16. Challenges before The Indian Economy

Very Short Answer

1. Question

What are the challenges faced by the Indian economy?

Answer

Inflation, poverty, and unemployment are the challenges faced by the Indian Economy. Poverty and unemployment are the twin scissors that affects the growth of the economy. Poverty and unemployment is the prominent socio-economic problem of the Indian economy.

2. Question

Which indices are used for calculating inflations?

Answer

Consumer Price Index (CPI):

Refers to the price index that measures the change occurred in the prices of consumer goods and services purchased by households over a period of time.

Wholesale Price Index (WPI):

Refers to the price index that is used to estimate the average change in the price of goods in the wholesale market. WPI is also known as Producers Price Index (PPI). It is different from CPI as the amount paid by consumers does not come directly to producers.

3. Question

Which Monetary measures are used for calculating inflations?

Answer

The monetary measures are used by the central bank of the country to control the inflation rate. They control the inflation rate by trying to reduce the overall demand of the economy and improve the supply through the availability of credits and interest rates. When the quantity of money is being controlled or reduced, it will reduce the demand and simultaneously the inflation rate.

4. Question

Who presented the latest estimates of poverty in India?

Answer

The latest estimation of the poverty was estimated by the Suresh Tendulkar and C. Rangarajan. They estimated the consumption expenditure on poverty basis. On the basis of Suresh Tendulkar estimates 21.92% of the population in India is poor. On the basis of C Rangarajan estimates 29.5% are under poverty.

5. Question

Explain the concept of absolute poverty.

Answer

Absolute poverty condition is the people who are cannot even meet the basic requirements of life. The idea of absolute poverty is used mainly in under developed nations. In India, the term poverty is used, it implies absolute poverty.

6. Question

Write the name of scholars studying poverty after in dependence.

Answer

V.M Dandekar and Nilkanth Ratha in 1972 defined the criteria of the poverty.

YK Alagh committee in 1979 estimated the effective consumption and demand pattern on the working group.

D.T Ladawala, Suresh Tendulkar and C. Rangarajan estimates were made for 1993-94 and 2004-05.

7. Question

Who firstly made efforts to measure poverty in India and when was this done?

Answer

The first attempt to measure the poverty in India was made by Dada Bhai Naoroji in July 1868. He also popularized the theory of drain of wealth from India.

8. Question

Define labor force.

Answer

The labor force is defined simply as the people who are willing and able to work. The size of the labour force is used to determine the unemployment rate. The percentage of the unemployed in the labour force is called the unemployment rate.

9. Question

What is called hidden unemployment?

Answer

Hidden unemployment refers to people who are jobless, but official unemployment figures do not include them. The term also includes people who are underemployed. Official unemployment figures often only include people with no job but who are actively seeking work.

10. Question

Which type of unemployment is forced more in the agricultural sectors?

Answer

Hidden unemployment and disguised unemployment is more in the agricultural sector. This is a condition where more number of people are employed, but the production of the output remains unchanged, this will lead to the marginal productivity of labour zero or negligible.

11. Question

Which kind of unemployment is more common in developing economies?

Answer

Major developing countries face the problem of unemployment. This unemployment faced due to the technological development in the economy. This type of unemployment is called technical unemployment.

12. Question

Name the body of the organization compiling reliable associations in India.

Answer

National Sample Survey Organization (NSSO) is the reliable resources for the population in India.

Short Answer

1. Question

What is inflation?

Answer

Inflation is the continuous rise in the general price level for the overall goods and services in the economy. Inflation reflects a decrease 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. Inflation affects economies in various positive and negative ways. The negative effects of inflation include an increase in the opportunity cost of holding money, uncertainty over future inflation which may depress investment and savings, and if inflation were rapid enough, shortages of goods as consumers begin hoarding out of concern that prices will increase in the future. Positive effects include dropping unemployment due to nominal wage rigidity. Inflation is used to increase the economic terminology.

To avoid the loss of inflation and its effective control, it is necessary to measure it. Different economies use different indices to measure the inflation rate. There are several types of indices such as whole sale price index, consumer price index and national income deflator in India. Inflation measured by proportional change or percentage change occurring over time in a fixed price index.

2. Question

Explain inflation trends in India after independence.

