5 INDIAN ECONOMY

- Since 2007-08, USA and European countries have been facing severe economic crisis, considered to be worst-ever economic crisis since the great depression of the 1930s. Slowdown of these economies caused some troubles for Indian economy initially, as it faced the problem of stagnation of demand especially, export demand. Realty and other sectors of the economy were also affected.
- This resulted in a slowdown of Indian economy and growth of GDP decelerated from an average of 8.8% between 2002-03 and 2007-08 to only 6.7% in 2008-09
- Later, Indian economy showed signs of recovery and achieved 8.6% and 9.3% growth in 2009-10 and 2010-11 respectively. But growth rate once again slided down to only 6.2% in 2011-12 and 5.0% in 2012-13.

1. Characteristics of Indian Economy

Indian Economy became the fourth largest economy of the world as per the latest report of World Bank. However, Indian Economy is still lagging behind in many spheres. In India, in 2011-12, 58.2% of total working populace was engaged in agriculture and allied activities. In 2008, its contribution to national income was 17.5%. This is an indicator of backwardness of the economy. In UK and USA, only 1 and 4% of the working population is engaged in agriculture; in France, the population is about 7%; and in Australia, this is about 6%. It is only in backward and less developed countries that the working population engaged in agriculture is quite high.

After independence, the basic economic structure of the country has become more powerful. In quantitative terms there has been substantial development. The annual growth rate, however was 8.0% during 2008-09.

Main characteristics and various aspects of Indian Economy are :

(i) Agrarian Economy : Even after six-decades of independence, 58.2% of the work force of India is still agriculturist and its contribution to Gross Domestic Product (GDP) in 2011-12 is 14.1%.

(ii) Mixed Economy : Indian Economy is a unique blend of public and private sector, i.e. a mixed economy. In its entire plan period, the government has invested 45% capital in public sector. However major sources and resources of production are still in the hands of private sector (approximately 80%). After liberalisation, Indian Economy is going ahead as a capitalist economy or market economy.

(iii) Developing Economy : The following facts show that Indian Economy is a developing economy :

(a) National income of India is very low on international standards and per capita income ($ 1180 in 2009) is much low in India as compared to other developed countries.

(b) India currently has 260 million people or 26.1% population living below *Poverty Line*.

(c) Level of unemployment is very high. Unemployment in India is mainly structural in nature because the productive capacity is inadequate to create sufficient number of jobs. There is an acute problem of disguised unemployment in the rural areas. *A person is considered employed if he/she works for 273 days of a year for eight hours every day.*

(d) Savings are low in India due to low national income and high consumption expenditure. The low savings results in shortage of capital formation. Capital is an important factor of production.

Note : *There has been lack of capital and resources during the recent years, but here it is gratifying to note that Gross Domestic Saving of India in 2008 had reached a high level of 38.0% and Gross capital formation was 39.7%.*

(e) India is the second most populated country of the world. During 1991-2001, population increased by 21.34%. With this high growth rate of population about 1.7 crore new persons are being added to Indian population every year. According to 2001 census, the total Indian population stands at a high level of 102.7 crore which is 16.7% of the world's total population. To maintain 16.7% of world population India holds only 2.42% of total land area of the world.

(f) India lacks in large industrialisation based on modern and advanced technology, which fails to accelerate the pace of development in the economy.

Important facts relating to characteristics of Indian Economy

- *Primary sector* of Indian Economy is agriculture and the related sectors. The contribution of agriculture sector in GDP in 2008-09 was 18.9%.
- *Secondary sector* of Indian Economy is related to industry, manufacturing, electricity etc. Its contribution to GDP is approximately 23.8%.
- *Tertiary sector* of Indian Economy is related to business, transport, communication and services. Its contribution (the share of services) in GDP is approximately 57.3% in 2008-09.
- The contribution of public sector in the gross production is less than 20%.
- The best indicator of economic development of any country is per capita income.
- During 2000–01 and 2004–05, NNP growth rate accelerated to 6.4% and per capita NNP grow at the rate of 4.7% per annum (at 1999-00 prices). During 2004–05 and 2009–10 further acceleration found in the NNP growth rate to 8.4% and that of per capita income to 6.85% (at 2004–05 prices).

The following factors are important in Economic Development of a developing country :

(1) Natural resources, (2) Capital gain, (3) Skilled labour force, (4) Surplus sale of agriculture, (5) Justified social organisation, (6) Political freedom, (7) Freedom from corruption, (8) Technological knowledge and general education

2. Agriculture and Land Development

- Agriculture is the mainstay of the Indian Economy.
- The share of agricultural sector's capital formation in GDP declined from 1.92% in the early 1990s to 1.28% in early 2000s. This has improved to 2.12% in 2006–07.
- Agriculture and allied sectors contribute nearly 18% of national income (GNI of India), while about 60% of the population is dependent on agriculture for their livelihood.
- The agricultural output, depends on monsoon as nearly 60% of area sown in is dependent on rainfall.
- Land utilisation data is available for 92.9% of total geographical area of 3,287.3 lakh hectares.
- Agriculture accounts only for about 10.6% of the total export earnings in 2009–10.

Share of Agricultural Sector in Total Gross Domestic Product

(At 1999-00 prices, in percentage terms)

Year	Agriculture*
1950-51	56.5
1970-71	45.9
1990-91	34.0
2007-08	17.8
2008–09 (Q) (2004–05 Prices)	15.7
2009–10 (R) (2004–05 Prices)	14.6

* *Agriculture includes agriculture, forestry and fishing.*

(Source : Economic Survey 2007-08, Statistical Abstract of India 2008. CSO, National Accounts Statistics, 2010, (2004–05 prices)).

