

14. Economic Concepts and Planning

Very Short Answer

1. Question

Define national income.

Answer

National income is the total money value of all the goods and services produced in a country during one financial year. It includes only the economic activities that can be valued at economic prices such as production by farmers, firms in different industrial sectors, production of goods and services by government, services produced by business intermediaries (Wholesalers and retailers), banks and other financial institutions, educational institutes and professionals like doctors, teachers, lawyers, etc.

2. Question

Define gross domestic product.

Answer

Gross domestic product or GDP is the addition to the total money value of all the finished products in a country during one financial year. It expresses the worth of the output only in terms of local currency. It is mostly calculated on an annual basis but can also be calculated on a quarterly basis.

3. Question

When was the National Income Committee formed to calculate national income?

Answer

National Income Committee was formed in 1949 by the government of the country. The chairperson was Prof. P.C. Mahalanobis and had Prof D.R. Gadgil and Dr. V.K.R.V. Rao as members . It presented its first report in 1951, according to which the national Income of India for 1948-49 was Rs. 8,710 crore and the per capita income was Rs. 225.

4. Question

Who currently works in the calculation of national income in India?

Answer

Central Statistical Organisation calculates the national income of the country since 1955. It coordinates the statistical activities in the country and evolves

statistical standards.

5. Question

How many Sectors have been classified in the economy? Write a name.

Answer

Central Statistical Organisation has divided the economy into 3 sectors.

1. Primary sector - Agriculture, forestry, fishing, etc
2. Secondary sector - Manufacturing, power generation, etc
3. Tertiary sector - Transport, communication, trade, etc

6. Question

Write the names of the three services to be included in the tertiary sector.

Answer

Tertiary sector includes banking insurance, computer software and transport.

7. Question

Explain the meaning of economic developments.

Answer

Economic development is a situation characterised by the shift of the economy from a lower income group of people to a higher income group of people, thereby, improving the standard of living of the citizens. It is a broader concept than economic growth as it contains more parameters in it. There are many methods to calculate the level of economic development. One such popular method is the Human Development Index or HDI which calculates it on the basis of life expectancy, birth rate, death rate, literacy ratio, sex ratio, etc.

8. Question

Write the names of the book of Shri M. Visvesvaraya.

Answer

Sir Mokshagundam Vishweshvaraya was the 19th Governor of Mysore. He was an eminent scholar and politician. He had written many books such as reconstructing India, the Planned economy of India, Memories of my working life, Unemployment in India; its causes and cure and Speeches.

9. Question

Which five-year plan was terminated prematurely?

Answer

Five-year plans are carefully integrated and processed plans for the national welfare of the country. They are devised by the Planning Commission for a period of 5 years. The fifth five-year plan was terminated prematurely.

10. Question

Who is the Chairman of the Policy Commission?

Answer

The Planning commission was replaced by NITI AAYOG in 2018. The chairman is Mr. Narendra Modi. Mr. Rajiv Kumar and Mr. Amitabh Kant are deputy chairman and CEO respectively.

Short Answer

1. Question

Why should National Income be calculated? Give any three reasons.

Answer

National income is the total money value of all the goods and services produced in a country during one financial year. It includes only the economic activities that can be valued at economic prices. Such as production by farmers, firms in different industrial sectors, production of goods and services by government, services produced by business intermediaries (Wholesalers and retailers), banks and other financial institutions, educational institutes and professionals like doctors, teachers, lawyers, etc. It should be calculated for the following reasons :

1. National income estimate is important for short-term and long-term planning. It is not possible to make future plans without having any prior knowledge of the past trends of the national income in the country.
2. It helps to know the clear structure of the country. The composition of each sector and its contribution can be easily determined.
3. It helps to compare the standards of living of people in different countries and of people living in the same country at different times.

2. Question

Who first calculated the national income in India? When?

Answer

Dadabhai Naoroji first attempted to calculate the national income in 1868. However, they had no scientific evidence of its own.

3. Question

Write the names of the three scholars who calculate national income before independence.

Answer

In the pre Independence era, several estimates of national income were made by Dadabhai Naoroji (1868), V.K.R.V. Rao (1925-29) and R.C. Desai (1931-40). Among these, the estimates of Naoroji have computed the value of the output raised by the agricultural sector and then added some portion of the income earned by the non-agricultural sector. But these estimates have no scientific basis of its own.

4. Question

Explain the concept of per capita income.