Answer

The inflation rate in India is measured by the wholesale price index. The inflation rate has been increased to a greater percent after the independence. The average rate of inflation in 1950 was only 1.7%. But in the 1960's it was 6.4%, and it reached 9% in the 1970s. It remained almost 4.7% between 2000-01 and 2011-12. Overall average WPI inflation from 1959-60 to 2010-11 is 6.8 percent (7.65 percent for 1970-71 to 2010-11), and CPI inflation from 1970-71 to 2010-11 is 8.08 percent. However, this average hides significant differences. Some of those key differences are: First, the period from 1994-95 to 2004-05 shows a consistent 10-year decreasing in inflation rates, unlike any other time in history. Second, although inflation has started rising after 2004-05, it still is not close to the pre-1994-95 phase.

3. Question

Explain the fiscal measures of inflations control.

Answer

The fiscal measure is the measures taken by the government to control inflation. The tools used by the government to control inflation are the savings, expenditure, and taxes. The government promotes the savings habit for people in the economy. When the savings increases in the economy then the overall money supply decreases and purchasing power also decrease then the price level starts declining. Next tool is the expenditure; they reduce the expenditure of the economy. This will simultaneously reduce the induced investment in the economy, which will reduce the employment and income rates of the people. Then this will contribute to reducing the inflation in the economy.

Tax is the widely used component by the government. They reduce or increase the tax rate according to the need of the economy. When the economy faces the inflation, then the government reduces the tax rate to reduce the disposable income of the consumer which will reduce the purchasing power. When the spending is reduced, then the inflation can be controlled in the economy.

4. Question

What are the monetary measures of inflation control? Explain.

Answer

The monetary measure is the measure used by the central bank to control the inflation in the economy. This control of inflation is carried by the process of the credit control measures. The central bank is the apex bank in the economy which has the greater power in controlling the inflation. Central bank regulates all the commercial banks and the financial institution which involves in the process of credit creation. The central bank uses the cash reserve ratio, open market operation and many other approaches to control inflation.

The cash reserve ratio is the portion that is to be held with the central bank by the commercial bank. When the economy faces the condition of inflation, then the central bank will increase the ratio that is to be held with the central bank by the commercial bank. Because of increase in the ratio then the portion held in central bank increases. Then lending capacity of the commercial bank decreases simultaneously supply of money in the economy decreases. Hence the inflation is controlled through the credit creation process.

The open market operation is another method used by the commercial bank in which the central sells all the securities in order to reduce the purchasing power of the people in the economy. When the securities are sold then the disposable income of the people decreases, then the purchasing power will also be reduced. Since the purchasing power is reduced, then the inflation can be reduced effectively.

5. Question

Describe the difference between absolute and relative poverty.

Answer

Absolute poverty refers to the state in which an individual cannot afford a basic survival level, i.e. is inadequate in basic necessities of life like food, clothing, and shelter. Since income and food consumption is the most important criterion to check on well being of an individual, they are used to describe what we call as a poverty line.

The poverty line is an entry level that defines individuals living in absolute poverty as the ones living below it. They are the ones who are not capable of meeting basic human needs.

Relative concept is a concept that refers to the occurrence of relative deprivation. It measures the quantity of poverty. It refers to individuals or groups that lack resources when compared with other members of the society they belong to.

There can be cases where people in relative poverty group might be living above survival level, i.e. though such people are able to maintain a basic minimum living standard, but then no way are their conditions good enough in regards to the society they live in.

6. Question

Why are different poverty lines in different countries?

Answer

The minimum basic needs of the different countries are different for the countries. This is because the development that is taking place in the economy. Countries use a variety of poverty line because

a) The calorie requirements of the human are different depending on their physical condition and dietary habits. In the developed countries the condition of the calorie requirement will be higher compared to the under developed and developing countries.

b) The per capita income differs from country to country. That is per capita income in the developed countries will be higher per capita income, and it will be lower in under developed countries.

c) The standard of living differs from countries. Western countries will have a higher standard of living since they are developed than the African countries.

7. Question

Discuss the economic causes of poverty in India.

Answer

India is majorly hit with the cause of the poverty. The main reason for the economic backwardness in the country is poverty. When there is economic backwardness, the economy cannot invest in the education, health and other factors which contribute to the social indicators. It leads to an adverse effect in the economic factors such as:

• <u>Lack of economic growth</u>

The first important reason for mass poverty prevailing in India is lack of adequate economic growth in India. In the first three decades of planned development (1951-81) in India, annual average growth in national income had been 3.6 percent.