- Figures provided by the Central Statistical Organisation reveal that between 1950-51 to 1960-61, the share of agriculture in GDP has been in the range of 55 to 52%. The share of agriculture indicated a sharp decline and reached a level of 14.6% in 2009-10.
- Importance of agriculture in the national economy is indicated by many facts, e.g.– agriculture is the main support for India's transport systems, secure bulk of their business from the movement of agricultural goods. Internal trade is mostly in agricultural products.
- Agricultural growth has direct impact on poverty eradication. It is also an important factor in containing inflation raising agricultural wages and employment generation.
- But, since 2002–03, Indian agricultural sector is almost going through a crisis—huge food grains surplus wiped out, large imports of wheat being planned and farmers' suicides more frequent all over the country.
- Besides, the allied sectors like horticulture, animal husbandry, dairy and fisheries have an important role in improving the over all economic conditions and nutrition of the rural masses.

- To maintain the ecological balance, there is need for sustainable and balanced development of both agriculture and the allied sectors.
- The *TenthPlan*assertsemphaticallythattheagriculturalsectoractsasabul-workinmaintainingfoodsecurityand,intheprocess,nationalsecurityas well.
- Agricultural growth rate achieved in 9th Plan was 2.1%, while the target for the 10th Plan (2002-07) was 4% and for 11th plan (2007–12) is also 4%.
- Commercial crops are those crops which are produced for trade purpose and not for self consumption by the farmers. It includes - Oilseeds crops, Sugar crops, Fibre crops, Narcotic crops, Beverage crops.
- To encourage the agricultural products, the government announces to minimum support price for important agricultural crops.
- The function of Agriculture Cost and Price Commission (ACPC) is to decide the minimum support prices on behalf of the government.
- Minimum Support Price (MSP) announced by the government is that price at which government is ready to purchase the crop from the farmers directly, if crop price falls below the MSP.
- For providing facilities relating to storage of agriculture products, "National Co-operative Development and Warehousing Board" was established in 1956 and "Central Warehousing Corporation" was established in 1957. Thereafter in states also the State Warehousing Corporation were established.
- The programme of High Yielding Variety Seeds was combined with a guiding project I.A.D.P. and a target was set to extend this system of development in entire country.
- The credit of green revolution in India is given to the Agriculture Scientist Dr. Norman Borlaug. However, the contribution of Dr. M.S. Swaminathan is not less. But, its termed name is the contribution of American scinentific Dr. William Gande.
- Due to horrible famine during 1965-66 and 1966-67, the government implemented the new agriculture policy of high yielding seeds so as to increase agriculture production.
- India is the largest milk producing country in the world.
- There is significant increase in the milk production to the level of 108.5 million tonnes in the year 2008-09 as compared to 53.9 million tonnes in 1990–91.
- Speedy increase in the field of milk production is called White Revolution.
- To increase the pace of White Revolution, the Operation Flood was started.
- In milk production of the country the share of Buffalo, Cow and Goat is 50%, 46% and 45% respectively.
- The Father of Operation Flood was Dr. Verghese Kurien.
- The *Operation Flood* was the largest integrated dairy development programme of the world. It was started by National Dairy Development Board in 1970.

- The increase in oil seeds production was due to "Yellow Revolution".
- The progress in increase of fish production was called "Blue Revolution".
- Assam is the biggest tea producer in the country.
- India ranks sixth in world coffee production and contributes only 4% of world coffee production.
- Cuba is known as the *Sugar Bowl of the world.* Here, sugar is made of Beetroot.
- India holds first position in the world in the production of sugar-cane and sugar.
- The importance of agriculture in the industrial sector is not only for supply of raw material, but it provides foodgrains for the people working in that sector and market for industrial products.

Agricultural Production

- Indian agriculture still depends upon monsoon.
- Agricultural production can be divided into two parts – Foodgrains and Non-foodgrains, in which the share of foodgrains is two-third and non-foodgrains is one-third.

Pattern of Government Outlay on Agriculture in the Plans

Five Year Plans	Total Plan Outlay	Outlay on Agriculture and Irrigation	Per cent of total outlay
First Plan (1951-56)	1,960	600	31
Second Plan (1956-61)	4,600	950	20
Third Plan (1961-66)	8,600	1,750	21
Fourth Plan (1969-74)	15,780	3,670	23
Fifth Plan (1974-79)	39,430	8,740	22
Sixth Plan (1980-85)	1,09,290	26,130	24
Seventh Plan (1985-90)	2,18,730	48,100	22
Eighth Plan (1992-97)	4,85,460	1,02,730	21
Ninth Plan (1997-2002)	8,59,200	1,76,217	20.5
Tenth Plan (2002-07)	15,25,639	3,05,055	20
Eleventh Plan (2007-12)	36,44,718	6,74,105	18.5

Note : 1. *Agricultural sector is composed of agriculture and allied activities rural development, special area programmes and irrigation and flood controls.*

2. *Tenth and Eleventh Plan figures are at 2006-07 prices.*

Source : *Various Five-Year Plan Documents (Courtsey : Indian Economy)*

- The percentage of plan outlay on agriculture and allied sectors to total plan outlay varied between 31% and 14.9% from the First Plan to Tenth Plan.
- Actual outlay on the agricultural sector ranged between 18 and 24% of the total Plan outlay (except during the First Plan, it was as high as 31%).

