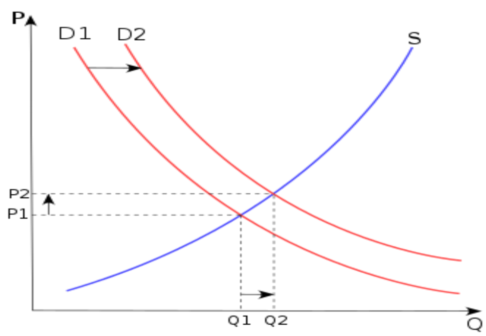
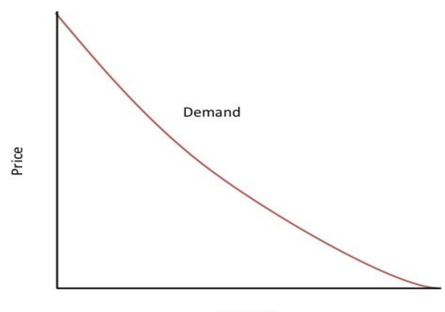
ADM COLLEGE FOR WOMEN (A), NAGAPATTINAM
PG & RESEARCH DEPARTMENT OF ECONOMICS
SUBJECT : ECONOMICS FOR COMPETETIVE EXAMINATION
CLASS : II BA ECONOMICS
HANDLED BY Dr.R.L.POONGUZHALI

UNIT - I

MEANING OF DEMAND

Demand simply means a consumer's desire to buy goods and services without any hesitation and pay the price for it. In simple words, demand is the number of goods that the customers are ready and willing to buy at several prices during a given time frame. Preferences and choices are the basics of demand, and can be described in terms of the cost, benefits, profit, and other variables.





DETERMINANTS OF DEMAND

- **Product cost:** Demand of the product changes as per the change in the price of the commodity. People deciding to buy a product remain constant only if all the factors related to it remain unchanged.
- **The income of the consumers:** When the income increases, the number of goods demanded also increases. Likewise, if the income decreases, the demand also decreases.
- **Costs of related goods and services:** For a complimentary product, an increase in the cost of one commodity will decrease the demand for a complimentary product.
- **Consumer expectation:** High expectation of income or expectation in the increase in price of a good also leads to an increase in demand. Similarly, low expectation of income or low pricing of goods will decrease the demand.
- **Buyers in the market:** If the number of buyers for a commodity are more or less, then there will be a shift in demand.

TYPES OF DEMAND

1. **Price demand:** It refers to various types of quantities of goods or services that a customer will buy at a quoted price and given time, considering the other things remain constant.

2. **Income demand:** It refers to various types of quantities of goods or services that a customer will buy at different stages of income, considering the other things remain constant.
3. **Cross demand:** This means that the product's demand does not depend on its own cost but depends on the cost of the other related commodities.
4. **Direct demand**: When goods or services satisfy an individual's wants directly, it is known as direct demand.
5. **Derived demand or Indirect demand:** The goods or services demanded or needed for manufacturing the goods and satisfying the consumer indirectly is known as derived demand.
6. **Joint demand:** To produce a product there are many things that are related to each other, for example, to produce bread, we need services like an oven, fuel, flour mill, and more. So, the demand for other additional things to produce a product is known as joint demand.
7. **Composite demand:** A composite demand can be described when goods and services are utilised for more than one cause. Example: Coal

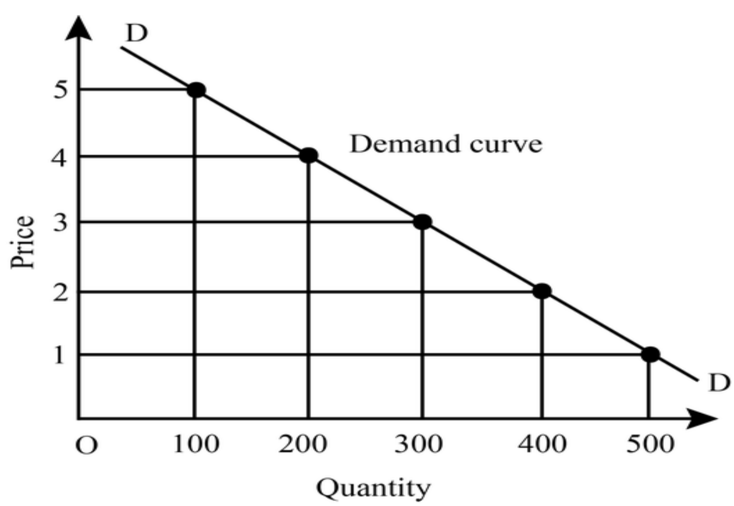
THE FACTORS THAT AFFECT DEMAND

- Price of product
- Consumer's Income.
- Price of Related Goods.
- Tastes and Preferences of Consumers.
- Consumer's Expectations.
- Number of Consumers in the Market.

LAW OF DEMAND MEANING

Basic law of demand states that price and quantity demanded are inversely related to each other while keeping all other factors constant. Increase in price lowers the demand for any goods or services

Demand Schedule	
Px	Dx
5	100
4	200
3	300
2	400
1	500



ASSUMPTIONS OF LAW OF DEMAND

1. The price of substitute goods does not change.
2. The price of complementary goods also remains constant.
3. The income of the consumer does not change.
4. Tastes and preferences of the consumers remain the same.
5. People do not expect the future price of the commodity to change.

REASONS FOR LAW OF DEMAND

1. Law of Diminishing Marginal Utility
2. Substitution Effect
3. Income Effect
4. Additional Customers
5. Different Uses

EXCEPTIONS TO LAW OF DEMAND

1. Giffen Goods
2. Fear of Shortage
3. Status Symbol or Goods of Ostentation
4. Ignorance
5. Necessities of Life
6. Change in Weather
7. Fashion-related goods

UTILITY MEANING

- A customer is the one who usually determines his demand for goods on the basis of the satisfaction (utility) that he procures from them.
- Utility of goods is their want-satisfying capability.
- More is the aspiration to have the goods, the more is the utility procured from them.
- Utility is instinctive.
- Distinct people can get different degrees of utility from the same goods.

ORIGIN OF UTILITY

- In economics, The idea of usefulness is used for the utility definition.
- The amount to which an economic good or product benefits a consumer's demand or need determines its utility.
- In economics, Daniel Bernoulli was a prominent 18th-century Swiss mathematician.
- He defined the term "utility". Since then, the theoretical economic perspective has advanced, resulting in numerous monetary values.

CHARACTERISTICS OF UTILITY

- It is dependent upon human wants.
- It is immeasurable.
- A utility is subjective.
- It depends on knowledge.
- Utility depends upon use.
- It is subjective.
- It depends on ownership.

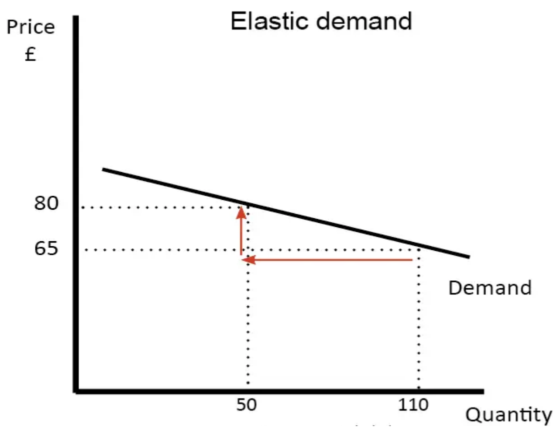
TYPES OF UTILITY

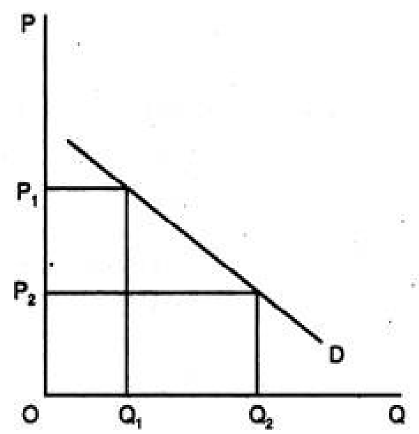
- **Form:** It refers to the specific product or service that a company offers.
- **Place:** It refers to the convenience and readiness of the services available at a place to the customer
- **Time:** It refers to the ease of availability of products or services at the time when a customer needs.
- **Possession:** It refers to the benefit a customer derives from the ownership of a company's product.

