APPOLO STUDY CENTRE

6th, 7th, 8th STD New School Book

Economics

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6th Economics

1. Economics – An Introduction

In villages, once in a week or month, all things are sold in a particular place at a specific time to meet the needs of the people. That is called ` Sandhai ´ .

Consumer Goods: The finished goods which are bought from the market to fulfill the daily needs of the consumers is called consumer goods. Example: rice, clothes, bicycles, etc.

In olden days we had a system of exchanging goods for other goods, called barter system. A person who has rice in surplus and a person who has cloth in surplus, will exchange on the basis of their needs. But, here the problem is that the person who has clothes should have the willingness to buy rice. Only then, the exchange through barter system will take place

When they exchange commodities, they may lead to certain problems, when comparing the differences in the value of commodity. To solve this problem, people invented a tool called money. The amount from the income which is left for future needs after consumption is called savings. That early man, who hunted and gathered food, later learnt to cultivate crops. When they found rivers which provided them water, settled down permanently near the rivers. These permanent settlements were called **villages**. Agriculture remains to be the root of our economy even today. Man has no limits for his demand and desire. Based on this, man started to learn new occupations. Those who are involved in farming and grazing are called farmers or cultivators.

<u>Agriculture is the primary occupation.</u>

Agriculture and industries are helpful in the economic development of our country. Our country's economy is based on three economic activities. Agriculture is the primary occupation. There won't be any kind of facilities like our cities. At the same time, they get their basic needs fulfilled easily. There are small shops. Vegetables are grown in abundance, just like rice and pulses. Though the sugar that is added in our milk, coffee and tea is produced in sugar mills, the raw material sugarcane is cultivated in villages. From chilies to mustard, all those provisions used for food are grown in villages. They are just producers. Their products are bought and sold by some mediators. So, the farmers get very little money. Gandhiji has said that the

Villages are the backbone of our country

More than 50 percentages of the world's populations live in cities. In our state Tamil Nadu, 47 percentage of the people are in cities. Not only that. Tamil Nadu is well developed in secondary and tertiary activities as well. These are city centered activities. Apart from this, employment opportunities are more in cities than villages. People involved in small scale industries and unorganized sector are mostly found in cities.

In villages, there are only a few saloons and laundry shops. But, in cities the number of such small scale workers are more. This results in additional income in cities. Well paved roads, ports, airports and railway stations support trade. Many branches of banks help in the circulation of money and boost the country's economy. All these are termed as tertiary activities.

Primary Activities

They are concerned with the production of raw materials for food stuff and industrial use. Primary activities include > Agriculture > Cattle rearing > Fishing > Mining. Collection of fruits, nuts, honey, rubber, resin and medicinal herbs, lumbering.

Secondary Activities

The raw materials obtained from the primary activities are converted into finished products through machinery on a large scale. These activities are called secondary activities. Industries are classified on the basis of the availability of raw materials, capital and ownership. On the basis of raw materials, industries are classified as

- ✓ Agro based industries – Cotton textiles, Sugar mills and Food processing.
- ✓ Forest based industries – Paper mills, Furniture making, Building Materials.
- ✓ Mineral based industries – Cement, Iron, Aluminium Industries.
- ✓ Marine based industries – Sea food processing

Tertiary Activities

"I already told you that industries produce goods and distribute them to the people. For this purpose, some services are required. These services are called **tertiary activities or service sectors**. The service sector serves the people to fulfill their daily needs like: Transport – roadways, railways, waterways, airways

- Communication – Post, Telephone, Information Technology etc
- Trade – Procurement of goods, selling
- Banking – Money transactions, banking services

7th Economics

Production

There are two main activities in an economy, production and consumption. Similarly there are two kinds of people, producers and consumers. Well-being is made possible by efficient production and by the interaction between producers and consumers. In the interaction, consumers can be identified in two roles both of which generate well-being. Consumers can be both customers of the producers and suppliers to the producers. The customers' well-being arises from the commodities they are buying and the suppliers' well-being is related to the income they receive as compensation for the production inputs they have delivered to the producers.