• <u>Population</u>

Rapid population growth since 1951 is another significant factor responsible for persisting poverty in India. Population in India has augmented from 36 crores in 1951 to 102.7 crores in 2001, that is, 66 crores people have been added to the Indian population in the last about 50 years since independence. Rapid population growth causes extreme sub-division and disintegration of holdings. As a result, per person, available land has greatly declined so that households do not have access to adequate land to produce enough output and income for them.

• Unemployment

The subsistence of unemployment and under �employment in the Indian economy is another cause of poverty in India. Unemployment prevails more among casual labour whose quantity in labour force has been increasing and in their case unemployment, and poverty go mutually.

8. Question

Explain the estimates of poverty presented by Suresh Tendulkar.

Answer

The report of the Suresh Tendulkar committee on the estimation of poverty in India is bound to connect academics and activists from all sides of the ideological separate in the days to come. The estimate of poverty put forth by the committee is 37.2% for all of India (with 41.8% for rural areas and 25.7% for urban areas). The Tendulkar committee has discarded the calorie-anchored estimates of poverty. All preceding estimates of poverty in India had used the calorie consumption norm of 2,400 calories per day per capita for rural areas and 2,100 calories for urban areas. Data collected by the National Sample Survey (NSS) on actual consumption would then be used, among other things, to correlate the monthly per capita expenditure that was required to meet these calorie norms.

On the basis of Suresh tendulkar estimates 21.92% of the population in India is poor. That is it states that 27 crore people are living below the poverty line.

9. Question

What are the estimates of labour force, work force, and the unemployment rate for the year 2011-12?

Answer

The statistics collected by National Sample Survey Organization (NSSO) and their 68th round in 2011-12 in order to raise the data of the unemployment in the economy. In this estimates it was found that the labour force was 395 per thousand population and the work force as 386 per thousand population. The employment rate was at the normal condition with 2.3%.

Labour force is the number of people who are capable of working in the overall population. Whereas the working population is the actual number of people working in the overall population, both the indices are calculated on per thousand population.

10. Question

What are the losses to a person from unemployment?

Answer

Workers who lose their job face a diversity of hardships while unemployed. But beyond the direct cost of job loss, its connected income loss, workers will tend to make less in their next job as well. Coming from unemployment, a worker is not in a good situation to select their optimal job nor to bargain for high wages once they find a job. A worker unemployed longer will be more anxious to take a bad job that comes along and have an even worse bargaining position in it. Long unemployment durations also may signal unsuccessful attempts to find employment and be an even worse signal than a relatively short unemployment curse.

When unemployment is high, people who have jobs may be more stressed and clichéd than ever. Those that have lost jobs may be feeling miserable and anxious. Though recessions end and unemployment rates will change, it takes more than high hopes to land on your feet after a spell of unemployment.

11. Question

What do you think about frictional unemployment?

Answer

Frictional unemployment is the unemployment that results from time spent between jobs when a worker is penetrating for, or transitioning from one job to another.It is occasionally called search unemployment and can be based on the conditions of the individual. Frictional unemployment exists because both jobs and workers are diverse, and a mismatch can result between the individuality of supply and demand. Such a difference can be related to skills, payment, work time, position, attitude, taste, and a multitude of other factors.

Frictional unemployment is inescapable, but it is usually short-term. It is one of the mechanisms of natural unemployment. It is the buck rate of unemployment in an emergent economy. Unemployment below that level means employers cannot find enough workers to keep produce all they can. It slows economic growth and development.

Long Answer

1. Question

Explain the reasons for inflation in India.

Answer

Inflation is the continuous rise in general price level for the overall goods and services in the economy. Inflation reflects a decrease 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. Inflation affects economies in various positive and negative ways. The negative effects of inflation include an increase in the opportunity cost of holding money, uncertainty over future inflation which may depress investment and savings, and if inflation were rapid enough, shortages of goods as consumers begin hoarding out of concern that prices will increase in the future. Positive effects include dropping unemployment due to nominal wage rigidity. Inflation is used to increase the economic terminology.