ELASTICITY OF DEMAND - MEANING

The price elasticity of demand for a commodity is defined as the percentage of change in demand for the commodity divided by the percentage change in its price. The price elasticity of demand for a good is derived as follows:

Formula : Elasticity of demand = Percentage change in demand for the goods / Percentage change in price for the goods





TYPES OF ELASTICITY OF DEMAND

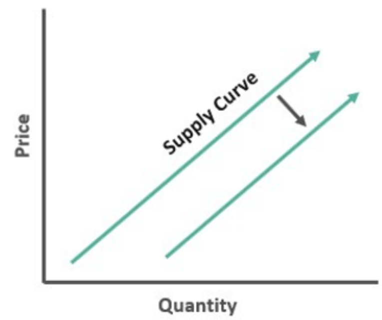
- Price elasticity of demand
- Cross elasticity of demand
- Income elasticity of demand
- Advertisement elasticity of demand

MEASUREMENT OF PRICE ELASTICITY OF DEMAND

- Proportionate/Percentage method
- Total expenditure or Total outlay method
- Geometric method

SUPPLY MEANING

Supply is a fundamental economic concept that describes the total amount of a specific good or service that is available to consumers.



FACTORS AFFECT SUPPLY

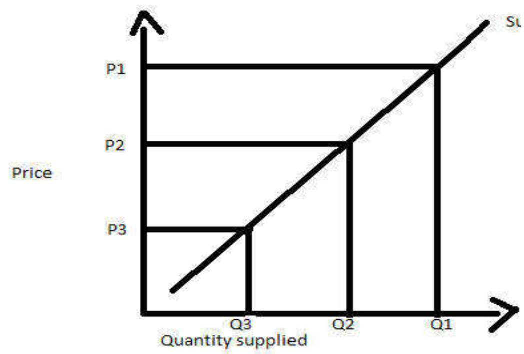
- Consumer Demand.
- Material Costs and Availability.
- Technological Innovation.
- Government Policy.
- Natural Factors.
- Economic Conditions.

TYPES OF SUPPLY

- Short Term Supply
- Long Term Supply
- Joint Supply
- Market Supply
- Composite Supply

LAW OF SUPPLY MEANING

The law of supply is a fundamental principle of economic theory which states that, keeping other factors constant, an increase in sales price results in an increase in quantity supplied.

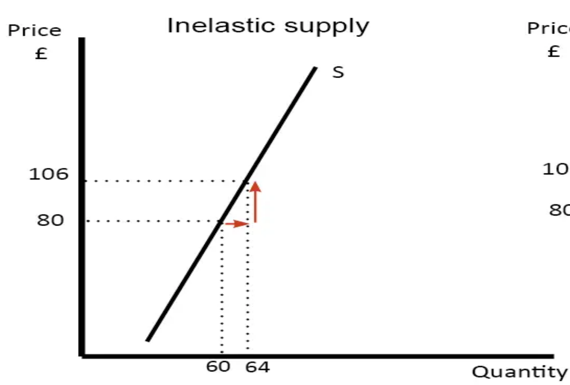


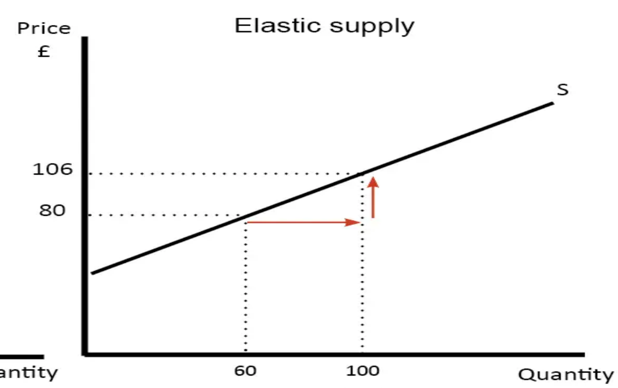
EXCEPTIONS OF LAW OF SUPPLY

- Business Closures.
- Uncontrollable Products.
- Monopolistic Industries.
- Perishable Goods.
- Rare/Collectible Items.

ELASTICITY OF SUPPLY MEANING

The price elasticity of supply of goods quantifies the receptiveness of quantity supplied to changes in the cost price of the commodity.





FACTORS AFFECTING PRICE ELASTICITY OF SUPPLY

- Nature of Industry
- Nature of Goods
- Commodity
- Time

TYPES OF ELASTICITY OF SUPPLY

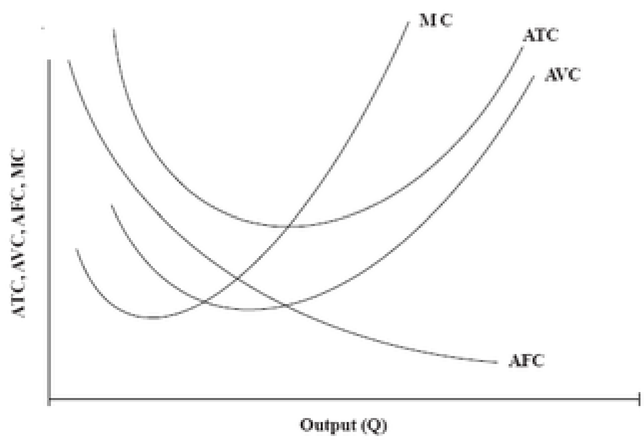
- Perfectly Elastic Supply
- More than Unit Elastic Supply
- Unit Elastic Supply
- Less than Unit Elastic Supply
- Perfectly Inelastic Supply

POSSIBILITIES OF ELASTICITY OF SUPPLY

- **Perfectly elastic:** The result is an infinite number
- **Elastic:** The result is less than one
- **Unitary:** The result equals one
- **Inelastic:** The result is greater than one
- **Perfectly inelastic:** The result is equal to zero.

CONCEPTS OF COST - MEANING

The concept of cost is a key concept in Economics. It refers to the amount of payment made to acquire any goods and services. In a simpler way, the concept of cost is a financial valuation of resources, materials, risks, time and utilities consumed to purchase goods and services.



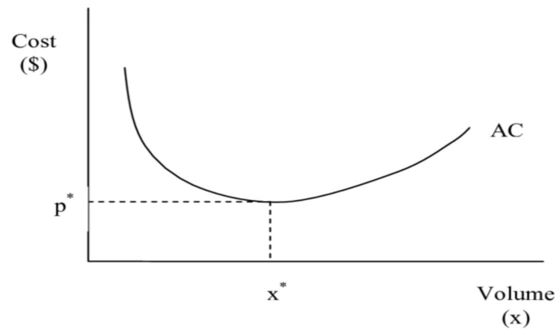
TYPES OF CONCEPTS OF COST

- Outlay costs and Opportunity costs
- Accounting costs and Economic costs
- Direct/Traceable costs and Indirect/Untraceable costs
- Incremental costs and Sunk costs
- Private costs and social costs
- Fixed costs and Variable costs

AC - AVERAGE COST
MC - MARGINAL COST
AFC - AVERAGE FIXED COST
AVC - AVERAGE VARIABLE COST
TC - TOTAL COST

AVERAGE COST - MEANING

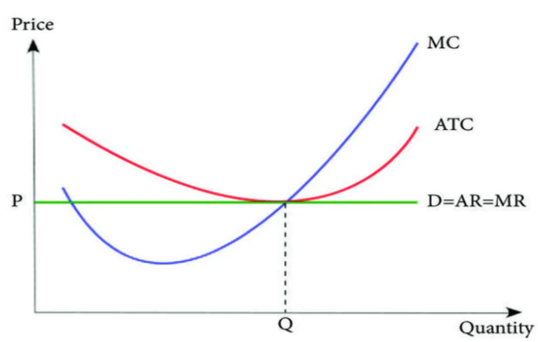
The average cost is the ratio of the total of cost of all the products to the total number of products

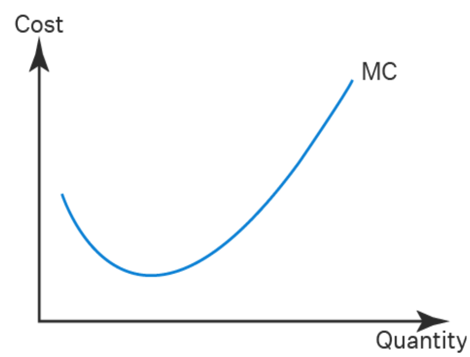


FORMULA : Average cost = Total cost of the units/Number of units

TYPES OF AVERAGE COST
- Average Fixed Cost
- Average Variable cost
- Short run Average costs
- Long run Average costs

MARGINAL COST CURVE MEANING
- Marginal cost is the change in the total cost of production from producing a single unit.
- The marginal cost is the ratio between change in production cost with respect to the change in quantity
- Marginal cost is used to optimise maximum profits of a company.
- If the marginal cost of production is less than the selling price of a single unit, then the company gains profit.





