its monetary value. The key parameters of economic growth in any economy are its Gross Domestic

Product (GDP) and gross national product which helps in measuring the actual size of an economy. For example, we say GDP of India is 2.8 trillion USD and ranked 6th in globe whereas GDP of the United States of America is 19.3 trillion USD and ranked one. It shows how much the production of goods and services has increased compared from last year in a quantitative manner. It has many parameters to measure and few of them are human Resources. They are Natural Resource, Advancement in technology, Capital formation, Political and social economic factors.

### Economic Development

Economic development projects a broader picture of an economy which takes into account an increase in production level or output of an economy along with an improvement in the living standard of its citizens. It focuses more on socioeconomic factors rather than the just quantitative increase in production. Economic development is a qualitative measure which measures improvement in technology, labour reforms, rising living standards, broader institutional changes in an economy. Human development Index (HDI) is apt tool to measure the real development in an economy.

<b>Comparison between Economic Growth and Economic Development</b>	<b>Economic Growth</b>	<b>Economic development</b>
<b>Definition / Meaning</b>	It is the positive quantitative change in the output of an economy in a particular time period	It considers the rise in the output in an economy along with the advancement of HDI index which considers a rise in living standards, advancement in technology and overall happiness index of a nation.
<b>Concept</b>	Economic growth is the 'Narrower' concept	Economic development is the "Broader" concept
<b>Nature of Approach</b>	Quantitative in nature	Qualitative in nature
<b>Scope</b>	Rise in parameters like GDP, GNP, FDI, FII etc.	Rise in life expectancy rate, infant, improvement in literacy rate, infant mortality rate and poverty rate etc.
<b>Term / tenure</b>	Short term in nature	Long-term in nature
<b>Applicability</b>	Developed nation	Developing economies

<b>Measurement Techniques</b>	Increase in national income	Increase in real national income i.e per capita income
<b>Frequency of Occurrence</b>	In a certain period of time	Continuous process
<b>Government Aid</b>	It is an automatic process so may not require government support / aid or intervention	Highly dependent on government intervention as it includes widespread policies changes so without government intervention it is not possible
<b>Wealth Distribution</b>	Economic growth does not emphasize on the fair and equal distribution of wealth /income among its entire people.	It focuses on a balanced and equitable distribution of wealth among all individual and tries to uplift the downgrade societies.

### **Human Development Index**

In 1990 Mahbub ul Haq, a Pakistani Economist at the United Nations, introduced the Human Development Index (HDI). The HDI is a composite index of life expectancy at birth, adult literacy rate and standard of living measured as a logarithmic function of GDP, adjusted to purchasing power parity. India climbed one spot to 130 out of 189 countries in the latest human development rankings released today by the United Nations Development Programme (UNDP). India's HDI value for 2017 is 0.640, which put the country in the medium human development category. Between 1990 and 2017, India's HDI value incased from 0.427 to 0.640, an increase of nearly 50 percent - and an indicator of the country's remarkable achievement in lifting millions of people out of poverty. Between 1990 and 2017, India's life expectancy at birth too increased by nearly 11 years, with even more significant gains in expected years of schooling. Today's Indian school-age children can expect to stay in school for 4.7 years longer than in 1990. Whereas, India's GNI per capita increased by a staggering 266.6 % between 1990 and 2017.

### **Developmental Path based on GDP and Employment**

In the development path of India, it first undertook the policy of closed trade. This was to give a thrust to domestic industries and reduce dependence on foreign products and companies. Trade and interaction with the outside world remained limited. This outlook continued till 1991 when India finally decided to open its borders to free trade and liberalized its economy by allowing foreign companies to enter the Indian economy. A thrust was given to

employment generation under the Five Year plans. This was to make up for a rising population and lacking jobs to absorb the increased workforce size. Rural development was also given importance in India, for the important constituent it was of the Indian landscape.

Poverty alleviation came as a corollary of rural development and a part of the development path of India. India inherited a poverty-stricken economy from the British rule, which had destroyed its resource base completely. The public sector was given significant importance, Private companies and industries were subject to strict regulations and standards. It was believed that the government was the sole protector of the people and would work towards social welfare. India has sustained rapid growth of GDP for most of the last two decades leading to rising per capita incomes and a reduction in absolute poverty. Per capita incomes have doubled in 12 years. In Per capita income, placing India just inside the Middle Income Country category.