> During Eleventh Plan (2007–12) the plan outlay on agriculture has declined to only 18.5%.

Foodgrains Production

This was at a record high of 259.32 million tonnes in 2011-12 in India.

> During the first decade of planning (1951-61) when the First and Second Five Year Plans were implemented, the annual rate of growth in agriculture was 3.3%.

> During the next two decades of planning in 1961-81, despite spectacular progress achieved under the new agricultural strategy and IADP and HYVP, the overall progress in agriculture was dismal; the annual average rate of growth declined to 2.2% and 1.7% respectively, mainly because of bad weather and poor monsoon conditions.

> The growth rate in the 1980's was highly respectable (3.9%).

> *The Tenth Plan* had fixed a target rate of growth of 4% in agriculture to achieve 8% rate of growth in GDP.

> During *the Eleventh Plan* also, the Planning Commission has fixed the target of 4% rate of growth in agriculture.

> The Tenth Plan was the first plan which did not fix targets of crop production.

> Actual production of rice ranged between 82 and 93 million tonnes in between 1997 and 2007.

> The production of wheat which stood at 11 million tonnes in 1960-61 rose to 76 million tonnes in 1999-2000, but declined to 72 million tonnes in 2003-04.

> Actual production of wheat ranged between 69 and 75 million tonnes in between 1997-2007.

> Even now the production of pulses fluctuates between 13 and 15 million tonnes per year.

> Green revolution did not cover barley, ragi and minor-millets.

> The Green revolution was confined only to High Yielding Varieties (HYV) mainly rice, wheat, maize and jowar.

> National Agriculture Insurance Scheme was implemented in Oct. 1999.

> On 28th July 2000, the Central government fixed target for rate of growth in agriculture sector at more than 4% by 2005 under the National Agriculture Policy.

Land Reforms Programmes in India include

* Elimination of intermediaries
* Tenancy Reforms
* Determination of ceiling of holdings per family
* Distribution of surplus land among landless people
* Consolidation of holdings (Chakbandi)

> By the end of first five year plan middlemen had been removed (except small areas).

> The following measures were made effective for the betterment of farmers :
(i) Regulation of tax (ii) Security for the rights of farmers
(iii) Right of land ownership for the farmers

- For the reorganisation of agriculture land holding mainly two measures were taken – (i) Land ceiling and (ii) Chakbandi.
- *Land ceiling* determines the maximum land which can be held by a farmer. Holding more than that area will be illegal.
- *Chakbandi* of land means to aggregate the divided and broken land.
- The land within area less than 1 hectare, is called *marginal land holding*, 1 to 4 hectare area is called *small land holding* and the land within area more than 4 hectare, is called *large land holding*.
- Chakbandi was implemented first time in India in the year 1920 in Baroda.
- The irrigation potential in India in 2000-01 was 9.47 crore hectare.
- Green Revolution was started in the Third Five Year Plan.
- The most positive effect of Green Revolution was on wheat. There was 500% increase in crop production.
- *Unorganised sources* of agriculture finance are money-lenders, money-dealers, relatives, businessmen, landlords and commission agents.
- *Organised sources* of agriculture finance are Co-operative Committees, Co-operative Banks, Commercial Banks, Regional Rural Banks, the Government etc.
- Co-operative Credit Organisation started first time in 1904.
- Primary Co-operative Committees provide credit for short period.
- State Co-operative Agriculture and Rural Development Banks provide credit for long period.
- Land Development Bank provides long-term loans.
- Land Development Bank was established in the year 1919 in the form of Land Mortgage Bank.
- National Bank for Agriculture and Rural Development (NABARD) is the apex institution of Rural Credit. It was established on 12th July, 1982 by the merger of Agriculture Credit department and reconstruction of Agriculture and Development Corporation of the Reserve Bank of India. Its establishment is based on the recommendations of Shivraman Committee.
- Authorised share capital of NABARD was Rupees 500 crore. However, after an amendment its authorized share increased upto 5000 crore with effect from 1st February, 2001.
- Food stocks are maintained by the central government for 3 purposes:
  (i) Maintaining prescribed buffer stock norms for food security,
  (ii) Monthly supply through Public Distribution System (PDS),
  (iii) Market intervention to stabilise open market prices.
- Buffer stock on January 1, 2002 was a 58 million tonnes.
- Two major crops of India :
  (a) Kharif Crops : Sown in July and harvested in October. They include Rice, Jowar, Bajra, Maize, Cotton, Sugarcane, Soyabean, Groundnut.

(b) Rabi Crops : Sown in October and harvested in March / April. They include Wheat, Barley, Gram, Tur, Rapeseed, Mustard.

(c) Zayad Crops : Sown during March to June. It include Watermelons, Vegetables, Moong etc.

3. National Income

➢ National income is the measurement of flow of services and goods in economic system.