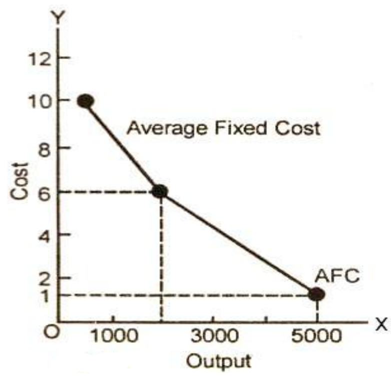
FORMULA : Marginal Cost = Change in the Total Expenses / Change in Quantity of the Units Produced.

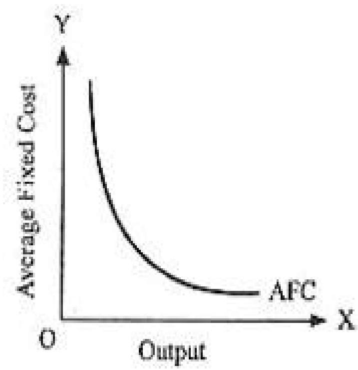
IMPACT OF MARGINAL COST
- Information asymmetries,
- Positive
- Negative externalities
- Transaction costs
- Price discrimination.

AVERAGE FIXED COST - MEANING

The average fixed cost is the total fixed cost divided by the number of units produced

FORMULA : AFC = Total fixed cost/Output (Q)

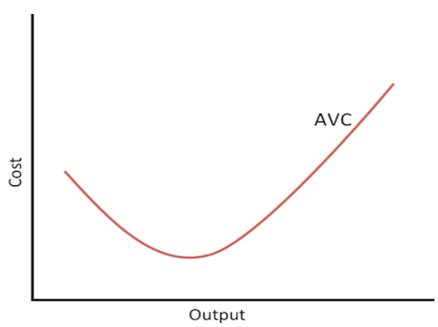


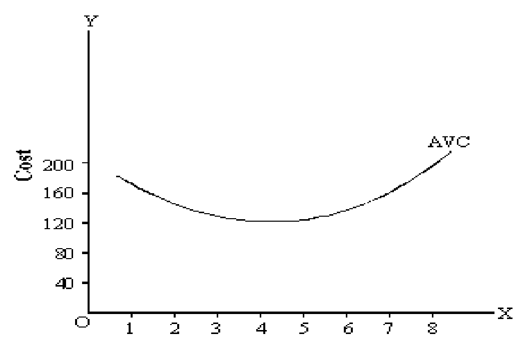


AVERAGE VARIABLE COST MEANING

The per unit variable cost of production is known as Average Variable Cost.

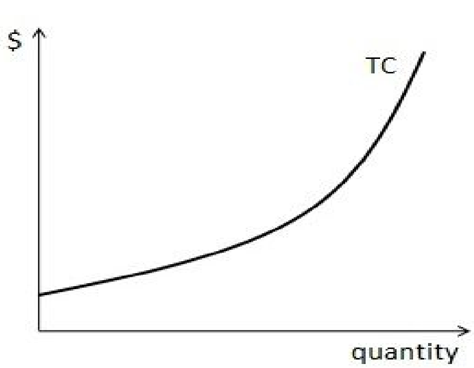
FORMULA: AVC = Total Variable cost / Quantity

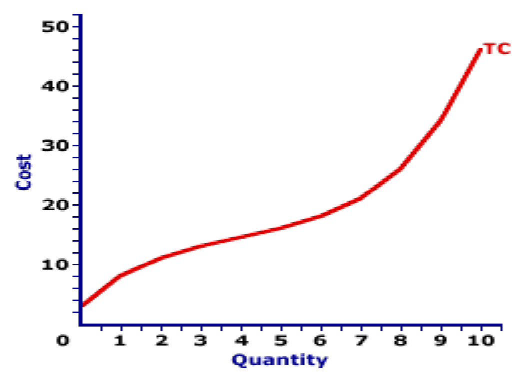




TOTAL COST - MEANING

The total cost curve represents the cost associated with every possible level of output, so if we figure out the cost-minimizing choice of inputs for every possible level of output, we can determine the cost of producing each level of output.

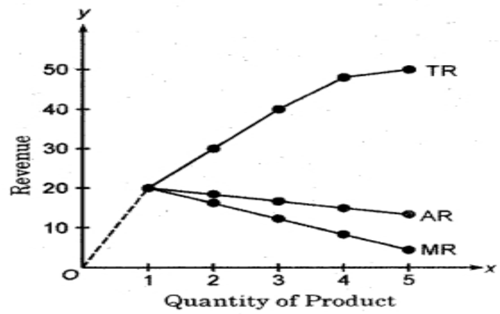




FORMULA: Total Costs = Total Variable Costs + Total Fixed CostsTotal Costs = Average Total Costs x Quantity

CONCEPTS OF REVENUE MEANING

Revenue, in simple words, is the amount that a firm receives from the sale of the output. According to Prof. Dooley, ” The Revenue of a firm is its sales receipts or income.‘



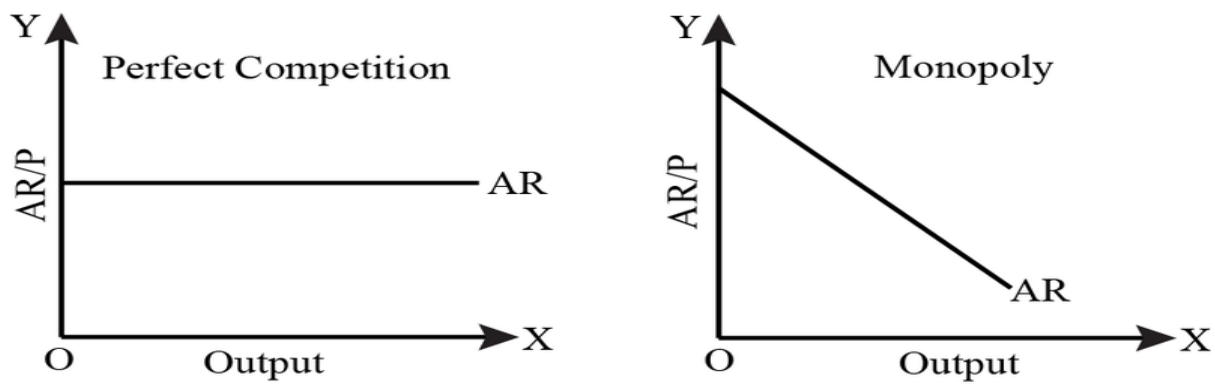
TYPES OF REVENUE

1. Total Revenue
2. Average Revenue
3. Marginal Revenue

FORMULA OF REVENUE: Net Revenue = (Quantity Sold * Unit Price) - Discounts - Allowances - Returns

AVERAGE REVENUE MEANING

- Average revenue is referred to as the revenue that is earned per unit of output.
- In other words, it is the revenue that is obtained by the seller on selling each unit of the commodity.
- Average revenue of a business is obtained by dividing the total revenue with the total output.

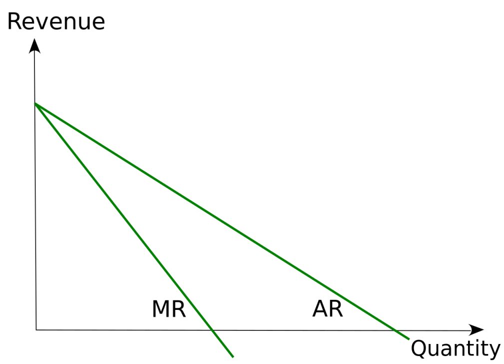


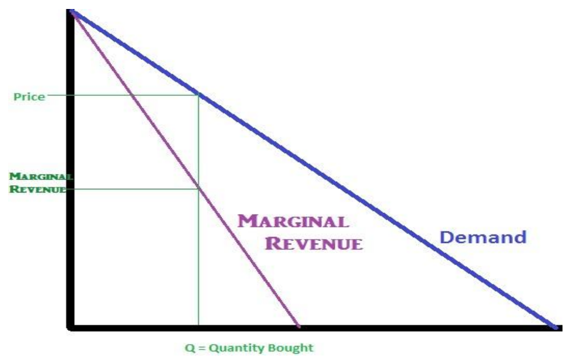
FORMULA: Average Revenue = Total Revenue / Quantity

MARGINAL REVENUE MEANING

Marginal revenue is referred to as the revenue that is earned from the sale of an additional product or unit. It is the revenue that the company generates when there is a sale of an additional unit.