Life expectancy at birth is 65 years and 44% of children under 5 are malnourished. The literacy rate for the population aged 15 years and above is only 63% compared to a 71% figure for lower middle income countries. India has followed a different path of development from many other countries. India went more quickly from agriculture to services that tend to be less tightly regulated than heavy industry. There are some emerging manufacturing giants in the Indian economy.

### **Factors supporting Indian development**

A fast-growing population of working age. There are 700 million Indians under the age of 35 and the demographics look good for Indian growth in the next twenty years at least. India is experiencing demographic transition that has increased the share of the working-age population from 58 percent to 64 percent over the last two decades. India has a strong legal system and many English language speakers. This has been a key to attracting inward investment from companies such as those specialising in Information Technology. Wage costs are low in India and India has made strides in recent years in closing some of the productivity gap between her and other countries at later stages of development. India's economy has successfully developed highly advanced and attractive clusters of businesses in the technology space. For example witness the rapid emergence of Bangalore as a hub for global software businesses. External economies of scale have deepened their competitive advantages in many related industries.

### **Gross National Happiness (GNH)**

Gross National Happiness (GNH) is a philosophy that guides the



government of Bhutan. It includes an index which is used to measure the collective happiness and well-being of a population. Gross National Happiness is instituted as the goal of the government of Bhutan in the Constitution of Bhutan, enacted on 18 July 2008. The term Gross National Happiness was coined in 1972 during an interview by a British journalist for the Financial Times at Bombay airport when the then king of Bhutan, Jigme Singye Wangchuck, said "Gross National Happiness is more important than Gross National Product. In 2011, The UN General Assembly passed Resolution "Happiness: towards a holistic approach to development" urging member nations to follow the example of Bhutan and measure happiness and well-being and calling happiness a "fundamental human goal."

GNH is distinguishable from Gross Domestic Product by valuing collective happiness as the goal of governance, by emphasizing harmony with nature and traditional values as expressed in the 9 domains of happiness and 4 pillars of GNH. The four pillars of GNH's are 1) sustainable and equitable socio-economic development; 2) environmental conservation; 3) preservation and promotion of culture; and 4) good governance. The nine domains of GNH are psychological well-being, health, time use, education, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards. Each domain is composed of subjective (survey-based) and objective indicators. The domains weigh equally but the indicators within each domain differ by weight.

## **Growth of GDP and Economic Policies**

Many Economic Policies have been framed by the Government of India since independence for increasing rate of economic growth and economic development. The important economic policies are

### **1. Agriculture policy**

Agricultural policy is the set of government decisions and actions relating to domestic agriculture and imports of foreign agricultural products. Governments usually implement agricultural policies with the goal of achieving a specific outcome in the domestic agricultural product markets. Some overarching themes include risk management and adjustment, economic stability, natural resources and environmental sustainability research and development, and market access for domestic commodities. Some Agricultural policies are Price policy, land reform policy, Green Revolution, Irrigation policy, Food policy, Agricultural Labour Policy and Co-operative policy.

## **2. Industrial Policy**

Industrial development is a very important aspect of any economy. It creates employment, promotes research and development, leads to modernization and ultimately makes the economy self-sufficient. In fact, industrial development even boosts other sectors of the economy like the agricultural sector (new farming technology) and the service sector. It is also closely related to the development of trade. Several industrial policies since 1948, Industrial policy on large scale industries Eg. Textile Industry policy, Sugar Industry policy, Price policy of industrial growth, Small scale industrial policy and Industrial Labour policy.

## **3. New Economic Policy**

The economy of India had undergone significant policy shifts in the beginning of the 1990s. this new model of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model. The primary objective of this model was to make the economy of India the fastest developing economy in the globe with capabilities that help it match up with the biggest economies of the world. These economic reforms had influenced the overall economic growth of the country in a significant manner.