Reasons for inflation

• Rise in the money supply of economy

When the money supply increases continuously, then in comparison to the production of goods and services, this will lead to run the currency behind specific items. Then the price level for commodities rises, which will increase the overall demand level than supply level. This will generate the price level in the economy.

• Slow growth in industrial and agricultural sector.

Agricultural and industrial growth in our country has been much below what the targets are being set. Over the four decades period, food grains output has augmented, and that is of 3.2 percent per annum. But there are years of crop breakdown due to droughts. In the years of scarcity of food grains not only the prices of food articles improved, but the general price level also rose.

• High level of government expenditure.

Government expenditure in India during the recent years has been increasing very fast. The disturbances are, the quantity of non-development expenditure increased rapidly, being about 40 percent of total government expenditure. Non-development expenditure does not generate real goods; it only increases purchasing power and hence leads to inflation.

2. Question

Write a detailed article on the losses arising from inflation.

Answer

Inflation reduces the value of the currency in the economy. The value of money means the purchasing power in the economy. Inflation is a decrease in the purchasing power of currency due to a rise in prices across the economy. Inflation requires prices to rise across a "basket" of goods and services, such as the one that includes the most common measure of price changes, the consumer price index (CPI). When the prices of goods that are non-discretionary and impracticable to substitute – food and fuel – rise, they can affect inflation all by themselves.

Due to inflation, there is also a loss in wages and salaries of certain people. Inflation is considered unjust because it reduces the value of saving money and debtor benefits from the inflation because he has to pay lesser currency. High inflation may also lead to higher borrowing costs for businesses and people needing loans and mortgages as financial markets protect themselves against increasing prices and increase the cost of borrowing on diminutive and longer-term debt. There is also stress on the government to increase the value of the state pension and unemployment benefits and other welfare payments as the cost of living climbs higher.

An unsurprising response to declining purchasing power is to buy now, rather than later. For consumers, that means filling up gas tanks, stuffing the freezer, buying shoes in the next size up for the kids, and so on. For businesses, it means making capital investments that, under different circumstances, might be put off until later. Many investors buy gold and other precious metals when inflation takes hold, but these assets' volatility can cancel out the benefits of their insulation from price rises, especially in the short term.

Inflation also affects the rate of economic development, poverty, unemployment, and income and wealth distribution. One risk of higher inflation is that it has a regressive effect on lower-income families and older people in society. This happens when prices for food and domestic utilities such as water and heating rises at a rapid rate.

3. Question

Explain the effort made by various economists to estimate poverty.

Answer

The first attempt to measure the poverty in India was made by Dadabhai Naoroji in July 1868. This estimate of poverty was presented in pre-independence in National Planning Committee. After Independence, Minhas published his estimates of poverty rates in 1950s India as recurring and a tough function of each year's harvest. Minhas disagreed the performance of using calories as the basis for poverty estimation and projected a poverty line based on real expenditure per year (Rs 240 per annum). In 1956-57, a good harvest year, he estimated India's poverty rate to be 65% (215 million people). For 1960, Minhas estimated the poverty to be 59%.

The estimate of poverty in India during the 1960s was diverse widely. Dandekar and Rath, on the behalf of the Indian government, estimated that the poverty rate in 1960s remained normally constant at 41%. Ojha, in contrast, estimated that there were 190 million people (44%) in India below official poverty limit in 1961, and that this below-poverty line number enlarged to 289 million people (70%) in 1967. Bardhan also completed that Indian poverty rates increased through the 1960s, reaching a high of 54%. Those above the 1960s poverty level of Rs 240 per year, were in breakable economic groups as well and not doing well either. Minhas estimated that 95% of India's people lived on Rs 458 per year in 1963-64, while the richest 5% lived on an average of Rs 645 per year.

Another Expert Group was instituted in 1993, chaired by Lakdawala, to scrutinize the poverty line for India. It suggested that regional economic differences are large enough that poverty lines should be calculated for each state. From then on, a standard list of commodities was drawn up and priced in each state of the nation, using 1973–74 as a base year. This basket of goods could then be re-priced each year and comparisons made between regions. The Government of India started using a customized version of this method of calculating the poverty line in India.