FORMULA: Marginal revenue = Change in total revenue/Change in quantity

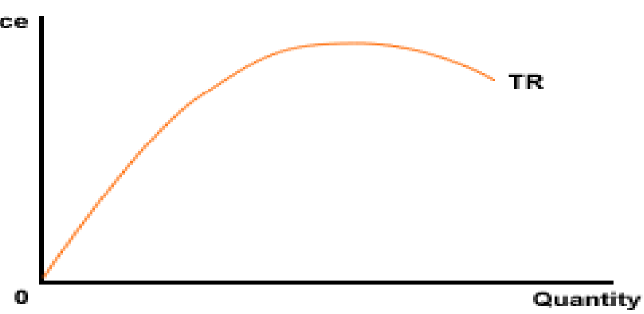




TOTAL REVENUE MEANING

Total revenue is an important concept in Economics that refers to the total amount of money that a company earns through the selling of its goods and services, over a time period (a day, week, month or year).

FORMULA: Total Revenue = Price x Quantity



UNIT - II

STATIC MEANING

An economic analysis that limits its attention to the final equilibrium position is called ‘statics’ or ‘static’.

DYNAMIC MEANING

Dynamic’ analysis deals with the time it takes for an equilibrium position to be achieved after it is broken down

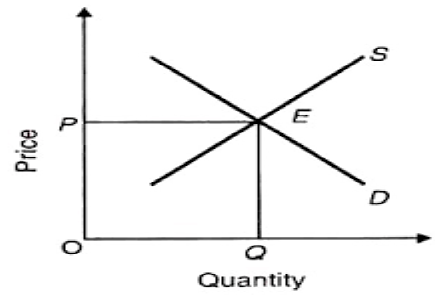


Fig. 1

STOCK MEANING
Stock is defined as a variable that is measured at a particular point in time

FLOW MEANING
Flow is defined as a variable which is measurable over a period of time

NATIONAL INCOME MEANING
National income is referred to as the net money value of all the final goods and services that are produced by the residents living within the boundary of the country within an accounting year.

METHOD TO MEASURE NATIONAL INCOME
- Income method
- Production method
- Expenditure method

GROSS DOMESTIC PRODUCT (GDP) MEANING
Gross Domestic Product at Market Price or GDP_{MP} : It is the gross market value of all final goods and services that is produced within the domestic territory of a nation within an accounting year.
FORMULA : GDP_{MP} = Net domestic product at FC (NDP_{FC}) + Depreciation + Net Indirect tax

METHODS OF GDP CALCULATION
- Output Approach
- Income Approach
- Expenditure Approach

TYPES OF GDP
1. Nominal GDP
2. Real GDP

IMPORTANCE OF GDP
- It takes into account the total production of the country during a year.
- It serves as a major factor that is used for determining the development of the economy and a very important parameter for estimating the performance of an economy.

LIMITATIONS OF GDP

- GDP does not include non-market transactions.
- It fails to indicate whether the growth of a nation is sustainable.
- It fails to take into account the impact on human health and environment that may arise as externalities from the production or consumption of the output.

NET DOMESTIC PRODUCT (NDP) MEANING

Net Domestic Product at Market Price or NDP_{MP} : It is the net market value of all the final goods and services produced within the domestic territory of the nation within a year excluding depreciation.

FORMULA : $NDP_{MP} = GDP_{MP}$ – Depreciation

NET NATIONAL PRODUCT (NNP) MEANING

Net National Product at Factor Cost or NNP_{FC} : It is the net value of all the final goods and services that are produced by the residents of a nation within a period of one year.

FORMULA : $NNP_{FC} = GNP_{MP}$ – Net Indirect Taxes – Depreciation

GROSS NATIONAL PRODUCT (GNP) MEANING

This is the gross market value of all final goods and services that are produced by the residents living within the boundaries of a nation.

It can be said as the sum total of all the factor incomes by the residents of a country during a year and is inclusive of depreciation and net indirect taxes.

FORMULA: $GNP_{MP} = NNP_{FC}$ + Net Indirect Taxes + Depreciation

PERSONAL INCOME MEANING

Personal income refers to all the earnings made by a household in a given year. It includes various sources of revenue like salaries, wages, investment, dividends, rent, contributions being made by an employer towards any pension plan, etc.

TYPES OF PERSONAL INCOME

1. Salaries/Wages
2. Rent
3. Interest
4. Profit
5. Proprietor’s Income
6. Transfer Payments

PER CAPITA INCOME MEANING

Per capita income is a measure of the amount of money earned per person in a nation or geographic region. Per capita income is used to determine the average per-person income for an area and to evaluate the standard of living and quality of life of the population. Per capita income for a nation is calculated by dividing the country's national income by its population.

LIMITATIONS OF PER CAPITA INCOME

- Living standards
- Inflation
- International comparisons
- Savings and wealth
- Children
- Economic welfare

DISPOSABLE PERSONAL INCOME MEANING

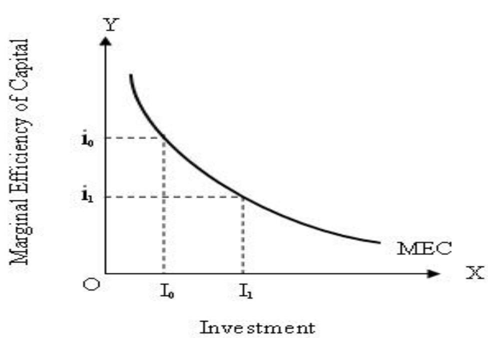
Disposable income or disposable personal income is an economic term for the money that is available for household consumption, savings, and spending after accounting for income tax.
FORMULA : Disposable income = Personal income – Personal income taxes

IMPORTANCE OF DISPOSABLE PERSONAL INCOME

- Financial Flexibility
- Higher Level of Living
- Economic Growth
- Savings and Investments
- Tax Revenue

MARGINAL EFFICIENCY OF CAPITAL MEANING

The marginal efficiency of capital (MEC) refers to the expected rate of return on an additional unit of capital investment in the production process. It measures the ability of an investment to generate additional income, taking into account all relevant factors, such as market conditions, competition, and technological advancements.



CONCEPT OF MARGINAL EFFICIENCY OF CAPITAL

- The concept of the "marginal efficiency of capital" was introduced by John Maynard Keynes in his book "The General Theory of Employment, Interest, and Money," published in 1936.

- He saw MEC as a crucial factor in determining the level of aggregate investment in the economy and its impact on economic growth and employment.

FACTORS OF MEC

- **Technological progress:** New technologies can increase the productivity of capital, leading to an increase in MEC.
- **Competition**: Competition among firms can lead to a reduction in the rate of return on investment, reducing MEC.
- **Expectations**: The expectations of investors about future market conditions can impact MEC. If investors expect high profits, MEC will be high, and investment will increase.
- **Interest rates**: Higher interest rates increase the cost of borrowing, lowering MEC.
- **Time preference:** The time preference of investors, i.e., their preference for current consumption over future consumption, can impact MEC.
- **Risk:** The perceived risk of an investment can influence MEC, as investors will require a higher rate of return to compensate for the risk.
- **Availability of investment opportunities**: If investment opportunities are abundant, MEC will be high, and investment will increase.

FUNCTIONS OF MEC

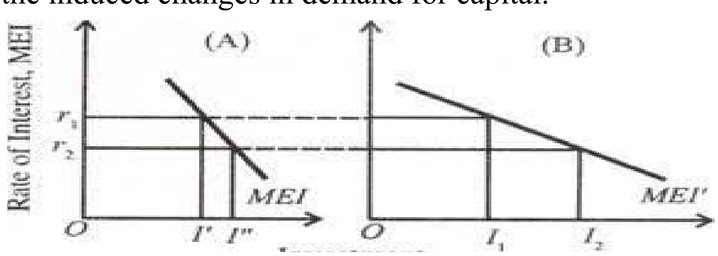
- The marginal efficiency of capital (MEC) has several important functions in economics and investment analysis, including investment decisions, optimal capital stock, interest rate analysis, capital budgeting, and macroeconomic analysis.
- In essence, the MEC plays a significant role in investment analysis and decision-making, as well as in macroeconomic analysis and policy formulation.