### **Some other policies in India**

- Trade Policy  
Import and Export policy (International Trade Policy), Domestic Trade Policy.
- Employment policy
- Currency and Banking Policy
- Fiscal and Monetary Policy
- Wage Policy
- Population Policy

### **GDP Growth of India**

India's economic growth story since the 1990s has been steady, stable, diversified, resilient and reflect strong macro- economic fundamentals. Despite fluctuations in recent quarters due to disruptions caused by two major structural reforms - demonetisation and the Goods and Services Tax (GST). The world Bank projected a growth rate of 7.3% in the year 2018-19 and 7.5% 2019-2020. India's average economic growth between 1970 and 1980 has been 4.4% which rise by 1% point to 5.4% between the 1990 and 2000. According to IMF World Economic Outlook (October-2018), GDP growth rate of India in 2018 is

projected at 7.3% and India is 5<sup>th</sup> fastest growing nation of the world just behind Bangladesh.

#### NOTE

- ❖ In 1867-68 for the first time Dadabhai Navroji had ascertained the Per Capital Income in his book “Poverty and Un- British Rule of India”.
- ❖ The modern concept of GDP was first developed by Simon Kuznets for a US Congress report in 1934.
- ❖ Estimation of GDP The Central Statistical Organisation (CSO), under the Ministry of Statistical department keeps the records. It's processes involves conducting an annual survey of industries and compilation of various indexes like the Index of Industrial Production (IIP) Consumer Price Index (CPI) etc.



## 2. Globalization and Trade

### Introduction

Liberalization, Privatization and Globalization (LPG) have become a much talked of subjects among politicians, economists and businessmen in modern days. These three expressions are the supporting pillars of which the edifice of new economic policy of our Government has been erected and implemented since 1991.

### Globalization

Globalization is the process of integrating various economies of the world without creating any barriers in the free flow of goods and services, technology, capital and even labour or human capital. Under globalization, the international markets for goods and services are integrated. Globalization is the integration of a country with the world economy. Basically, globalization signifies a process of internationalization plus liberalization.

### History of Globalization

The term of 'Globalization' was introduced by Pro. Theodore Levitt. The historical back round of globalization can be discussed on three stages.

History of Globalization	Stage I - Archaic Globalization
	Stage - 2 Proto Globalization
	Stage - 3 Modern Globalization

### Archaic Globalization

Andre Gunder Frank argued that a form of globalization has been in existence since the rise of trade links between Sumer and Indus valley civilization in the third millennium BC (BCE). An early form of globalized economics and culture, known as Archaic globalization existed during the Hellenistic Age. When commercialized urban centres were focused around the axis of Greek culture over a wide range that stretched from India to Spain with such cities as Alexandria, Athens, and Anthioch, as its center. An early form of

globalization in the trade link between the Roman Empire, Parthian Empire and the Han Dynasty made the commercial links between these powers inspired the development of the Silk Road. The Islamic Golden Age was also an important early stage of globalization. The advent of the Mongol Empire, though destabilizing to the commercial centers of the Middle East and China, greatly facilitated travel along the Silk Road. These Pre-modern phase of global exchange are sometimes known as archaic globalization.

### **Proto Globalization**

The next phase is known as proto - globalization. It was characterized by the rise of maritime European empires, in the 16th and 17th centuries, first the Portuguese and Spanish Empires, and Dutch and British empires. In the 17th century, globalization became private business phenomenon like British East India Company [founded in 1600] described as the first multinational company, and the first Dutch East India Company [found in 1602] were established. In 16th century, Portuguese started establishing trading posts [factories] from Africa to Asia and Brazil.

### **Modern Globalization**

The 19th century witnessed the advent of globalization approaching its modern form. Between the globalization in the 19th and in the 20th century there are significant differences. There are two main points one is the global trade in his centuries as well as the capital, investment and the economy and another one is the global trade in the 20th century shows a higher share of trade in merchant production, a growth of the trade in services and the rise of production and trade by multinational firms. Multinational trade contracts and agreements have been signed, like the General Agreement on Tariffs and Trade [GATT] and World Trade Organization [WTO]. From 1890 and up to World War 1 instability trade was a problem, but in the post war period there has mostly been economic expansion which leads to stability. Technological changes have caused lower transporting costs, it take just a few hours to transport goods between continents today.