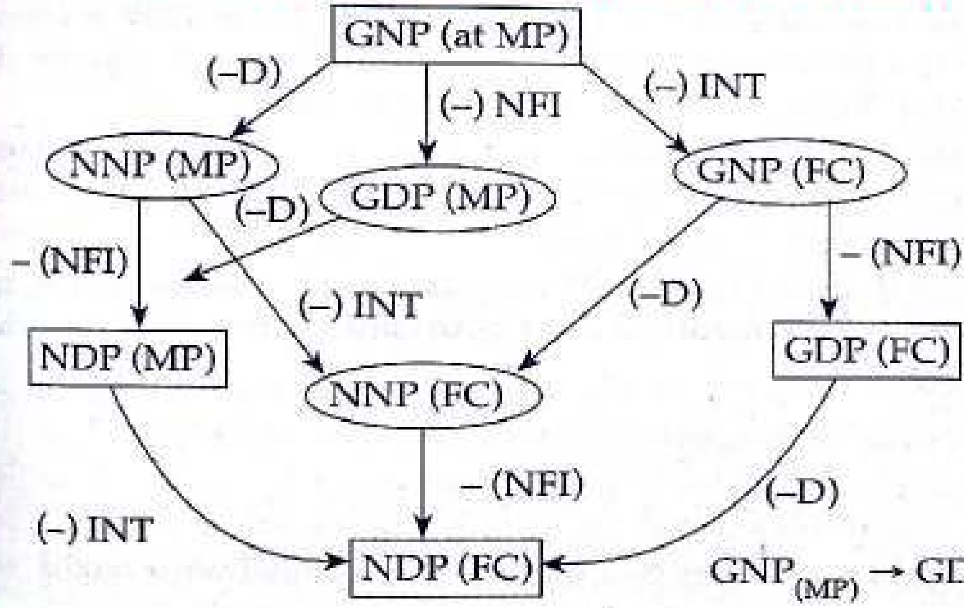
➢ Comparison between National income with National wealth : The national wealth is the measurement of present assets available on a given time, while the National income is the measurement of the production power of economic system in a given time period.

➢ The figures of National income are based on the financial year (i.e. from 1st April to 31st March).

➢ The base of one year is taken for calculating National income, as all the seasons come in a year.

➢ The data of estimation of India's National income are issued by Central Statistical Organisation (CSO).

Relationship among different forms of National Products



$GNP_{(MP)} \rightarrow GDP_{(MP)} + X - M$

$$GNP_{(MP)} = GDP_{(MP)} + X - M$$

Where :

X = Income earned and received by nationals within the boundaries.

M = Income received by foreign nationals within the country.

NFI → Net Foreign Income.

Where :

GNP → Gross National Product
NNP → Net National Product
NDP → Net Domestic Product
GDP → Gross Domestic Product
MP → Market Price
FC → Factor Cost
D → Depreciation
INT → Indirect Net Tax

NNP at Factor Cost = NNP at market prices–Indirect Taxes + Subsidies = GNP at market prices – Indirect Taxes + Subsidies = National Incomes

4. Economic Planning

- Economic Planning is the process in which the limited natural resources are used skillfully so as to achieve the desired goals. The concept of Economic Planning in India, is derived from Russia (the then USSR).
- 'Planning' in India derives its objectives and social premises from the Directive Principles of State Policy enshrined in the Constitution.
- In the year 1934, the proposal relating to economic planning came for the first time in the book of Vishveshwaraiya titled "Planned Economy for India". Thereafter in 1938, the All India Congress Committee demanded for the same. In 1944 efforts were made by 8 industrialists under "Bombay Plan".
- Thereafter, in the same year, 'Gandhian Plan' by Mr. Mannarayan, in April, 1944 the 'People's Plan' by labour leader M.N. Roy and in January 30, 1950 the 'Sarvodaya Plan' by Mr. Jai Prakash Narayan were presented.
- After independence, in 1947, the committee on economic planning was constituted under the chairmanship of Jawaharlal Nehru. Thereafter, on the recommendation of this committee, Planning Commission was constituted in March, 1950 and the format of first Five Year Plan was prepared in 1951.
- The *Planning Commission* was constituted in India in 1950 as a non-constitutional and advisory corporation. The Indian Constitution did not provide for the formation of Planning Commission.
- The basic aim of economic planning in India is to bring about rapid economic growth through development of agriculture, industry, power, transport and communications and all other sectors of the economy.
- In India, more than 11 Five Year-Plans have been implemented so far. The target and achievements of these plans are given in the following table :

Five-year Plan	Period	Target growth rate of GDP (In % age)	Achievement (In % age)	Model
First Plan	1951-56	2.1	3.6	Harrod–Domar Model
Second Plan	1956-61	4.5	4.1	Prof. P.C. Mahalanobis
Third Plan	1961-66	5.6	2.8	Sukhmoy Chakraborty and Prof. Saddy
Fourth Plan	1969-74	5.7	3.3	Ashok Rudra and Alon S. Manney
Fifth Plan	1974-79	4.4	4.8	Alike Fourth Five-Year Plan, which is called "Investment Model of Planning Commission".
Sixth Plan	1980-85	5.2	5.7	Based on Investment Yojana, Infrastructural changing and trend to growth model

Five-year Plan	Period	Target growth rate of GDP (In % age)	Achievement (In % age)	Model
Seventh Plan	1985-90	5.0	6.0	Alike Sixth Five-Year plan prepared © Pranav Mukherjee)
Eighth Plan	1992-97	5.6	6.8	John W. Miller Model
Ninth Plan	1997-02	6.5	5.4	Created by 'Planning Commission.'
Tenth Plan	2002-07	8.0	7.2	— do —
Eleventh Plan	2007-12	9.0	—	Prepared by Prof. C Rangarajan

Source : *Planning Commission, Ninth Five Year Plan (1997-2002), Vol. I and Tenth Five Year Plan (2002-07) etc.*

- In addition to this, six yearly plans were also made. These yearly plans were made for the years 1966-67 to 1968-69, 1978-1980 and from 1990-91 to 1991-92. The plan for the year 1978-79 was continuously implemented.