Answer

1. Per capita income is the average income earned by a person in a particular city/ area or country in one financial year.
2. It is used as a means to measure the quality of life in an area.
3. It is calculated by dividing the total national income of a country by the total number of people living in that country.
4. It is reported in terms of a unit of currency, usually a widely known international currency like Euro or Dollar.
5. It reflects the gross national product of the country.
6. It is used as a measure to compare the wealth among countries.

5. Question

Explain the growing importance of tertiary sectors in India?

Answer

Tertiary sector is one of the three sectors of the economy, the other two are the primary sector and the secondary sector. It provides services (intangible). The main focus is the deal with customers and not producing physical products. It includes many services such as banking, transport, communication, trade, etc. It is one of the growing sectors in India due to the following reasons :

1. India is a developing country, and in this level, it is extremely important to have a well-developed system of education and health in the country, provided by this country. It is the responsibility of the government to provide such services.
2. It helps to create a large number of employment opportunities in different areas.
3. The growth of this sector is also required for the efficient and smooth working of the primary and secondary sector.

4. With the increase in income, especially in urban areas, the demand for certain services such as professional training, communication, tourism, etc arises.

Thus, the tertiary sector is extremely crucial for India's growth.

6. Question

Explain the concept of economic growth.

Answer

1. Economic growth is the increase in an economy's real national income or gross national product (GNP) over a period of time.
2. According to Simon Kuznet, 'the capacity to sustain rapidly increasing numbers at the same or only slightly lower levels of living, in and of itself, can be viewed as economic growth'.
3. It is measured by using data on GDP, which is a measure of the total income earned by the people of a country through their participation in the production process.
4. The factors that determine the economic growth of a country are its population, size, natural resources, economic policies, etc.

7. Question

How is the concept of economic development more comprehensive than the concept of economic growth?

Answer

Economic growth is the increase in an economy's real national income or gross national product (GNP) over a period of time. It is often contrasted with economic development which is the situation characterised by the shift of the economy from a lower income group of people to a higher income group of people, thereby, improving the standard of living of the citizens. Economic development is a more comprehensive concept than economic growth because of the following reasons: 1. Economic development is a broader concept and a longer-term process than economic growth. 2. Economic growth comprises the increase in indicators like per capita income and Gross Domestic Product. Economic development has indicators like life expectancy rate, literacy rate infant mortality rate, etc.

3. Economic development is measured by the upward Movement in real national income, but the economic growth is measured by the upward Movement in the national income.
4. Economic development is a continuous process, but the economic growth is a process for changes only in a certain time frame.
5. Economic growth has quantitative changes only. Economic development has both quantitative and qualitative changes.

8. Question

Explain the concept of economic planning?

Answer

Economic Planning is an organised and coordinated effort to achieve certain objectives within a fixed time frame through optimum utilisation of the community's resources. It has 10 major objectives:

1. The main objective is to achieve the goal of economic development which is important for a developing country, like India. It can help to solve the issue of poverty, unemployment, etc.
2. Better utilization of human resource and increasing employment opportunities.
3. To ensure stability; to avoid any structural imbalance in the country.
4. To become self-sufficient in terms of food grains and industrial raw material.
5. To promote labour welfare, economic development of backward classes and the social welfare of the poor people.
6. To ensure regional development in a balanced manner
7. All round development of the economy
8. To bridge the income inequality gap between the richer and poor sections of the society
9. To ensure social justice among different classes and regions of the country
10. To increase the standard of living of the people by increasing per capita income, price stability and equal distribution of wealth.

In India, planning is done through the Planning Commission for a period of five years.

9. Question

What are the proposals for pre-independence planning?

Answer

The concept of planning in India can be traced back to the pre-independence era. The idea of planning was widespread after the Great Depression in the agricultural sector. In the year 1934, the first blueprint of India's planning was given by an engineering administrator M. Visvesvaraya. He is considered as the pioneer in talking about planning in India. He had written a book called *Planned Economy for India* in the year 1934. In this book, he has given the idea of the 10-year planning system for the country. He had proposed capital investment of Rs 1,000 crore and ensured a six-fold increase in the industrial output per year. In the year 1938, the Indian National Congress appointed the National Planning Commission to formulate a plan for the economic

development of the country. The main aim was to solve the problem of poverty and unemployment in particular and national Defence and economic regeneration in general. However, this was not successful due to the outbreak of the Second World War. During the 1940s, many plans were proposed. One such plan was the Bombay plan prepared by the Indian capitalists. They had devised a system of economic planning with considerable government intervention. Under this plan, planning and industrialization were synonymous. In 1944, M.N. Roy gave the People's Plan. This idea was inspired by the Soviet planning. It favored a socialist type of society, with the main focus on agriculture and small-scale industries. In the same year, S. N. Agarwal mentioned in his book 'The Gandhian Plan' where he emphasized the expansion of small unit production and agriculture. After Independence, a proper commission for planning was formed.