### **Trade and Traders in South India historical perspective**

Southern Indian trade guilds were formed by merchants in order to organize and expand their trading activities. Trade guilds become channels through which Indian culture was exported to other lands. South India trade was dominated by the Cholas, and it replaced the Pallavas.

## **Early Traders**

In the year 1053 AD (CE) the Kalinga traders (Modern Orissa) brought red colored stone decorative objects for trade and also cotton textile to Southeast Asia at an early date. Several trade guilds operated in medieval Southern India such as the Gatrigas, Nakaras, Mummuridandas, Ayyavole -500 Settis, Birudas, Gavaras, etc.. Some trade guilds, such as the Nakaras and Gavares, met only in the temple premises.

## **European Traders in South India**

This was due to the trading activities of the various European companies which came to India during this period. The discovery of a new all-sea route from Europe to India Via cape of Good Hope by Vasco do Gama had far reaching repercussions on the civilized world. India's coastal and maritime trade was monopolized by the Europeans.

## **The Portuguese**

The Portuguese under the leadership of Vasco da Gama landed at Calicut on the 17<sup>th</sup> May, 1498. Profits of goods brought by Vasco do Gama to Portugal were to 60 times cost of the entire expedition to India. The arrival of Pedro Alvarez cabral in India in 1500AD (CE) and the second trip of Vasco da Gama in 1502 led to the establishment of trading station at Calicut Cochin and Cannanore. Cochin was the early capital of the Portuguese in India.

## **The Dutch in South India**

Dutch undertook several voyages from 1596 and formed the Dutch East India company (VOC) in 1602. In 1605, Admiral van der Hagen established Dutch Factory at Masulipatnam and Pettapoli (Nizamapatanam), Devanampatinam. In 1610, upon negotiating with the king of Chandragiri, found another factory at Pulicut. Other commodities exported by the Dutch were indigo, saltpeter and Bengal raw silk. Pulicut was the headquarters of the Dutch in India. Nagapatnam on the Tanjore coast acquired from the Portuguese in 1659.

## **The British Company (UK)**

On 31st December, 1600, Queen Elizabeth granted charter to The East India Company. On the south-eastern coast, the English established at Masulipatnam in 1611 and near Pulical in 1626. The Sultan of Golconda granted the English the "Golden Fireman" in 1632 by which they were allowed to trade freely in their "Kingdom Ports". In 1639, built a fortified factory in Madras

which known as Fort St.George, which soon displaced Masulipatnam as headquarters of the English settlement on the coromandel coast.

### **The Danes**

The Danes formed an East India company and arrive in India in 1616. The Danish settlements were established at Tranguebar (in Tamil Nadu) in 1620 which was the headquarters of Danes in India. They failed to strengthen themselves, in India and in 1845 were forced to sell all their India settlements to the British.

### **The French**

The first French factory in India was established in 1668 by obtaining permission from the Sultan of Golconda. In 1693, the Dutch captured Pondicherry but was handed back to the French. In 1701, Pondicherry was the headquarters of the French. Settlements in the East after 1742 Political motives began to overshadow the desire for commercial gain. Recently, the Government of India has set up Special Economic Zones in Southern States especially in Tamil Nadu, Andhra, Karnataka and Kerala with a view to boost exports Nanguneri Sez, Ennore Sez, Coimbatore Sez are some in Tamil Nadu.

### **Globalization in India**

In India the period after 1980-81 was marked by severe balance of payment difficulties mainly due to hike in oil price and Gulf war in 1990-91 and hostilities in West Asia. When the new government took over in June 1991. India had unprecedented balance of payment crisis. The finances of the central, and state Government had reached a situation of near bankruptcy. With the downgrading of India's credit rating by some international agencies, there was heavy flight of capital out of India.

Since India lost its credit worthiness in the international market, the government mortgaged 40 tons of gold to the Bank of England. Under these circumstances, the government for 1991-92 presented its budget in July 1991 with a series of policy changes which underlined globalization, liberalization and privatization. This has come to be called as India's new economic policy. This policies were strengthened when India signed the Dunkel Draft in 1994.