Meaning of Production

Production is a process of combining various material inputs and immaterial inputs in order to make something for consumption (the output). It is the act of creating an output, a good or service which has value and contributes to the utility of individuals. Production in economics refers to the creation of those goods and services which have exchange value. It means the creation of utilities. Utility means want satisfying power of a product. Utilities are in the nature of form utility, time utility and place utility.

Types of Utility

Form utility: If the physical form of a commodity is changed, its utility may increase. Eg. Cotton increases, if it is converted into clothes.

Place utility: If a commodity is transported from one place to another, its utility may increase. Eg. If rice transported to Tamil Nadu to Kerala, its utility will be more.

Time utility: If the commodity is stored for future usage, its utility may increase. Eg. Agricultural commodities like Paddy, Wheat, etc. are stored for the regular uses of consumers throughout the year.

Types of Production

There are three types of production: 1. Primary production, 2. Secondary Production, 3. Tertiary or Service Production

1. Primary Production

Primary production is carried out by 'extractive' industries like agriculture, forestry, fishing, mining and oil extraction. These industries are engaged in such activities as extracting the gifts of nature from the earth's surface, from beneath the earth's surface and from the oceans. Eg : Mining, Forestry, Agriculture.

2. Secondary Production

This includes production in manufacturing industry, turning out semi-finished and finished goods from raw materials and intermediate goods, conversion of flour into bread or iron ore into finished steel. They are generally described as manufacturing and construction industries, such as the manufacture of cars, furnishing, clothing and chemicals, as also engineering and building. Eg: **Example**: Primary sector and Secondary sector Production.

Cotton (Primary sector) – Cotton Industry (Secondary Sector) = Cloth Production
Iron ore (Primary sector) – Iron Industry (Secondary sector) = Material Production
Wheat flour (Primary sector) – Bread Factory (Secondary Sector) = Food Production

3. Tertiary Production

Industries in the tertiary sector produce all those services which enable the finished goods to be put in the hands of consumers. In fact, these services are supplied to the firms in all types of industry and directly to consumers. Examples cover distributive traders, banking, insurance, transport and communications. Government services, such as law, administration, education, health and defence, are also included. Eg: Defence, Banking, Education.

Factors of Production

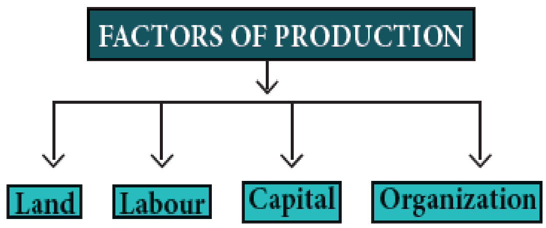
Human activity can be broken down into two components, production and consumption. When there is production, a process of transformation takes place. Inputs are converted into an output. The inputs are classified and referred to as land, labour, and capital. Collectively the inputs are called factors of production.

When the factors of production are combined in order to produce something, a fourth factor is required. Goods and services do not produce themselves but need some conscious thought process in order to plan and implement manufacture. This thought process is often called Entrepreneurship and Organization.

Factors of production

1. Primary Factors and 2. Derived Factors.

Primary factors are land and labour. These are naturally given and without them no goods can be produced. Derived factors are Capital and Organization. These derived factors, when combined with the primary factors of production, raise total production.



Land

Land as a factor of production refers to all those natural resources or gifts of nature which are provided free to man. It includes within itself several things such as land surface, air, water, minerals, forests, rivers, lakes, seas, mountain, climate, and weather. Thus, land includes all things that are not made by man. Land can take on various forms, from agricultural land to commercial real estate to the resources available from a particular piece of Land.

Characteristics of Land

1. **Land is a Free Gift of Nature:** Man has to make efforts in order to acquire other factors of production. But to acquire land no human efforts are needed. Land is not the outcome of human labour. Rather, it existed even long before the evolution of man.

2. **Land is fixed in supply:** The total quantity of land does not undergo any change. It is limited and cannot be increased or decreased with human efforts. No alteration can be made in the surface area of land.

3. **Land is imperishable:** All man-made things are perishable and these may even go out of existence. But land is indestructible. Thus it cannot go out of existence. It is not destructible.