First Five-Year Plan (1951-1956)

- First five year-plan was based on the "Herrod-Domar Model".
- The aim of this plan was to start process of balanced development of economy.Agriculture was on top priority in this plan.
- The First Plan emphasised, as its immediate objectives the rehabilitation of refugees, rapid agricultural development so as to achieve food self-sufficiency in the shortest possible time and control of inflation.
- This plan was successful and achieved the growth rate of 3.6%, which was more than its aim.
- During this plan there was increase of 18% in national income and 11% in per capita income.

Second Five-Year Plan (1956-1961)

- This plan was based on the P.C. Mahalanobis model.
- To establish socialist order, derived from Soviet model, the Second Plan aimed at rapid industrialisation with particular emphasis on the development of basic and heavy industries.
- In this plan, Industries and Minerals were on top priority and 20.1% of total outlay was allocated for this sector.
- Second priority was given to Transport and Communication for which 27% of total plan outlay was allocated.
- This plan was also successful and it achieved 4.1% rate of growth.
- Various important large industries like Steel Plant at Durgapur, Bhilai and Rourkela were established during this plan.

Third Five-Year Plan (1961-1966)

- The aim of this plan was to make the economy independent and to reach self active take off position. This plan is also called "Gadgil Yojana."

- This plan could not achieve its aim of 5.6% growth rate.
- In this plan, agriculture and industry both were on its priority.
- The main reason of failure of this plan was Indo-China war, Indo-Pakistan war and unprecedented drought.
- A growing trade deficit and mounting debt obligation led to more and more borrowings from the International Monetary Fund. The rupee was devalued in June 1966 to little success as it soon turned out.

Plan Holiday (From 1966-1967 to 1968–1969)

- The miserable failure of the Third Plan forced the Government to declare 'plan holiday'. Three Annual Plans were drawn in this intervening period. The economy faced another year of drought during 1966-67.
- During this period three separate plans were prepared.
- Equal priority were given to agriculture, its allied sectors and the industry sector.
- The main reason of plan holiday was Indo-Pakistan war, lack of resources and increase in price-level.

Fourth Five-Year Plan (1969-1974)

- The two main objectives of this plan were *'growth with stability'* and *'progressive achievement of self reliance'*.
- In this plan 'Establishment of socialist order' was specially aimed.
- *'Growth with justice'* and *'Garibi Hatao'* (Removal of poverty) were the main objectives of this plan.
- This plan failed to achieve its aim and it achieved only 3.3% annual rate of growth as against its aim of 5.7%.
- The shortfall during this plan was due to the adversity of climate and arrival of refugees from Bangladesh.

Fifth Five-Year Plan (1974-1979)

- The Fifth Plan draft as originally drawn up was part of a long term Perspective Plan covering a period of 10 years from 1974-75 to 1985-86.
- The two main objectives of this plan were poverty eradication and attainment of self-reliance.
- During the plan, initially, the growth rate target was fixed at 5.5.%, however, it was amended to 4.4% later on.
- Top priority was given to agriculture, next came industry and mines.
- Originally the approach paper of the Fifth Plan was prepared under C.Subramaniam in 1972, but final draft of the Plan was prepared and launched by D.P. Dhar.
- This plan was generally successful. However there was no significant decline in poverty and unemployment.
- This plan, which was started by the then ruling Janata Government was later terminated in the year 1978.

Rolling Plan (1978-1980)

- The new pattern started by Janata Government, which meant that every year performance of the plan would be assessed and a new plan based on such assessment be made for the subsequent year.

- The rolling plan started with an annual plan for 1978-79 and as a continuation of the terminated Fifth Plan.

Sixth Five-Year Plan (1980-1985)

- The Janata Government originally introduced this plan for the period 1978-83, but later a new Sixth Plan replaced it, for the period 1980-85.
- The basic objective of the Sixth Plan was removal of poverty. The plan aimed at achieving economic and technological self-reliance, reducing poverty, generating employment and improving the quality of life of the poorest through the Minimum Needs Programme etc.
- During this period the Indian economy made all round progress and most of the targets fixed by the Planning Commission were realised, though during the last year of the plan (1984-85) many parts of the country faced severe drought conditions.
- The target growth rate, in this plan, was fixed at 5.2% and it achieved successfully 5.7% of annual rate of growth.
- In this plan, important programmes like Integrated Rural Development Programme (IRDP), Minimum Needs Programme (MNP) were started.

Seventh Five-Year Plan (1985–1990)

- The objectives of this plan include establishment of self sufficient economy, creation of more opportunities for productive employment, slowing down the rate of population growth, to provide people with adequate nutrition and energy and environmental protection. But main aim of the plan was to increase production in all sectors and to generate opportunities for employment.
- There was increase in per capita income at the rate of 3.6% per annum.
- In this plan, for the first time private sector was given priority in comparison to public sector.
- In this plan, employment generating programmes like Jawahar Rozgar Yojana were started.
- One of the major worries during this period was widening gap between the income and expenditure of the Government, which led to mounting fiscal deficit.