### **Reforms made to adopt Globalization: (New Economic policy in India)**

1. Abolition of Industrial licensing, except for a few industries.
2. Reduction in the number of industries reserved for public sector.

3. Fixation of a realistic exchange rate of rupee to exchange exports of Indian goods.
4. Foreign private sector by making rupee convertible on trade, on current account and by reducing import duties.
5. Foreign exchanges regulations were suitably amended
6. The Statutory Liquidity Ratio (SLR) was reduced to increase lending by RBI.

### **Multi National Corporation (MNC)**

Multi National Corporation is a Corporate organization which owns or controls production of goods or services in at least one country other than its home country. Otherwise called Multinational Corporations (MNCs) or Transnational Corporation (TNC) or Multinational Enterprise (MNE).

### **Evolution of MNC**

Like, the East India Company, which came to India as a trading company and then its net throughout the country to become politically dominant, these multinationals first start their activities in extractive industries or control raw materials in the host countries during 1920s and then slowly entered. The manufacturing and service sectors after 1950s. Most of the MNC's at present belong to the four major exporting countries viz., USA, UK, France, Germany. However, the largest is American. 11 of the 15 largest multinationals are American, In 1971, the American Corporations held 52 percent of the total world stock of foreign direct Investment. Great Britain held 14.5 percent followed by France 5 percent and Federal Republic of Germany 4.4 percent and Japan 2.7 percent.

In 1969 the American Multinationals alone produced approximately 140 billion dollars' worth of goods. The American multinationals realize quite substantial returns to the extent of 34 percent in Asiatic countries and 22 percent in African countries. They then acquire enormous powers in those countries, which smoothens the free flow of fund across international boundaries. They purchase the best brains in these countries and resort to unfair practices. With their huge resources, the MNCs are able to invest in research and development and exploit technological developments to manufacture new products, and discover new process.

### **Growth of MNCs in India**

A common form of MNC Participation in Indian industry is through entering into cooperation with Indian industrialist. Trends of liberalization in the 1980s gave a substantial spurt to foreign collaborations. This would be clear from the fact that of the total 12,760 foreign collaboration agreements in 40



years between 1948-1988. As a result of liberalized foreign investment policy (FIP) announced in July-Aug 1991 there has a further spurt of foreign collaborations and increase flow of foreign direct investment.

### **Reasons for the growth MNC**

- 1. Expansion of Market territory:** As the operations of large sized firm expand, it seeks more and more extension of its activates beyond the physical boundaries of the country in which it is in corporate.
- 2. Marketing superiorities:** A multinational firm enjoys a number of marketing superiorities over the national firms. It enjoys market reputation and faces less difficulty in selling its products it adopt more effective advertising and sales promotion techniques.
- 3. Financial Superiorities:** It has financial resources and a h high level of funds utilization. It has easier access of external capital markets. Because of its international reputation it is able to raise more international resources.
- 4. Technological superiorities:** The main reason why MNCs have been encouraged by the underdeveloped countries to participate in their industrial development is on account of the technological superiorities which these firms posses as compared to national companies.
- 5. Product innovations:** MNCs have research and development engaged in the task of developing new products and superior designs of existing products.

### **Advantages of MNC**

1. Producing the same quality of goods at lower cost and without transaction cost
2. MNC reduce prices and increase the Purchasing power of consumers world wide
3. MNCs are able to take advantage of tax variation.
4. Spurring job growth in the local economies

### **Disadvantages of MNC**

1. They are a way for the corporations to develop a monopoly (for certain products)
2. They are also a detrimental effect on the environment.
3. The introduction of MNC in to a host country's economy may also lead to the downfall of smaller, local business.

4. MNC breach ethical standards, accusing them of evading ethical laws and leveraging their business agenda with capital.