4. **Land is a Primary Factor of Production:** In any kind of production process, we have to start with land. For example, in industries, it helps to provide raw materials, and in agriculture, crops are produced on land.

5. **Land is Immovable:** It cannot be transported from one place to another. For instance, no portion of India's surface can be transported to some other country.

6. **Land has some Original Indestructible Powers:** There are some original and indestructible powers of land, which a man cannot destroy. Its fertility may be varied but it cannot be destroyed completely.

7. **Land Differs in Fertility:** Fertility of land differs on different pieces of land. One piece of land may produce more and the other less. As a gift of nature, the initial supply price of land is zero. However, when used in production, it becomes scarce. Therefore, it fetches a price accordingly.

Labour

Labour is the human input into the production process. Alfred Marshall defines labour as, 'the use of body or mind, partly or wholly, with a view to secure an income apart from the pleasure derived from the work'

Characteristics of Labour

- ✓ Labour is more perishable than other factors of production. It means labour cannot be stored. The labour of an unemployed worker is lost forever for that day when he does not work. Labour can neither be postponed nor accumulated for the next day. It will perish. Once time is lost, it is lost forever.
- ✓ Labour is an active factor of production. Neither land nor capital can yield much without labour.
- ✓ Labour is not homogeneous. Skill and dexterity vary from person to person.
- ✓ Labour cannot be separated from the labourer.
- ✓ Labour is mobile. Man moves from one place to another from a low paid occupation to a high paid occupation.
- ✓ Individual labour has only limited bargaining power. He cannot fight with his employer for a rise in wages or improvement in work-place conditions. However, when workers combine to form trade unions, the bargaining power of labour increases.

Division of Labour

The concept 'Division of Labour' was introduced by the Adam Smith in his book 'An enquiry into the nature and causes of wealth of nations'. Division of labour means dividing the process of production into distinct and several component processes and assigning each component in the hands of a labour or a set of labourers, who are specialists in that particular process. Example: A Tailor stitches a shirt in full. In the case of Garments exporters, cutting of cloth, stitching of hands, body, collars, holes for buttons, stitching of buttons etc., are done independently by different workers. Therefore, they are combining the parts into a whole shirt.

Merits of division of labour

- ✓ It improves efficiency of labour when labour repeats doing the same tasks.
- ✓ Facilities the use of machinery in production, resulting in inventions. Ex. More's Telegraphic Codes.
- ✓ Time and Materials are put to the best and most efficient use.

Demerits of division of labour

- ✓ Repetition of the same task makes labour to feel that the work is monotonous and stale. It kills the humanity in him.
- ✓ Narrow specialization reduces the possibility of labour to find alternative avenues of employment. This results in increased unemployment.
- ✓ Reduce the growth of handicrafts and the worker loses the satisfaction of having made a commodity in full.

Capital

Capital is the man made physical goods used to produce other goods and services. In the ordinary language, capital means money. In economics, capital refers to that part of man-made wealth which is used for the further production of wealth. All wealth is not capital but all capital is wealth. According to Marshall, 'Capital consists of those kinds of wealth other than free gifts of nature, which yield income'.

Forms of capital

1. Physical Capital or Material Resources Ex. Machinery, tools, buildings, etc.
2. Money capital or monetary resources Ex. Bank deposits, shares and securities, etc.
3. Human capital or Human Resources Ex. Investments in education, training and health.

Characteristics of Capital

- ✓ Capital is a passive factor of production
- ✓ Capital is man-made
- ✓ Capital is not an indispensable factor of production
- ✓ Capital has the highest mobility

- ✓ Capital is productive
- ✓ Capital lasts over time
- ✓ Capital involves present sacrifice to get future benefits

Entrepreneur

An entrepreneur is a person who combines the different factors of production (land, labour and capital), in the right proportion and initiates the process of production and also bears the risk involved in it. The entrepreneur is also called 'Organizer'. In, modern times, an entrepreneur is called 'the changing agent of the society'. He is not only responsible for producing the socially desirable output but also to increase the social welfare.