Annual Plans

The Eighth Five-Year Plan (1990-95) could not take off due to the fast changing political situation at the Centre. The new government, which assumed power at the Centre in June 1991, decided that the Eight Five-Year Plan would commence on April 1, 1992 and that 1990-91 and 1991-92 should be treated as separate Annual Plans. Formulated within the framework of the Approach to the Eighth Five-Year Plan (1990-95), the basic thrust of these Annual Plans was on maximisation of employment and social transformation.

Eighth Five-Year Plan (1992–1997)

- The fourth version of the Eighth Plan (1992–97) was approved at a time the country was going through a severe economic crisis, a rising debt burden, ever-widening budget deficits, mounting inflation and recession in industry.

- The P.V. Narasimha Rao Government initiated the process of fiscal reforms as also economic reforms.
- In this plan the utmost priority was given to "Development of Human Resources" i.e. Employment, Education and Public Health. In addition to this, the important aim made in this plan was to strengthen the basic infrastructure by the end of the decade.
- This plan was successful and got 6.8% annual rate of growth, which was more than its target of 5.6%.
- During this period, Pradhan Mantri Rozgar Yojana (PMRY) was started in the year 1993.

Ninth Five-Year Plan (1997–2002)

- The Ninth Plan was launched in the fiftieth (50th) year of India's Independence.
- Planning Commission released the draft Ninth Plan document on March 1, 1998. The focus of the plan is "Growth with Social Justice and Equity".
- It assigned the priority to agriculture and rural development with a view to generating adequate productive employment and eradication of poverty. However, the plan failed to achieve the GDP growth target of 7% and realized only 5.35% average GDP growth.
- The recession in international economy was held responsible for the failure of ninth plan.

Tenth Five-Year Plan (2002–2007)

- In the Tenth five-year plan, it had been proposed to eradicate poverty and unemployment and to double the per capita income in next 10 years.
- The Tenth Plan has indicated that the current backlog of unemployment is around 35 million persons, i.e. 9% of the labour force.
- The Tenth Plan was expected to follow a regional approach rather than sectoral approach to bring down regional inequalities.

Some creditable achievements of the 10th Plan

- Gross domestic savings (as percent of GDP at market prices) averaged 28.2% in 10th Plan as against 23.1% in the 9th Plan.
- India's foreign exchange reserves reached a level of US $ 185 billion in February 2007.
- Though the 10th Plan could not achieve its target of 8% growth of GDP, but has taken the economy to a higher trajectory of growth rate at 7.6% as against 5.5% in the 9th Plan.
- Foreign investment flows were of the order of US $ 20.2 billion in 2005-06–US $ 7.7 billion in the form of Foreign Direct Investment (FDI) and US $ 12.5 billion in the form of Portfolio Investment (PI). In 2006–07, out of total inflows of the order of $ 29.1 billion, FDI accounted for $ 22.1 billion (i.e. 76% of total).

Eleventh Five Year Plan (2007–2012)

- The National Development Council (NDC), country's highest policy making body, endorsed the 11th Plan document on 19th December, 2007.

- It envisages an average 9% GDP growth in the first four years to end the five-year period with a growth of 10% during the terminal year 2011-12.
- Earlier 7.6% growth rate in the 10th Plan and 5.52% in the 9th Plan was achieved.
- Total Plan expenditure for the 11th Plan period (2007-12) has been proposed to the tune of Rs. 36,44,718 crore, which is more than the double of the Plan expenditure of the 10th Plan.
- Of the total Plan expenditure fixed for the 11th Plan, Centre's share would be Rs. 21,56,571 crore where as the share of the States would be to the tune of Rs. 14,88,147 crore.
- Gross Budgetary Support (GBS) for the Plan expenditure of 2007- 12 has been fixed to Rs. 14,21,711 crore, where as it was Rs. 8,10,400 crore for the 10th Plan.
- Of the GBS 74.67% will be for the Priority sectors and the rest 25.33% for non priority sectors. For the 10th Plan it was 55.20% and 44.80% respectively.
- In the 11th plan (2007–12), overall rate of growth of GDP was 8.0%. Under-achiever was the agriculture, rate of growth of which remained low at 3.3% over the plan period, as compared to the 4% target rate of growth.
- The 11th plan visualised "Faster and more inclusive growth" as its objective.
- Balance of trade deficit has reached US $ 644 billion in this plan period (2007–12), indicating at payment crisis during the terminal year of the 11th FYP. It was this payment crisis which led to sudden depreciation of rupee in 2012, when rupee plunged from ₹48.70 per US dollar in February 2012 up to ₹58 per US dollar by June 2012.
- It is noteworthy here that India's trade-deficit which was of the order of $10.69 billion in 2003–04 has shot up to $185 billion in 2011–12.
- CAD (current account deficit) has been on rise since 2006–07 and by the year 2010-11 it had reached $45.9 billion.
- Under the shadow of deceleration in our economic growth especially industrial growth, galloping inflation, depreciation of rupee and balance of payment problems, the 12th FYP has begun.

Twelfth Five Year Plan (2012 – 2017)

- The Approach Paper of the 12th Plan, approved by the NDC (National Development Council) in 2011, had set a target of 9% average-growth of GDP over the plan period (2012 – 17).
- The broad vision and aspirations of the 12th FYP (Five Year Plan) are reflected in the subtitle 'Faster, Sustainable and More Inclusive Growth'.
- The 12th Plan sets an ambitious target of one lakh MW in power-generation, where as actual realization in 11th Plan was 50,000 MW, on account of slippage in public sector power projects.
- It seems that Government is intending to withdraw from infrastructure sector in the 12th Plan and laying more emphasis on PPP (public private partnership).