LIMITATIONS OF MEC

- The marginal efficiency of capital (MEC) is useful for analyzing the expected returns on investment, but it is not without limitations.
- Some of the disadvantages of MEC include its simplistic assumptions, difficulty in measurement, limited usefulness in short-run analysis, and it does not account for externalities.

MARGINAL EFFICIENCY OF INVESTMENT MEANING

The MEI is the expected rate of return on investment for additional units of investments made over a period, given the induced changes in demand for capital.



CONCEPT OF MARGINAL EFFICIENCY OF INVESTMENT

- It is calculated in order to make the future prediction and to check the efficiency of the return which the investors will receive when they will invest in that new investment opportunity.
- The marginal efficiency of capital/investment is the expected return from an additional unit of capital employed/investment made, while, the rate of interest specifies the returns from interest-providing security.
- Thus, since, the firm can earn a higher return from interest, it would not undertake additional investment in capital.

DIFFERENCE OF MARGINAL EFFICIENCY OF MEC AND MEI

Marginal Efficiency of Capital(MEC)

1) It is based on a given supply price for capital.
2) It represents the rate of return on all successive units of capital without regard to existing capital.
3) The capital stock is taken on the X axis of diagram.
4) It is a "stock" concept.
5) It determines the optimum capital stock in an economy at each level of interest rate.

Marginal Efficiency of Investment(MEI)

1) It is based on the induced change in the price due to change in the demand for capital.
2) It shows the rate of return on just those units of capital over and above the existing capital stock.
3) The amount of investment is taken on the X - axis of diagram.
4) It is a "flow" concept.
5) It determines the net investment of the economy at each interest rate given the capital stock.

MULTIPLIER MEANING

A multiplier is a factor of proportionality that measures how much an endogenous variable changes in response to a change in some exogenous variable

MULTIPLIER DEFINITION

a multiplier broadly refers to an economic factor that, when increased or changed, causes increases or changes in many other related economic variables. In terms of gross domestic product, the multiplier effect causes gains in total output to be greater than the change in spending that caused it.

TYPES OF MULTIPLIER:

- The Fiscal Multiplier
- The Investment Multiplier
- The Earnings Multiplier
- The Equity Multiplier
- The Keynesian Multiplier
- The Fractional Reserve Money Multiplier

ASSUMPTIONS OF MULTIPLIER

1. There is change in autonomous investment.
2. There is no induced investment
3. The marginal propensity to consume is constant.
4. Consumption is a function of current income.
5. There are no time lags in the multiplier process.
6. Consumer goods are available in response to effective demand for them.
7. There is a closed economy unaffected by foreign influences.
8. There are no changes in prices.
9. There is less than full employment level in the economy.

CLASSIFICATION OF MULTIPLIER

I. Static multiplier is otherwise known as simultaneous multiplier, timeless multiplier, and logical multiplier.

II. Dynamic multiplier is also known as 'sequence multiplier'. In real life, income level does not increase instantly with investment. In fact, there is a time lag between increase in income and consumption expenditure.

LEAKAGES OF MULTIPLIER

- Payment towards past debts.
- Purchase of existing wealth
- Import of goods and services
- Non availability of consumer goods
- Full employment situation

USES OF MULTIPLIER

- Multiplier highlights the importance of investment in income and employment theory.
- The process throws light on the different stages of trade cycle.
- It also helps in bringing the equality between S and I.
- It helps in formulating Government policies.
- It helps to reduce unemployment and achieve full employment.

MULTIPLIER EFFECT MEANING

The multiplier effect refers to the effect on national income and product of an exogenous increase in demand.

ACCELERATOR MEANING

A given increase in the demand for consumption goods in the economy generally leads to an accelerated demand for machineries (investment goods). Accelerator is the numerical value of the relation between an increase in consumption and the resulting increase in investment.

DEFINITION OF ACCELERATOR

The accelerator coefficient is the ratio between induced investment and an initial change in consumption."

ASSUMPTIONS OF ACCELERATOR

- Absence of excess capacity in consumer goods industries.
- Constant capital - output ratio
- Increase in demand is assumed to be permanent
- Supply of funds and other inputs is quite elastic
- Capital goods are perfectly divisible in any required size.

LIMITATIONS OF ACCELERATOR

- The assumption of constant capital-output ratio is unrealistic.
- Resources are available only before full employment.
- Excess capacity in capital goods industries is assumed.
- Accelerator will work only if the increased demand is permanent.
- Accelerator will work only when credit is available easily.
- If there is unused or excess capacity, the accelerator principle would not work.

SUPER MULTIPLIER MEANING

The super multiplier is greater than simple multiplier which includes only autonomous investment and no induced investment, while super multiplier includes induced investment.

INVESTMENT FUNCTION MEANING

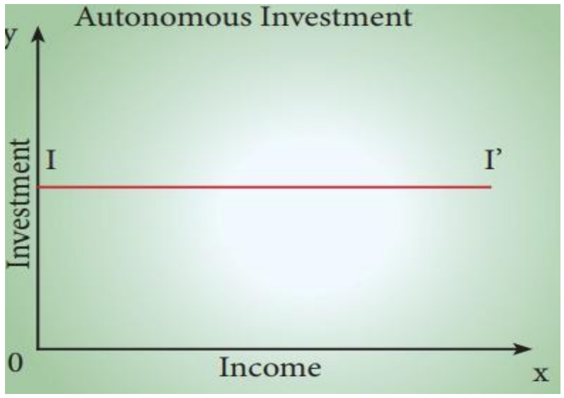
The investment function refers to investment -interest rate relationship. There is a functional and inverse relationship between rate of interest and investment. The investment function slopes downward.

TYPES OF INVESTMENT FUNCTION

- Autonomous Investment
- Induced Investment

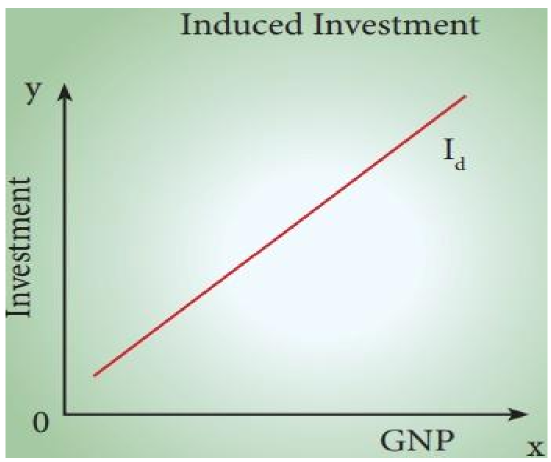
AUTONOMOUS INVESTMENT MEANING

Autonomous investment is the expenditure on capital formation, which is independent of the change in income, rate of interest or rate of profit.



INDUCED INVESTMENT MEANING

Induced investment is the expenditure on fixed assets and stocks which are required when level of income and demand in an economy goes up.



UNIT - III

BARTER SYSTEM MEANING

- Goods were exchanged for goods prior to invention of money.

Barter system worked on certain conditions mentioned below.

- Each party to barter must have surplus stocks for the trade to take place.
- Both the buyers and sellers should require the goods each other desperately i.e., double coincidence of wants
- Buyer and seller should meet personally to effect the exchange.

CONSTRAINS IN BARTER SYSTEM

1. Lack of double coincidence of Wants
2. Non – existence of common measure of value

3. Lack of direct contact between producer and consumers
4. Lack of surplus stock

MONEY MEANING

Money is anything that is generally accepted as payment for goods and services and repayment of debts and that serves as a medium of exchange.

MONEY DEFINITION

- *" Money is, what money does"* - **Walker.**
- *"Money can be anything that is generally acceptable as a means of exchange and at the same time acts as a measure and a store of value".* –**Crowther**

EVOLUTION OF MONEY

- Metallic Standard
- Gold Standard
- Silver Standard
- Paper Currency Standard
- Plastic Money

FUNCTIONS OF MONEY

PRIMARY FUNCTIONS

i) Money as a medium of exchange
ii) Money as a measure of value

SECONDARY FUNCTIONS

i) Money as a Store of value
ii) Money as a Standard of Deferred Payments
iii) Money as a Means of Transferring Purchasing Power

CONTINGENT FUNCTIONS

i) Basis of the Credit System
ii) Money facilitates distribution of National Income
iii) Money helps to Equalize Marginal Utilities and Marginal Productivities
iv) Money Increases Productivity of Capital

OTHERS FUNCTIONS

i) Money helps to maintain Repayment Capacity
ii) Money represents Generalized Purchasing Power:
iii) Money gives liquidity to Capital

PROPERTIES OF MONEY

In order to be most useful, money should be fungible, durable, portable, recognizable, and stable. These properties reduce the transaction cost of using money by making it easy to exchange

TYPES OF MONEY

1. **Fiat money** – the notes and coins backed by a government
2. **Commodity money** – a good that has an agreed value
3. **Fiduciary money** – money that takes its value from a trust or promise of payment
4. **Commercial bank money** – credit and loans used in the banking system
5. **Representative money** - used as a transaction medium, but this money itself is not actual money.