Characteristics of Entrepreneur

- ✓ Identifying profitable investible opportunities
- ✓ Deciding the location of the production unit
- ✓ Making innovations
- ✓ Deciding the reward payment
- ✓ Taking risks and facing uncertainties

NOTE

- ❖ Indian Economy is a Mixed Economy. Private and Public Sector are existing together.
- ❖ The most to the Gross Domestic Product of our country is contributed by the tertiary sector.
- ❖ Adam smith is known as Father of Economics and his Economics is wealth Economics. He wrote two classic works. "The Theory of Moral sentiments(1759)",and "An inquiry into the nature and causes of the wealth of Nations (1776)".

8th Economics

Money, Savings and Investment

Introduction

Money is a fascinating subject and full of curiosities. It is important to capture this element for the students. The history of money and how various forms were used at different times is an interesting story. Modern forms of money are linked to the banking system.

Money is a fundamental discovery, which has eased the day to day transactions, valuing goods and services and has allowed us to store the wealth and trade in future. "Money is anything which is widely accepted in payment for goods or in discharge of other business obligations" Robertson. Money in some form, has been part of human history for at least the last 3000 years. Before that time, it is assumed that a system of bartering was likely used.

Evolution of Money

The word Money is derived from Roman word "Moneta Juno". It is the roman goddesses and the republic money of roman empire. The Indian rupee is derived from Sanskrit word 'Rupya' which means silver coin. Today we use paper notes, coins as money. But the evolution of this stage has not happened overnight. It took thousands of years to reach such a stage. There are many stages of evolution of money. The earliest and primitive stage is Barter system.

Barter system

Barter system is exchanging goods for goods without the use of money in the primitive stage. A barter system is an old method of exchange. This system has been used for centuries and long before money was invented. People exchanged services and goods for other services and goods in return. The value of bartering items can be negotiated with the other party. Bartering doesn't involve money which is one of the advantages. Hence Barter system had many deficiencies like,

1. Lack of double coincidence of wants,
2. Common measure of value
3. Indivisibility of commodities
4. Difficulties of storing wealth

Some of the major stages through which money has evolved are as follows Commodity Money, Metallic Money, Paper Money, Credit Money, Near Money and recent forms of Money. Money has evolved through different stages according to the time, place and circumstances.

Commodity Money

In the earliest period of human civilization, any commodity that was generally demanded and chosen by common consent was used as money. Goods like furs, skins, salt, rice, wheat, utensils, weapons etc. were commonly used as money. Such exchange of goods for goods was known as 'Barter Exchange'.

Metallic Money

With progress of human civilization, commodity money changed into metallic money. Metals like gold, silver, copper, etc. were used as they could be easily handled and their quantity can be easily ascertained. It was the main form of money throughout the major portion of recorded history.

History of Metallic Money

The precious metals especially gold, silver, bronze were used for metallic money. The standard weight and fineness of metal particularly gold and silver with a seal on it became medium of exchange. They were of different denomination easily divisible, portable and were convenient in making payment. King Midas of Lydia innovated metal coin in the 8th century BC (BCE) by the ancient historian Herodotus. But gold coins were in use in india many centuries than in Lydia. The earliest issuers of coins in the world are the ancient Indians along with Chinese and Lydian's from the middle east. The first time Indian coins were minted in the 6th century BC (BCE) by the Mahajanpadas known as Puranas, Karshapanas or Panas.

The Mauryas came up with the Punch Marked Coins minting of silver, gold copper or lead and Indo-Greek Kushan kings introduced the Greek custom of engraving portraits on the coins. Turkish sultans of Delhi has replaced the royal designs of Indian kings with Islamic Calligraphy by the 12th century AD (CE). The currency was made up of gold, silver and copper known as Tanka and lower valued coin known as Jittals. The Mugual Empire from 1526 AD consolidate the monetary system for the entire empire.

In this era evolution of rupee occurred with Sher Shah Suri defeated Humayun and issued a silver coin of 178 gms known as rupiya and was divided into 40 copper pieces or paisa and during the whole Mugual period silver coin remained in use. During the British East India company i.e. 1600, the mughal currency remained popular but in 1717 AD, Farrukhsiyar the Mughal Emperor gave permission to the Britishes to coin Mughal Money at the Bombay mint. The British gold coins were termed as Carolina, the silver coins as Angelina, the copper coins as cupperoon and the tin coins as tinny.