- The Approach Paper of 12th FYP states that India has 1017 PPP projects accounting for ₹ 4,86,603 crores.
- India to-day is second only to China in terms of number of PPP projects and terms of investments it is second to Brazil.

Types of planning

Imperative Planning : In this type of planning the Central Planning authority decides upon every aspect of the economy and the targets set and the processes delineated to achieve them are to be strictly followed. This type of planning is mainly practised in the socialist economies.

Indicative Planning : In this type of planning the State sets broad parameters and goals for the economy. It is different from centralised planning as unlike in the latter, the State does not see Plan targets to the minutest details, but only broadly indicates the targets to be achieved. It was adopted in our country since the 8th Five-Year Plan, as practised in many developed countries.

Perspective Planning : It's a type of planning for a long period of time, usually 15-20 years. As a highly specialised task, it is operationalised through the Five Year and Annual Plans. In such form of planning, the planners formulate a perspective Plan that broadly defines the direction desired to be taken by the economy.

Rolling Plan : Under the scheme of rolling Plans, there are three different steps. First, a plan for the current year which includes the annual budget. Second, a plan for a fixed number of years, say three, four or five. It is revised every year as per the requirements of the economy. Third, a perspective plan for 10, 15 or 20 years.

Core Plan : As per this concept, the Planning Commission asks the states to submit their projected revenue estimates. On the basis of these estimates, Planning Commission determines the expenditure heads for State Annual Plans. This helps in keeping the Plan target to realistic limits and prevents diversion of funds from the priority items to the non-plan account. The concept of 'Core Plan' has emerged recently.

Planning Commission : Structure and Functions

- The Central body for making plans in India is the Planning Commission.
- Planning Commission was constituted on 15th March, 1950. The Prime Minister is the ex-officio Chairman of this Commission.
- There is no provision for (or mention of) Planning Commission in the Constitution of India.
- It was constituted in the form of an advisory and specialist institution.
- It was constituted by the Union Cabinet on the proposal of a member of Union Parliament.
- The government has changed its organisation and structure from time to time.
- Pandit Jawaharlal Nehru was the first Chairman of the Planning Commission.

- There is no fix term/tenure of the Deputy Chairman and members of Planning Commission.
- The members are appointed by the government.
- The government can change the number of its members.
- The Deputy Chairman of the Planning Commission enjoys the status of a cabinet rank minister.
- The Commission estimates physical-capital and human resources.
- The Commission prepares plan for maximum effective and impartial use of national resources.
- The Commission makes critical analysis of each step and gives reformative suggestions.
- Final clearance to planning is given by "National Development Council". v

National Development Council

- National Development Council was constituted on 6th August, 1952.
- The Prime Minister is the ex-officio Chairman and the Secretary of Planning Commission is the ex-officio Secretary of this Council.
- Chief Ministers of all the states and the members of Planning Commission are the members of National Development Council.
- National Development Council (NDC) is an extra constitutional body.
- Its aim is to make co-operative environment for economic planning between states and Planning Commission.
- The main functions of NDC are :
  - (i) To evaluate the management of plans from time to time.
  - (ii) To analyse the policies affecting development.
  - (iii) To give suggestions to achieve the aim fixed in the plans.
  - (iv) To give final shape to the plan.

Models of economic development

Nehru-Mahalanobis Model :

- Nehru–Mahalanobis model of development emerged as the driving force of the strategy of development adopted at the time of formulation of the Second Five Year Plan and has continued right up to the eighties.
- It aimed at enlargement of opportunities for the less privileged sections of the society.
- Growth with social justice was the goal of Nehru–Mahalanobis model since it intended to foster a self–generating path of development with an assurance to the common man that poverty, unemployment, disease and ignorance would be removed so that individuals could realise their potential with the extension of social and economic opportunities.
- In the Nehru–Mahalanobis model the *State controlled the commanding heights of the economy through the public sector.*

The Gandhian Model of Growth

- 'Gandhian Plan' was brought out by Acharya S.N. Agarwala in 1944 and was re-affirmed in 1948, formed the basis of Gandhian model of growth.

- The basic objective of this model is to raise the *material as well as the cultural level* of the Indian masses so as to provide a basic standard of life.
- It aims primarily at improving the economic conditions of the villages of India and hence, it lays the greatest emphasis on the scientific development of agriculture and rapid growth of cottage and village industries.
- The Gandhian model aims at the reform of agriculture as the most important sector in economic planning in India.
- The Gandhian model's primary aim is the attainment of maximum self-sufficiency in village communities. Hence, the plan emphasises the rehabili -tation, development and expansion of cottage industries side by side with agriculture. Spinning and weaving are given the first place.
- While Nehru wanted to give prime importance to heavy industries, the Gandhian model attempts to give primacy to agriculture supported by handicrafts and cottage industries.

LPG Model of Development

- The LPG Model of development was introduced in 1991 by the then Finance Minister Dr. Manmohan Singh.
- This model was intended to charter a new strategy with emphasis on liberalisation, privatisation and globlisation (LPG).
- LPG Model of development emphasises a bigger role for the private sector.
- It envisages a much larger quantum of foreign direct investment to supplement our growth process.
- It aims at a strategy of export led growth as against import substitution practised earlier.
- It also aims at reducing the role of the State significantly and thus abandons planning fundamentalism in favour of a more liberal and market driven pattern of development.