MONETARY POLICY MEANING

Monetary Policy is the macroeconomic policy being laid down by the Central Bank towards the management of money supply and interest rate

OBJECTIVES OF MONETARY POLICY

1. Neutrality of Money
2. Exchange Rate Stability
3. Price Stability
4. Full Employment
5. Economic Growth
6. Equilibrium in the Balance of Payments

LIMITATIONS OF MONETARY POLICY

1. Monetary policy operates in a broad front
2. Success and failure depends on the banking system of the country
3. It has Institutional restrictions
4. Unorganized money market does not support the monetary policy
5. Existence of non monetized sector also defies RBI's regulation
6. It is not very effective in overcoming depression.

MONETARY POLICY AND ECONOMIC DEVELOPMENT:

- Economic development needs the support of credit planning
- Improving the efficiency of banking system
- Decide interest rates
- Public debt management

ROLE OF MONETARY POLICY

- The key role of monetary policy is to adjust the relationship between the supply and demand for money.
- The demand for money continues to rise as the economy grows.
- To prevent inflation, the central government raises the money supply proportionately to the rise in demand.

INSTRUMENTS OF MONETARY POLICY

- Open Market Operations
- Cash Reserve Ratio
- Statutory Liquidity Ratio (SLR)
- Bank Rate Policy
- Credit Ceiling

TYPES OF MONETARY POLICY

Expansionary Monetary Policy

Expansionary monetary policy is implemented when the central bank seeks to stimulate economic growth and increase aggregate demand.

Contractionary Monetary Policy

A contractionary monetary policy is implemented when the central bank aims to reduce inflationary pressures and cool down an overheating economy.

RBI MEANING

RBI, also known as the Reserve Bank of India, is the statutory body that acts as the country's central bank that handles the country's economic stability and growth. It manages all the significant monetary policies of the government. One of the most important functions of RBI is to be the banker's bank.

FUNCTIONS OF RBI

- Monetary Authority
- Managing Foreign Exchange
- Regulator and Administrator of the Financial System
- The Issuer of Currency
- Banker to Banks
- Developmental Role
- Banker and Debt Manager of the Government
- Oversees Market Operations
- Lender of last resort

OBJECTIVES OF RBI

- To run the nation's currency and credit system.
- To maintain reserves for securing monetary stability in India.
- To govern the issue of bank notes.
- To maintain financial stability or credit by engaging in effective activities and keeping itself free from any political impact.
- To perform central banking functions by acting as Banker's bank, Banker to government, and note-issuing authority.
- To promote economic growth and support planned advancement of the economy of the country.

POWERS OF RBI

- Reconstruction and liquidation
- Amalgamation (merger)
- Management and methods of working
- Liquidity of their assets
- Branch expansion
- Licensing and establishment

NECESSARY ACTS OF RBI

- Factoring Regulation Act, 2011
- Payment and Settlement Systems Act, 2007
- Government Securities Regulations, 2007
- Credit Information Companies (Regulation) Act, 2005
- Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Chapter II).
- Foreign Exchange Management Act, 1999.
- Banking Regulation Act, 1949.
- Public Debt Act, 1944/Government Securities Act, 2006
- Reserve Bank of India Act, 1934

COMMERCIAL BANK MEANING

A commercial bank is a kind of financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities. These banks are profit-making institutions and do business only to make a profit.

FUNCTIONS OF COMMERCIAL BANK

(A) PRIMARY FUNCTIONS

- Accepts deposit
- Provides loan and advances
- Credit cash

(B) SECONDARY FUNCTIONS

- Discounting bills of exchange
- Overdraft facility
- Purchasing and selling of the securities:
- Locker facilities
- Paying and gathering the credit

TYPES OF COMMERCIAL BANKS:

- Private bank
- Public bank
- Foreign bank

ROLE OF COMMERCIAL BANKS

1. Capital Formation
2. Creation of Credit
3. Channelizing the Funds towards Productive Investment
4. Encouraging Right Type of Industries
5. Banks Monetize Debt
6. Finance to Government
7. Employment Generation
8. Banks Promote Entrepreneurship

OBJECTIVES OF COMMERCIAL BANK

1. To establish as an institution for maximizing profits and to conduct overall economic activities.
2. To collect savings or idle money from the public at a lower rate of interests and lend these public money at a higher rate of interests.
3. To create propensity of savings amongst the people.
4. To motivate people for investing money with a view to bringing solvency in them .
5. To create money against money as an alternative for enhancing supply of money.
6. To build up capital through savings.
7. To expedite investments.
8. To extend services to the customers.
9. To maintain economic stability by means of controlling money market.

10. To extend co-operation and advices to the Govt. on economic issues.
11. To assist the Govt. for trade& business and socio-economic development

UNIT - IV

SOURCES OF REVENUE MEANING

Source of Revenue means a segregation of revenues by source. The primary classification differentiates district, intermediate, State and Federal revenue sources. Revenues from restricted sources would be further classified using the Project/Reporting dimension.

CLASSIFICATION OF TAXES

Broadly taxes are divided into two categories:

1. Direct Taxes
2. Indirect Taxes

DIRECT TAX MEANING

A direct tax can be defined as a tax that is paid directly by an individual or organization to the imposing entity (generally government). A direct tax cannot be shifted to another individual or entity.

DIRECT TAXES IN INDIA

- Fringe Benefit Tax
- Minimum Alternate Tax
- Alternate Minimum Tax

FEATURES OF DIRECT TAX:

- In this case, the individual who is subject to the tax is also responsible for paying it.
- Direct tax has the distinct advantage that the tax burden is carried by the taxpayer.
- The amount of tax due and the deadline for payment are both certain. Therefore, the taxpayer is aware of how much and when to pay their taxes.
- The nature of direct tax is flexible. The tax rate may be altered (increased or decreased) at any time by the authority or government.
- The tax rates rise in accordance with the rise in the income of the taxpayer.

ADVANTAGES OF DIRECT TAXES

- **Progressivity**: Direct taxes ensure equity in the tax system, where those with higher incomes pay more.
- **Certainty**: The amount of tax is predetermined and cannot be shifted.
- **Economic effect**: Direct taxes can be an instrument to control inflation and other economic issues.

DISADVANTAGES OF DIRECT TAXES

- **Evasion**: Due to self-assessment, evasion becomes a possibility.
- **Administrative hurdles**: The cost of collection might surpass the tax itself.
- **Possible disincentives:** Higher rates might deter individuals from earning or disclosing full income

IMPORTANCE OF DIRECT TAX

- These taxes can maintain an economic and social balance because the taxes are applied according to a taxpayer's income.
- Taxes also help restrain rising inflation by reducing demand for goods and services.
- With an increasing workforce, the inflow of direct taxes also increases, thus generating more revenue for the government.
- These taxes enforce the equal distribution of wealth because people with high resources are required to make high contributions which are utilised to uplift the underprivileged sections of society.
- These taxes also enforce transparency as they are directly paid by the taxpayer to the government and thus play an essential role in the economy.

INDIRECT TAX MEANING

The term indirect tax has more than one meaning. In the colloquial sense, an indirect tax such as sales tax, a specific tax, value-added tax (VAT), or goods and services tax (GST) is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer).

INDIRECT TAXES IN INDIA

- Production of goods: Excise or CenVAT
- Distribution of goods: Sales Tax
- Production and Distribution of services (because they can't be separated):
- Service Tax

FEATURES OF INDIRECT TAX:

- Tax payment responsibilities may be transferred.
- This implies that the tax is paid first by producers, retailers, or service providers.
- After that, they collect it from their client.
- The taxable product is always a finished good or service, and the taxpayer is always the main consumer.
- Indirect taxes encourage people to invest and save money, which helps the economy thrive.
- This tax cannot be avoided because it is included in the product's market price

ADVANTAGES OF INDIRECT TAXES

- **Broad-based**: Everyone contributes, ensuring widespread collection.
- **Difficult to evade**: Evasion is hard since it's collected at the point of sale.
- **Flexibility**: Rates can be adjusted based on product types, like luxury vs. essentials.