10. Question

What is the period of the twelfth plan? What goals were kept in this plan?

Answer

The 12th five-year plan was approved on 4th October for the year 2012-2017. The aim of this plan is to achieve a FASTER AND INCLUSIVE GROWTH. The total budget allocated for this plan is 47.7 lakh crore which is 135% more than the previous plan.

This plan has given three scenarios :

Strong, inclusive growth : 8% growth in GDP

Insufficient growth : 6% to 6.5% growth in GDP

The issue in policy : Below 6% growth in GDP

The objectives of this plan are :

1. Reduce poverty
2. Eliminate gender gaps
3. Improve the living conditions of SCs, STs and other minority groups
4. Improve employment conditions
5. Promote regional equality

Apart from this, it has also indicated various indicators such as;

1. Average GDP growth rate of 8%
2. 4% growth rate in agriculture sector
3. Reduce head count poverty by 10%
4. Generate 50 million jobs in the nonfarm sector

5. Eliminate gender and social gap
6. Reduce infant mortality rate to 25 and maternal mortality rate to 100
7. Increase infrastructure investment to 9% of GDP
8. Provide banking services to 90% of households
9. Secondary education for all
10. Bring 5 universities in the top 200 in the world

Long Answer

1. Question

What is the national income? Explain the relationship between national income and national product.

Answer

National income is the total money value of all the goods and services produced in a country during one financial year. It includes only the economic activities that can be valued at economic prices. Such as production by farmers, firms in different industrial sectors, production of goods and services by government, services produced by business intermediaries (Wholesalers and retailers), banks and other financial institutions, educational institutes and professionals like doctors, teachers, lawyers, etc. This is greatly related to the national product. Assume there is a two-sector economy where there is no government. This would imply that there is no imposition of taxes and grant of subsidy. We also assume that there is no concept of depreciation. In such a scenario national income and national product are the same. The four factors of production are land, labour, capital, and entrepreneurship. The income received by different people are obtained because of their contribution to the national production. The sum of all the incomes earned as rent, wage, interest, and profit is the national income. The total value of all the final goods and services produced by all the productive firms in one financial year is called National Product. It can be estimated by multiplying the total output of final goods and services with their prices. So, the total National output in terms of rupees or the value produced is distributed among different factors of production which have contributed to the productivity. Out of this national production, the wages will be paid to those who have sold their labour to the firms. The landowners will receive the rent, and the capitalists will receive the interest. After the payment of wages, rent and interest, the amount that is left is the profit. This is given to the entrepreneur who has this activity and bearing the risk and uncertainty involved. So it is clear that the national product is distributed among the factors of production. the

2. Question

Explain the different areas of the economy in detail.

Answer

Primary sector is the sector that uses natural resources to produce goods. The natural resources play a very important part in this sector. For example, agriculture, fishing, mining, quarrying, forestry, etc are a part of this sector. This is dominant in the underdeveloped countries. It accounts for 17% of India's GDP and gives employment to 51% of the working force. It is a base for all the other sectors in the economy. The other 2 sectors have failed to create enough jobs. Hence most of the people tend to seek employment in this sector. Secondary sector is the sector that transforms 1 physical good into another. This is important because the primary sector is unable to give us all the goods required to make our life comfortable. For example manufacturing, electricity, water supply, etc are included in this. It is also called the manufacturing sector or the industrial sector. It employs about 22% of the workforce with around 26% contribution to the GDP. With globalization and technology led business growth, it had drifted from being a labor-intensive sector to the capital-intensive sector. Although the industrial production has increased 8 fold, the level of jobs available has not shown any significant growth. The tertiary sector is the service sector of the economy. It is extremely important in developed countries. For example, health, trade, transport, etc. It brings more than 60% of GDP while employing less than 27% of the workforce. Although there is a significant increase in the GDP, enough jobs are not provided. This is termed as 'Jobless growth'. The main reasons behind the growth of this sector are :1. With the increase in population, the number of hospitals, schools, banks, tourism facility demands has also increased.2. With the increase in the number of working women, the demand for certain facilities like cook, housekeeper, daycare has increased.3. The development of agriculture and industries have increased the demand for transportation, warehouse, retail, etc. The percentage share of each sector over the years has been given below:

SECTOR	2004-2005	2010-2011	2011-2012
PRIMARY	21.9	16.8	16.1
SECONDARY	25.1	25.6	24.9
TERTIARY	53	57.7	59

3. Question

Along with economic developments, discuss the change in the importance of different sectors of the economy.