The Suresh Tendulkar Committee set up to look into the people living under the poverty line in India submitted its report in November 2009. The report provided a new method of calculating the poverty line based on per capita consumption expenditure per month or day. For rural areas, it was Rs 816 per month or Rs 27 per day. For urban areas, it was Rs 1000 per month or Rs 33 per day. Using this methodology, the population below the poverty line in 2009-2010 was 354 million (29.6% of the population) and that in 2011-2012 was 269 million (21.9% of the population).

The Rangarajan Committee set up to look into the poverty line estimation in India submitted its report in June 2014.It amended the calculation of the poverty line based on per capita consumption expenditure per month or day was given by the Tendulkar Committee.The new poverty is the entry for rural areas was fixed at Rs 972 per month or Rs 32 per day. For urban areas, it was fixed at Rs 1407 per month or Rs 47 per day. Under this methodology, the population below the poverty line in 2009-2010 was 454 million (38.2% of the population) and that in 2011-2012 was 363 million (29.5% of the population).

4. Question

Explain the measures that can be adopted by poverty alleviation.

Answer

Poverty is the main cause of unemployment and backwardness in the Indian economy. Prevention of poverty is very essential for the Indian economy.

Measures

• Promote education

Quality education empowers people to take advantage of opportunities around them. It helps children get knowledge, information and life skills they need to realize their potential. Training teachers, building schools, providing education materials and breaking down that prevent children from accessing education are important features of poverty alleviation programmes. When the education is being increased then the quality of labour will be enhanced, and economic development can be achieved. By increasing health care also, poverty can be removed by enhancing the skills of the poor. Improved health care facility will increase the standard of living also which will contributes to the welfare of the economy.

• Increased employment opportunity.

Unemployment is the main cause of poverty. When there is massive unemployment, the economy will be facing the poverty. They both like twin blade scissors which will contribute to the backwardness of the economy. Increases in employment without increases in productivity leads to a rise in the number of "working poor," which is why some experts are now promoting the creation of "quality" and not "quantity" in labour market policies. This can be removed by employing people where the labour is needed in abundance. For reduction of poverty growth of non-farm employ �ment in the rural areas is of special importance. Non-farm employment is created in marketing (i.e., petty trade), transportation, handicrafts, dairying, and forestry, processing of food and other agricultural products, repair workshops.

• <u>Population control</u>

India is a second most populated country in the world. After the independence, the propagation of the health services decreased rapidly in mortality rate, but the expected improvement did not improve. Due to a massive difference between birth rate and death rate the population increased rapidly in the economy. Due to a greater increase in the population, the wealth distribution process becomes very difficult. The distribution limited wealth to the large volume of people that to with limited resources makes the process very much difficult. Therefore control of the population is very much essential for poverty eradication.

5. Question

Which measures have been taken to reduce unemployment and what other measures can be adopted?

Answer

The problem of unemployment and poverty is so intense that the measures to be taken for their redressal are not separate. There has been a number of attempts made by the government to eradicate th poverty and unemployment in the economy from the last 40 years. Providing employment through the MNREGA has brought significant improvement in the employment condition of the economy.

The Government of India has taken several steps to reduce the unemployment rates like launching the Mahatma Gandhi National Rural Employment Guarantee Scheme which guarantees 100-day employment to an unemployed person in a year. It has implemented it in 200 of the districts, and further will be expanded to 600 districts. In exchange for working under this scheme, the person is paid 150 per day.

Apart from Employment Exchange, the Government of India publishes a weekly newspaper titled Employment News. It comes out every Saturday evening and gives detailed information about vacancies for government jobs across India. Along with the list of vacancies, it also has notifications for various government exams and recruitment procedures for government jobs.

Unlike MNREGA, many self-employment programmes run parallel for the reducing the unemployment of educated and skilled people. Reduction of unemployment to zero percentage is impossible because of the prevalence of the voluntary and frictional unemployment. Due to unemployment, a nation cannot achieve its highest possible level of product, and it gives a part of the production completely, which it could produce by providing employment.

The following measures will be taken by the government to reduce unemployment:

• There is a high level of coordination between the wages and self-employment programs run by the government and minimum leakage in them.

- Education should be made employment oriented and encouraged youth to be self-employed through training and skill development.

- To accelerate the growth rate of industries in order to increase the employment rate in the economy.

- There should be efficient planning in the government's investment schemes and expenditures. The policy should be mostly to increase the employment in the economy.