DISADVANTAGES OF INDIRECT TAXES

- **Regressive nature**: Might take a larger percentage from low-income individuals.
- **Cascading effect:** Can lead to tax on tax without mechanisms like input tax credits.
- **Complexity:** While types of direct tax are straightforward, indirect taxes can have multiple rates, making them confusing.

GST (Goods and Services Tax) MEANING

The Goods and Services Tax (GST) is a value-added tax to be implemented in India, the decision on which is pending. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments.

ADVANTAGES OF GST

- GST eliminates the cascading effect of tax
- Higher threshold for registration
- Composition scheme for small businesses
- Simple and easy online procedure
- The number of compliances is lesser
- Special treatment for e-Commerce operators
- Improved efficiency of logistics
- Unorganised sector is regulated under GST

LIMITATIONS OF GST

- Increased costs due to software purchase
- Not being GST-compliant can attract penalties
- GST brought about a rise in operational costs
- GST came into effect in the middle of the financial year
- Adapting to a complete online taxation system
- SMEs have a higher tax burden

VAT MEANING

Value-Added Tax (VAT), also known as a goods and services tax (GST) in some countries, it is a form of tax that is assessed incrementally. It is levied on the actual transaction value of a product or service at each stage of production, distribution, or sale to the end consumer

FEATURES OF VAT

- State-Level Administration
- Rate System
- Comprehensive Coverage
- Self-Assessment
- Credit System
- Centralised Registration
- E-Filing
- Supports Small Businesses

BENEFITS OF VAT

- **Facilitates trade:** The promotion of trade is facilitated through the implementation of uniform rates. Additionally, self-assessment procedures aim to reduce the necessity for taxpayers to visit tax departments physically.
- **Government efficiency**: Producers' self-assessment reduces the resources required by the government, allowing the revenue department to prioritise collection over administrative tasks.
- **Customer savings:** By eliminating tax-on-tax, the end-users pay lower prices for products and services, resulting in customer savings. This approach ensures that customers can save money.

REDEMPTION OF DEBENTURES MEANING

- It means repayment of the number of debentures to the debenture holders.
- Debentures can be redeemed either at par or at a premium.
- The terms and conditions of redemption are usually given in the prospectus inviting applications for the issue of debentures.

METHODS OF REDEMPTION OF DEBENTURES

1. Payment in lump sum
2. Payment in instalments
3. Purchase in the open market
4. By conversion into shares or new debentures

TYPES OF REDEMPTION OF DEBENTURES

- Secured Debentures
- Convertible Debentures
- Unsecured Debentures
- Registered Debentures
- Non-convertible Debentures
- Bearer Debentures

CLASSIFICATION OF REDEMPTION OF DEBENTURES

1. Based on tenure or redemption
2. Based on convertibility
3. Based on security
4. Based on transferability
5. Based on interest rate
6. Based on mode of redemption
7. Based on coupon rate

FISCAL POLICY MEANING

Fiscal policy is a means to use government spending and taxation to influence the economic situation.

OBJECTIVES OF FISCAL POLICY

1. Higher Economic Growth
2. Price Stability
3. Reduction in Inequality
4. Consumption Control – This way, the ratio of savings to income is raised.
5. Raising the rate of investment.
6. Taxation, infrastructure development.
7. Imposition of progressive taxes.
8. Exemption from the taxes provided to the vulnerable classes.
9. Heavy taxation on luxury goods.
10. Discouraging unearned income.

COMPONENTS OF FISCAL POLICY

1. Government Receipts
2. Government Expenditure
3. Public Debt

TYPES OF FISCAL POLICY

There are three types of fiscal policy .They are neutral policy, expansionary policy,and contractionary policy.

INSTRUMENTS OF FISCAL POLICY

- Public Expenditure
- Taxation
- Public Borrowing which includes price control, wages, and production

COMPONENTS OF FISCAL POLICY

1. Government Receipts
2. Government Expenditures
3. Public Accounts of India

BUDGET MEANING

The government budget is an annual fiscal statement depicting the revenues and expenditures for a financial year that is often moved by the legislature, sanctioned by the Chief Executive or President, and given by the Finance Minister to the country. The budget is also known as the Annual Financial Statement of the nation.

COMPONENTS OF BUDGET

- There is an obligation to have two accounts that are associated with the current financial year and are incorporated in the revenue account which is also known as revenue budget.
- Those that concern the assets and liabilities of the government into the capital account are known as the capital budget.
- In order to comprehend the accounts, it is significant to understand the aims of the government budget.

ELEMENTS OF BUDGETS

Budget receipts: It refers to the estimated receipts of the government from all the sources during a fiscal year. It is of two types.

1. Capital receipts
2. Revenue receipts

Budget expenditure: It refers to the estimated expenditure of the government on various developmental as well as non-developmental programs during a fiscal year. It is of two types.

1. Capital expenditure
2. Revenue expenditure

TYPES OF BUDGET

- Strategic plan budget
- Cash budget
- Master budget
- Labor budget
- Capital budget
- Financial budget,
- Operating budget.

UNIT - V

POVERTY MEANING

Poverty is a contentious issue that affects the Indian population to this day. Even more, so is that fact in the identification and estimation of those afflicted by poverty. Different countries have their own definition of poverty, and since poverty is a broad concept, some of these definitions will vary from nation to nation.

DEFINITION OF POVERTY

The World Bank (1990) has defined poverty as 'the inability to attain a minimal standard of living'.

The Dandekar (1981) 'want of adequate income, howsoever defined is poverty' Thus, lack of adequate income to buy the basic goods for subsistence living is an important element in the definitions of poverty.

IMPORTANT TO IDENTIFY POVERTY

- To Measure the Impact of Welfare Schemes
- It’s a Constitutional Requirement
- Its a part of a Poverty Elimination of Plan

TYPES OF POVERTY

1. Absolute poverty and Relative poverty
2. Temporary or chronic poverty
3. Primary Poverty and Secondary Poverty
4. Rural Poverty and Urban Poverty

CAUSES OF POVERTY

- Unemployment and underemployment:
- Population pressures
- Indian agriculture is marked by low productivity.

CONCEPT OF POVERTY

Human poverty is a concept that goes beyond the limited view of poverty due to lack of income. It refers to the denial of political, social and economic opportunities to an individual to maintain a reasonable standard of living Illiteracy, lack of job opportunities, lack of access to proper healthcare and sanitation, caste and gender discrimination, etc. are all components of human poverty.

UNEMPLOYMENT MEANING

- Unemployment is a situation when a person actively searches for a job and is unable to find work.

- Unemployment indicates the health of the economy.
- The unemployment rate is the most frequent measure of unemployment.
- The unemployment rate is the number of people unemployed divided by the working population or people working under labour force.

FORMULA : Unemployment rate = (Unemployed Workers / Total labour force) × 100

UNEMPLOYMENT APPROACHES

1. Daily Status Approach:
2. Weekly Status Approach:
3. Usual Status Approach

TYPES OF UNEMPLOYMENT

- Disguised Unemployment
- Structural Unemployment
- Seasonal Unemployment
- Vulnerable Unemployment
- Technological Unemployment
- Cyclical Unemployment
- Frictional Unemployment

CAUSES OF UNEMPLOYMENT

- There are a number of reasons for unemployment.
- These include recessions, depressions, technological improvements, job outsourcing, and voluntarily leaving one job to find another

IMPACT OF UNEMPLOYMENT

1. Difficulty finding a new job
2. Limited negotiating power
3. Employment gaps
4. Physical health issues
5. Mental health issues
6. Less overall Satisfaction

INFLATION MEANING

In economics, inflation (or less frequently, price inflation) is a general rise in the price level of an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services; consequently, inflation reflects a reduction in the purchasing power per unit of money – a loss of real value in the medium of exchange and unit of account within the economy

MEASUREMENT OF INFLATION

1. An upward surge in WPI indicates inflationary pressure in the economy.
2. The base year is taken 2011-12 in India.
3. Major components of WPI are primary articles subdivided into Food Articles and Non-Food Articles.
4. Other components: Fuel & Power, Manufactured Goods like Textiles, apparel, Metals, Sugar, Oils, and more.
5. The monthly WPI shows average price changes of goods, usually expressed in ratios or percentages.
6. However, it does not include services such as the health, IT, Education, transport and unorganized sector, etc

EFFECTS OF INFLATION

- Some group faces losses while the other group faces gains.
- The demand decreases, which hampers production.
- Imports increase and export decrease for other countries that directly impact the forex service.
- Sudden inflation rates are harmful to the overall economy. It causes instability in the market that makes it difficult for the companies to plan their long-term budget.