Answer

The primary sector is the sector that is related to the extraction and production of natural resources. Such as agriculture, forestry, animal husbandry etc. Secondary sector is related to the processing of these natural resources such as manufacturing. The tertiary sector is related to the activities that support the other 2 sectors, such as transport, communication, banking, etc. In the initial stages of development, the primary sector is of utmost importance. It was the job sector for a large part of the working population of India. Slowly, and gradually as the country developed there was

a shift of importance from the primary sector to the other sectors. The government took active participation for the improvement of this sector. It introduced the following :1. Consolidation of holdings2. Abolition of zamindari system3, Land ceiling4. Introduction of HYV seeds, pesticides, insecticides5. Better quality of fertilizers and irrigation methods. With all of this, the system improved and more food could be produced. People were now able to take up other activities such as transport, trader, craftsman etc. Factories came into existence and now people could shift from working in farms to these factories. The consumers for these factory-made goods increased. This led to an increase in the importance of the tertiary sector. With further development, the tertiary sector became important. The main reasons behind the growth of this sector are :1. With the increase in population, the number of hospitals, schools, banks, tourism facility demands has also increased.2. With the increase in the number of working women, the demand for certain facilities like cook, housekeeper, daycare has increased.3. The development of agriculture and industries have increased the demand for transportation, warehouse, retail etc

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PRIMARY	21.9	16.8	16.1
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In the past 100 years, there has been a vast change in the shift of importance of sectors from the primary sector the tertiary sector.

4. Question

What were the aims behind adopting the technique of economic planning in India?

Answer

Economic Planning is an organised and coordinated effort to achieve certain objectives within a fixed time frame through optimum utilisation of the community's resources. The main aims of adopting the techniques of economic planning in India are:

1. The main objective of India's planning is economic development. Economic development is extremely important in underdeveloped economies as it can solve the problem of poverty and unemployment. To calculate the economic development in the economy, the government takes into account the total increase in production capacity and consumption. This also includes improving the standard of living of its citizens in terms of education and health.
2. Another objective is to utilise the resources in a better way so that the employment opportunities available to the people can increase. Every plan takes into account this objective to provide millions of people a certain form of employment.
3. The plans also have the objective to become self-sufficient in terms of food grains and industrial raw material. It also focuses on removing the increased dependence on foreign trade by increasing export

trade and developing internal resources.4. Economic stability is also very important. If there are frequent changes in the price level, there would be many types of structural imbalances created in the economy.5. The plans also aim to promote labour welfare, social welfare for the poor and economic development of the backward classes. Development of social services like education, health, technical and vocational education is also given due importance.6. India has faced the issue of imbalance in regional growth. Certain States are economically developed, but others are way behind. For example, Tamil Nadu, Maharashtra, Andhra Pradesh are well-developed States as compared to Uttar Pradesh, Bihar, etc7. The plan also aims at reducing economic inequalities. These are an indicator of social injustice and exploitation in the country. It has made the rich richer and the poor poorer. It has become extremely attend to give appropriate attention to this factor. Certain steps have been taken search as a progressive taxation scheme and reservation of jobs for the backward classes.8. The plan takes into account a comprehensive development for the all-round benefit of the economy.

5. Question

Write an article on the Policy Commission.

Answer

The concept of planning in India can be traced back to the pre-independence era. The idea of planning was widely spread after the Great Depression in the agricultural sector. In the year 1934, the first blueprint of India's planning was given by an engineering administrator M. Visvervaraya. The Planning commission was an Institution of the Government of India which had the responsibility of formulating a five-year plan. The first plan was launched in, 1951. The Planning commission was replaced by NITI AAYOG in 2018. The chairman is Mr. Narendra Modi. Mr Rajiv kumar and Mr Amitabh Kant are deputy chairman and CEO respectively. It is the best platform for all the states to work together in the national interest. It is a revolutionary reform based on collaborative federalism.