Paper Money

It was found inconvenient as well as dangerous to carry gold and silver coins from place to place. So, invention of paper money marked a very important stage in the development of money. The development of paper money started on the basis of storage of gold and the receipts were issued by the goldsmiths for these storages. This receipt of goldsmiths were a substitute for money and became paper money. Paper money is regulated and controlled by Central bank of the country (Reserve Bank of India). At present, a very large part of money consists mainly of currency notes or paper money issued by the central bank.

Credit Money or Bank Money

Emergence of credit money took place almost side by side with that of paper money. People keep a part of their cash as deposits with banks, which they can withdraw at their convenience through cheques. The cheque (known as credit money or bank money), itself, is not money, but it performs the same as functions of money.

Near Money: The final stage in the evolution of money has been the use of bills of exchange, treasury bills, bonds, debentures, savings certificate etc.
Recent forms of Money

Plastic Money: The latest type of money is plastic money in the form of Credit cards and Debit cards. They aim for cashless transactions.

E-Money: Electronic Money is money which exists in banking computer systems and is available for transactions through electronic system.

Online Banking (Net Banking)

Online Banking, also known as internet banking is an electronic payment system that enables customers of a bank or other financial institutions to conduct a range of financial transactions through website.

E-Banking

Electronic banking, also known as National Electronic Funds Transfer (NEFT), is simply the use of electronic means to transfer funds directly from one account to another rather than by cheque or cash.

Value of Money

Value of money is meant the purchasing power of money over goods and services in a country. Thus it is related to the price level of goods and services. But the relation between the value of money and price level is an inverse one.

The value of money is of two types

1. Internal value of money
2. External value of money

The Internal value of money refers to the purchasing power of money over domestic goods and services. The External value of money refers to the purchasing power of money over foreign goods and services.

Nature of Money

There has been lot of controversy and confusion over the meaning and nature of money (Scitovsky). "Money is a difficult concept to define, partly because it fulfils not one but three functions, each of them providing a criterion of moneyness those of a unit of account, a medium of exchange, and a store of value". Sir John Hicks, say that "Money is defined by its functions, anything is money which is used as money, "Money is what money does".

These are the functional definitions of money because they define money in terms of the functions it performs. Some economists define money in legal terms saying that "anything which state declares as money is money". Such money possesses general acceptability and has the legal power to discharge debts. But people may not accept legal money by refusing to sell goods and services against the payments of legal tender money. On the other hand, they may accept some other things as money winch are not legally defined as money in discharge of debts. This may circulate freely.

Functions of Money: Functions of money are classified into Primary or Main function, Secondary function and Contingent function.

Primary or main functions: The important functions of money performed in very economy are classified under main functions:-

i. **Medium of exchange or means of payment:** Money is used to buy the goods and services.
ii. **Measure of value:** All the values are expressed in terms of money it is easier to determine the rate of exchange between various type of goods and services.

Secondary functions

The three important of secondary functions are

i. **Standard of deferred payment:** Money helps the future payments too. A borrower borrowing today places himself under an obligation to pay a specified sum of money on some specified future date.
ii. **Store of value or store of purchasing power:** Savings were discouraged under barter system as some commodities are perishable. The introduction of money has helped to save it for future as it is not perishable.
iii. **Transfer of value or transfer of purchasing power:** Money makes the exchange of goods to distant places as well as abroad possible. It was therefore felt necessary to transfer purchasing power from one place to another.

Contingent functions

1. Basis of credit
2. Increase productivity of capital
3. Measurement and Distribution of National Income

Savings in Banks and Investments Savings

Savings are defined as the part of consumer's disposable income which is not used for current consumption, rather kept aside for future use. There are several ways through which a person can save money.

The banking facilitates saving money through various forms of accounts.

1. **Student Savings Account:** There are savings accounts some banks offer specifically for young people enrolled in high school or college, and they main feature more flexible terms such as lower minimum balance requirements.