TYPES OF INFLATION

1. **Currency inflation:** It is caused by the printing of currency notes.
2. **Credit inflation**: This happens when credit expansion leads to a rise in the price level.
3. **Deficit-induced inflation:** It happens when expenditure exceeds the revenue, and the government can ask RBI to print money to meet the budget deficit.
4. **Demand-Pull inflation:** It happens when an increase in aggregate demand over the available output leads to a rise in the price level.
5. **Cost-push inflation:** This may arise from the overall increase in the cost of production.

CAUSES OF INFLATION

- Demand-pull factors
- Cost-push factors
- Built-in
- Monetary inflation

POPULATION EXPLOSION MEANING

A rapid increase in the population is known as a population explosion.

The two causes of population explosion are:

- Increase in the birth rate.
- Decrease in the death rate.

An increase in population is directly related to the birth rate. The population in India is rising at a considerable speed, which results in various problems, including social, economic and environmental.

EFFECTS OF INCREASING POPULATION EXPLOSION

- Increase in slum areas.
- Rise in unemployment and underemployment.
- Eradicating poverty and hunger becomes more difficult.
- Providing better health and education facilities becomes more difficult.
- This can lead to less availability of land, water, food and other necessary resources.
- An increase in population may lead to the unavailability of food grains due to the excessive demands of people.
- Overexploitation of water and other natural resources results in no scope of replenishment, which is a recipe for a natural disaster.
- Increasing population increases air and water pollution, leading to an increase in diseases, which ultimately leads to a rise in expenditure on healthcare.

MEASURE TO CONTROL POPULATION EXPLOSION

The direct method includes:

- Focus on family planning measures.
- Providing free education and advice to the people.
- Strictly follow the minimum age criteria of marriage.

The indirect method includes:

- Literacy.
- Female empowerment.
- Improvement in quality of life.
- Positive attitudes towards women’s rights in sexual relationships.

CAUSES OF POPULATION EXPLOSION

1. High Birth Rate
2. Low Death Rate
3. Early Marriage
4. Social and Religious reasons
5. Poverty
6. Standard of living
7. Illiteracy

POPULATION EXPLOSION AS ECONOMIC OBSTACLES

(1) Food Shortage
(2) Burden of unproductive Consumers

(3) Reduction in National and Per Capita Income
(4) Low savings and investment
(5) Reduction in Capital Formation
(6) Unemployment and Underemployment
(7) Loss of Women's Labour
(8) Low Labour efficiency
(9) More Expenditure on Social Welfare Programmes
(10) Agricultural Backwardness
(11) Underdeveloped Industries

ENVIRONMENTAL POLLUTION

When there is an undesirable change in the surrounding that has harmful effects on plants and animals, it leads to environmental pollution. A pollutant is a substance that causes pollution
The different types of pollution include:

- Air pollution
- Water pollution
- Soil pollution
- Radioactive pollution
- Noise pollution
- Air pollution refers to the release of harmful contaminants (chemicals, toxic gases, particulates, biological molecules, etc.) into the earth's atmosphere
- Water pollution is said to occur when toxic pollutants and particulate matter are introduced into water bodies such as lakes, rivers and seas
- Soil pollution, also called soil contamination, refers to the degradation of land due to the presence of chemicals or other man-made substances in the soil
- Noise pollution refers to the excessive amount of noise in the surrounding that disrupts the natural balance. Usually, it is man-made, though certain natural calamities like volcanoes can contribute to noise pollution.
- Radioactive pollution is the pollution caused by the release of radioactive substances in the atmosphere during activities such as nuclear explosions, mining of radioactive ores, etc.

ENVIRONMENTAL POLLUTION CAUSES – ACCORDING TO ORIGIN:

- **Natural Pollutants:** For example – Ash, combustion gases, salt spray, soot, sulfur dioxide, and so on.
- **Man-made Pollutants:** For example – Carbon Monoxide (CO), Lead (Pb), Nitrogen Dioxide, Ozone (O3), Particulate Matter (PM), and more.
- **According to the nature of disposal:** Biodegradable Pollutants: For example – Agriculture residues, cloth, food waste, fecal matter, green waste, human waste, paper waste, sewage, vegetable stuff, etc.

- **Non-biodegradable Pollutants:** For example – Arsenic, DDT, plastics, polythene bags, mercury, metal pieces such as aluminum cans, glass objects, iron products, silver foils, synthetic fibers, and so on.

EFFECTS OF ENVIRONMENTAL POLLUTION

- Air pollution can cause asthma, heart attacks, and other respiratory difficulties.
- Air pollution can also lead to global warming, acid rain, and depletion of the ozone layer.
- The environmental pollution of water can destroy aquatic life and even cause diseases like typhoid and Jaundice when consumed by humans.
- Contaminated water has negligibly dissolved oxygen (DO) and hence becomes unfit for drinking.
- Soil or land pollution can disrupt the life of microorganisms underground and affect the quality of plants grown.

CONTROL MEASURES OF ENVIRONMENTAL POLLUTION

- Plastic use should be prohibited as the environment takes years to decompose plastic.
- Unnecessary usage of indoor and outdoor lights should be avoided.
- Crackers should be banned as they pollute the environment to a large extent.
- Environmental Pollution can be controlled by using reusable materials that should be promoted aggressively and recycled for future use.
- More and more individuals should prefer public transport as it uses less gas and energy.
- Fans should be used more than air conditioners as it operates with less energy and electricity.

QUESTION AND ANSWERS

1. Define Micro Ecnomics

The study of what is likely to happen (tendencies) when individuals make choices in response to changes in incentives, prices, resources, and/or methods of production.

2. What is called utility?

In economics, utility is a term used to determine the worth or value of a good or service. More specifically, utility is the total satisfaction or benefit derived from consuming a good or service.

3. What is the definition of money?

A medium of exchange that is centralized, generally accepted, recognized, and facilitates transactions of goods and services, is known as money.

4. What do you mean by marginal cost?

The marginal cost refers to the increase in production costs generated by the production of additional product units. It is also known as the marginal cost of production.

5. Define GNP.

Gross national product (GNP) refers to the total value of all the goods and services produced by the residents and businesses of a country, irrespective of the location of production.

6. What do you mean by Disposable income ?

Disposable income or disposable personal income is an economic term for the money that is available for household consumption, savings, and spending after accounting for income tax.

7. What is the barter system?

Barter is an alternative method of trading where goods and services are exchanged directly for one another without using money as an intermediary.

8. What is the definition of money?

A medium of exchange that is centralized, generally accepted, recognized, and facilitates transactions of goods and services, is known as money

9. What is the abbreviation for GST?

Goods and Services Tax (GST)

10. What is the abbreviation of VAT?

Value added tax

11. What do you mean by budget..?

Statement of estimated expenditures and receipts of the government in India for a financial year is called budget.

12. Define the term poverty Line

Statement of estimated expenditures and receipts of the government in India for a financial years called budget.

13. Write the meaning of elasticity of demand.

The price elasticity of demand is the percentage change in the quantity demanded of a good or service by the percentage change in the price.

14. What is Average Cost..?

Average cost refers to the per-unit cost of production, which is calculated by dividing the total cost of production by the total number of units produced.

15. What Is Per Capita Income?

Per capita income is a measure of the amount of money earned per person in a nation or geographic region.

16. What is induced investment..?

This refers to the monies or other non monetary benefits your bank/investment firms receives from another company when providing an investment service in relation to a particular financial instrument to their customers

17. What is Monetary policy..?

Monetary policy is a set of actions to control a nation's overall money supply and achieve economic growth. Monetary policy strategies include revising interest rates and changing bank reserve requirements.

18. Give the meaning of Dept Redemption.

Redemption of Public Debt is defined as a process of repayment of public debt. The government needs to redeem its debts regularly to increase the confidence of lenders and save the government from bankruptcy

19. What is GST? Or Define

GST, or Goods and Services Tax, is an indirect tax imposed on the supply of goods and services. It is a multi-stage, destination-oriented tax imposed on every value addition, replacing multiple indirect taxes, including VAT, excise duty, service taxes, etc

20. Define Poverty

Poverty is about not having enough money to meet basic needs including food, clothing and shelter. However, poverty is more, much more than just not having enough money. The World Bank Organization describes poverty in this way: “Poverty is hunger. Poverty is lack of shelter

21. What do you mean by population explosion..?

The rapid and dramatic rise in population of an area is termed as population explosion. The combination of factors like high birth rate and the low death rate is responsible for the population explosion