Indian Multi-National Companies			
Company	Headquarter	Type of Industry	Countries of operating
Hero Motocorp	New Delhi	Automobile	Columbia, Bangaladesg, Africa
Bajaj	Pune	Automobile	United Arab Emirates (UAE), Bangladesh
TVS	Chennai	Automobile	Brazil, Chile, Colombia, Mexico, Peru
State bank of India	Mumbai	Banking	Australia, Bangaladesh, Belgium
Bhrati Airtel	New Delhi	Communication	South Asia, Africa
Micromax Informatics	Gurgaon	Electronics	Nepal. Srilanka, Bangladesh
Amul	Anand (Gujarat)	Food product	US, Thailand, Malaysia. Hong Kong, Japan
ONGC	Delhi	Fuel	Brazil, Colombia, Iran
Dr. Reddy's Laboratories	Hyderabad	Medical Laboratory	Brazil, Mexico, Jamalica
Infosys	Bengaluru	Software	America, Europa, Africa

**FERA** (Foreign Exchange Regulation Act 1974): This Act referred directly to the operations of MNCs in India

**FEMA** (Foreign Exchange Management Act 1999): Under FEMA the emphasis is on 'Management' rather than 'regulation'

#### **Foreign Contribution (regulation) Act, 2010**

FCRA, 2010 has been enacted by the Parliament to consolidate the law to regulate the acceptance and utilization of foreign contribution or foreign hospitality by certain individuals or associations or companies and to prohibit acceptance and utilization of foreign contribution or foreign hospitality for any activities detrimental to national interest and for matters connected therewith or incidental thereto. The flow of foreign contribution to India is regulated under

- Foreign Contribution (Regulation) Act, 2010
- Foreign Contribution (Regulation) Rules, 2011

## **Fair Trade Practices and World Trade Organization**

Fair Trade is a way of doing business that ultimately aims to keep small farmers an active part of the world Market place, and aims to empower consumer to make purchases that support their values. Fair Trade is a set of business practices voluntarily adopted by the producers and buyers of agricultural commodities and hand-made crafts that are designed to advance many economic, social and environmental goals, including,

- Raising and stabilizing the incomes of small- Scale farmers, farm workers and artisans.
- More equitably distributing the economic gains, opportunities and risks associated with the production and sale of these goods.
- Increasing the organizational and commercial capacities of producer groups.
- Promoting labour rights and the right workers to organize.
- Promoting safe and sustainable farming

Methods and working conditions. Fair trade is about better prices, decent working conditions and fair terms of trade for farmers and workers. It's about supporting the development of thriving farming and worker communities that have more central over their futures and protecting the environment in which they live and work.

### **Beneficiaries of Fair trade practices:**

#### **1. Consumer:**

Consumer support enables Fair Trade Organisation to be advocates and comparing for wider reform of International trading rules. They can choose from an even growing range of great products. By buying Fair trade labelled products consumers support producers who are struggling to improve their lives.

#### **2. Trader/companies:**

Since, it launch in 2002 the Fair trade mark has become the most widely, recognized social and development label in the world. Fair trade offers companies a credible way to ensure that their trade has a positive impact.

#### **3. Producers:**

Stable prices that cover the costs of sustainable production. Market access that enable buyers to trade with producers who would otherwise be excluded

from market. Partnership (Producers are involved in decisions their future). The Empowerment of farmers and workers.

### **Principles of Fair trade Organization**

- Creating Opportunities for Economically Disadvantaged producers.
- Transparency and Accountability.
- Fair Trading Practices and Payment of a Fair Price.
- Ensuring no child Labour and Forced Labour.
- Commitment to Non-Discrimination, Gender Equity and freedom of association.
- Providing Capacity Building and Promoting Fair Building.
- Respect for the Environment.

### **GATT: (General Agreement of Trade and Tariffs)**

GATT was signed by 23 countries in 1947. India was one of the founder members of GATT. In the seventh Round 99 countries participated. In the Eighth Round of 1986, (Uruguay Round), 117 countries participated. The Director General of GATT Arthur Dunkel came up with a Draft Final Act, known as Dunkel Draft and on April 15, 1994 the Final Act was ultimately approved and signed. GATT's primary purpose was to increase International Trade by reducing various tariffs, quotas and subsidies while maintaining meaningful regulations.