2. **Savings Deposits:** Savings deposits are opened by customers to save the part of their current income. The customers can withdraw their money from their accounts when they require it. The bank also gives a small amount of interest to the money in the saving deposits.

3. **Current Account Deposit:** Current accounts are generally opened by business firms, traders and public authorities. The current accounts help in frequent banking transactions as they are repayable on demand.

4. **Fixed Deposits:** Fixed deposits accounts are meant for investors who want their principle to be safe and yield them fixed yields. The fixed

deposits are also called as Term deposit as, normally, they are fixed for specified period.

Benefits of Savings

- ✓ You will be financially independent sooner.
- ✓ You would not have to worry any unforeseen expenses.
- ✓ In future, you will have financial backup in place if you lose your job.
- ✓ You will be prepared if your circumstances change.
- ✓ You will be more comfortable in retirement.
- ✓ Save today for better tomorrow

Intensity to save among the students

- ✓ Teach them about taxes and accounting.
- ✓ Involve them in grown-up money decisions.
- ✓ Encourage them to apply for scholarship.
- ✓ Help them budget and apply for student loans.
- ✓ Teach them personal savings.

Encourage them to open a student Sanchayeka Scheme.

Investments

The process of investing something is known as an investment. It could be anything, i.e. money, time efforts or other resources that you exchange to earn returns in future. Investment can be made in different investment vehicles like,

1. Stock
2. Bonds
3. Mutual funds
4. Commodity futures
5. Insurance
6. Annuities
7. Deposit account or any other securities or assets

An investment always comes with risks of losing money, but it is also true that you can reap more money with the same investment vehicle. It has a productive nature that helps in the economic growth of the country.

Comparison of Savings and Investments		
Basis for comparison	**Savings**	**Investments**
Meaning	Savings represents that part of the person's	Investment refers to the process of investing funds

	income which is not used for consumption	in capital asset, with a view to generate returns
Purpose	Savings are made a fulfil short term or urgent requirements	Investment is made to provide returns and help in capital formation
Risk	Low or negligible	Very high
Returns	No or Less	Comparatively high
Liquity	Highly liquid	Less liquid

Black Money

Black Money is any money on which it is not paid to the government. Black Money is money earned through any illegal activity controlled by country regulations. Black money proceeds are usually received in cash from underground economic activity and, as such, are not taxed.

The black money is accumulated by the criminals, smugglers, hoarders, tax-evaders and other anti-social elements of the society. In India, black money is funds earned in the black market, on which income and other taxes have not been paid. The total amount of black money deposited in foreign banks by Indians is unknown. The root cause for the increasing rate of black money in the country is the lack of strict punishments for the offenders.

Effects of Black Money on economy

1. Dual economy
2. Tax evasion, thereby loss of revenue to government.
3. Undermining equity
4. Widening gap between the rich and poor
5. Lavish consumption spending
6. Distortion of production pattern
7. Distribution of scarce resource
8. Effects on production.

Recent steps against Black Money

1. Under pressure from India and other countries, Switzerland has made key changes in its local laws governing assist foreign allegedly stashed in Swiss Banks.
2. Special Investigation Team appointed by government on the directions of Supreme Court on black money.
3. Demonetization

Some Legislative Framework in India against to Black Money

1. Prevention of money laundering act 2002
2. Lokpal and Lokayukta act
3. Prevention of corruption act- 1988
4. The undisclosed foreign Income and Asset Bill(Imposition of Tax) 2015
5. Benami transactions prohibition act 1988 amended in 2016
6. The Real Estate (Regulation and Development) Act, 2016

NOTE

- Symbol of Rupee the Indian Rupee symbol designed by Mr. Udayakumar, Villupuram Dist. Tamil Nadu. It was approved by the Government of India on 15-July-2010
- **Inflation and Deflation:** Inflation refers to the prices are rising, the value of money will fall. Deflation refers to the prices are falling, the value of money will rise.
- Demonetization: In India, On 8-November-2016, the Government of India announced demonetization of all `500 and `1000 bank notes against Black Money.