The signing of the Final Act of the Uruguay Round by member nations of GATT in April 1994 paved the way for setting up of the WTO. An agreement to this effect was signed by 104 members. The WTO Agreement came into force from January 1, 1995 (the present membership of WTO is 164 countries)

### **World Trade Organization (WTO):**

<b>Head Quarter:</b>	Geneva, Switzerland
<b>Purpose:</b>	Regulation, International trade
<b>Members of WTO:</b>	Director General, Four Deputy Director General, and other 600 Official Staff from around 80 member countries.

### **The WTO mentions five types of subsidies:**

- Cash subsidies, such as the grants mentioned above.
- Tax concessions, such as exemptions, credits, or deferrals.
- Assumption of risk, such as loan guarantees.
- Government procurement policies that pay more than the free-market price.

- Stock purchases that keep a company's stock price higher than market levels.
- These are all considered subsidies because they reduce the cost of doing business.

### **Objectives of W.T.O**

- To set and enforce rules for international trade.
- To provide a forum for negotiating and monitoring further trade liberalization.
- To resolve trade disputes.
- Introduction the sustainable development and environment can go together.
- To ensure that developing countries, secure a better share of growth in world Trade.
- To resolve trade disputes.
- To increase the transparency of decision making processes.
- Introduction sustainable development the development and environment can go together.
- To ensure full employment and broad increase in effective demand.

### **Trade related aspects of Intellectual Property Rights (TRIPs)**

Intellectual Property Right may be defined as “Information with a commercial Value” Under TRIPs Patent shall be available for any invention whether product or process in all fields of industrial technologies. Trips agreement covers seven areas of intellectual’s property rights i.e. Copy rights, Trade Market, Trade Secrets, Industrial Design, Geographical appellations Integrated circuits and Patents.

### **Trade Related Investment Measures (TRIMs)**

The Uruguay Round Agreement on TRIMs refers to certain conditions (or) restrictions imposed by a government in respect of foreign investment in the country in order to give adequate provisions for the home industries to develop.

### **Impact and Challenges of Globalization**

#### **Positive Impact**

- A better economy introduces rapid development of the capital market.
- Standard of living has increased.
- Globalization rapidly increase better trade so that more people are employed.
- Introduced new technologies and new scientific research patterns.

- Globalization increasing the GDP of a country.
- It helps to increase in free flow of goods and also to increase Foreign Direct Investment.

### **Negative Impact**

- Too much flow of capital amongst countries, Introduces unfair and immoral distributors of Income.
- Another fear is losing national integrity. Because of too much exchange of trade, independent domestic policies are lost.
- Rapid growth of the economy has required a major infrastructure and resource extraction. This increase negative ecological and Social costs.
- Rapid increases in exploitation of natural resources to earn foreign exchange.
- Environmental standards and regulations have been relaxed.

### **Challenges of Globalization**

- The benefits of globalization extend to all countries that will not happen automatically.
- The fear that globalization leads to instability in the developing world.
- The industrial world that increased global competition will lead in race to the bottom in wages, labour right, and employment practice.
- It leads to global in balance.
- Globalization has resulted with the embarrassment.
- Globalization has led to an increase in activities such as child labor and slavery.
- People started consuming more junk food. This caused, the degradation of health and spread of diseases.
- Globalization has led to environmental degradation.

### **NOTE**

#### ❖ Top 10 Largest Multinational Companies in India 2018

- |                          |                           |
|--------------------------|---------------------------|
| 1. Sony Corporation      | 6. Nettle                 |
| 2. Hew left Packard (HP) | 7. Procter & Gamble       |
| 3. Tata Group            | 8. City Group             |
| 4. Microsoft Corporation | 9. Pepsi Company          |
| 5. IBM                   | 10. The Coca-Cola Company |

- #### ❖ Fair trade food product such as coffee, tea, cocoa, honey and bananas. Non-food commodities include crafts, textile and flowers.

### ❖ **Rounds of GATT**

- First in Geneva (Switzerland) (1947)
- Second in Annecy (France) in 1949
- Third in Torquay (UK) in 1950 - 51
- Fourth, fifth, and Sixth in Geneva (Switzerland) in 1956, 1960-61, 1964 - 67.
- Seventh in Tokyo (Japan) in 1973 - 79
- Eighth and final round at Punta del Este (Uruguay) in 1986 - 1994, known as 'Uruguay Round'.