PURA Model of Development

- The Union Cabinet on 20th Jaunary, 2004 accorded in principle approval for the execution of PURA within the gross budgetary support for bridging the rural-urban divide and achieving balanced socio-economic development.
- Though, Dr. A.P.J Abdul Kalam, ever since he became the President of India has been advocating his *Vision 2020*, and, to eradicate poverty from India, he has been emphasiging the adoption of PURA *(Providing Urban Amenities in Rural Areas)*; however, it was Mahatma Gandhi who underlined the exploitation of rural society by its urban counterpart.
- The objective of PURA is to propel economic development without population transfers.
- The PURA concept is the response to the need for creating social and economic infrastructure which can create a conducive climate for investment by the private sector to invest in rural areas.

- Although PURA draws its inspiration from the Gandhian model of development which emphsises rural development as a fundamental postulate, yet in the prescription, it is neo–Gandhian is the sense, that it intends to bring rural regeneration with the avowed objective of taking modern technology and modern amenities to the rural areas.
- It does emphasize the enlargement of employment as the *sole objective* to make use of rural manpower in various development activities.
- The PURA model, however, attempts a reconciliation between employment and GDP growth objectives.
- The 11th Plan (2007–12) has provided Rs. 248 crores for implementing the PURA scheme in compact rural areas in public–private partnership (PPP) mode.

5. Unemployment

- In common parlance anybody who is not gainfully employed in any productive activity is called unemployed. However, it can be of two kinds (i) voluntary unemployed and (ii) involuntary unemployed. Here we are concerned with the second category of unemployed persons.
- Hence, unemployment can be defined as a situation when persons able and willing to work are seeking jobs at the prevailing wage level but they are unable to get the same.
- Unemployment in developing economies like India is not the result of deficiency of effective demand in the Keynesian sense, but a consequence of shortage of capital equipment or other complementary resources.
- In India unemployment is structural in nature due to lack of productive capacity and resources.

Types of Unemployment

(i) Cyclical unemployment : It is the result of depression in an economy.

(ii) Frictional unemployment: This kind of unemployment is temporary. It is the result of a situation when new industries drive out old ones and workers change over to better jobs.

(iii) Open unemployment : It refers to those who have no work to do even though they are able and willing to do work.

(iv) Seasonal unemployment : This occurs at certain period of the work when work load is comparatively less, and hence people are rendered jobless. For example, in the period between past harvest and next sowing, agricultural labourers are unemployed.

(v) Educated unemployed : This is mainly found in urban areas. Those educated persons who are unable to get work come under this category.

(vi) Under–employment (Disguised unemployment) : It results when a person contributes to production less than what he or she is capable of, for example, an engineer working as a clerk is under–employed.

(vii) Compulsory unemployment : It means the labour power which is ready to work on the current rate but does not get the work.

(viii) Seasonal unemployment : It means the unemployment of the farmers and farm labourers during non-crop seasons.

➢ During Ninth Plan, total 3.6 crore fresh unemployeds began to look for employment.

➢ The Planning Commission collects data of unemployment on the basis of 'Lakadawala Formula' effective from 11th March, 1997 and prior to this the process to collect data was on the basis of surveys of National Sample Survey Organisation (NASO).

➢ In 8th Plan, the aim was to create 1 crore employment. During Ninth Plan the additional requirement of work opportunities was approximately 5 crore 30 lakhs.

➢ In India, the data relating to unemployment are collected by National Sample Survey Organisation (NASO). This Organisation has the following concepts with regard to unemployment :

(1) General status of unemployment : In this category, generally, those unemployed for more than one year are included. As such it is a long-term unemployment.

(2) Weekly-unemployment : The persons who have not got work for even one hour in a week are included in this category.

(3) Daily unemployment : It is considered the best concept of unemployment.

➢ The main reasons for unemployment in India are slow economic development, population explosion, outdated technique, improper education system and limited effect of government planning.

Labour Force Growth and Employment Requirements during Tenth Plan

➢ Job opportunities will need to be created for 53 million persons during 1997-2002 as a consequence of labour force increase, for 58 million during 2002-07 and thereafter for 55 million during 2007-12.

➢ Out of the projected increase of employment of the order of 50 million during the Ninth Plan, 24.2 million employment opportunities - 48.2% would be created in agriculture alone.

Employment Requirements during the 11th Plan (2007–12)

➢ On account of the increasing participation of females, the total increase in labour force will be around 65 million during the 11th Plan. To this may be added the present backlog of about 35 million. Thus, the total job requirements of the 11th Plan work out be 100 million.

➢ The planners aims to provide 65 million additional employment opportunities.

➢ According to the Approach paper of the 11th plan—

★ Average daily status unemployment rate, which had increased from 6.1% in 1993–94 to 7.3% in 1999–00 increased further to 8.3% in 2004–05.

★ Among agricultural labour households, which represent the poorest groups, there was a sharp increase in unemployment from 9.3% in 1993–94 to a high level of 15.3% in 2004–05.

- ★ Non–agricultural employment expanded robustly at an annual rate of 4.7% during 1999–2005.
- ★ Employment in the organized sector actually declined by 0.38% per annum during 1994–2000.

Unemployment Rates between 1993-94 and 2004–05

- ➢ The results of the 61st Round of NSSO Survey Employment and Unemployment are based on a sample size which is neither large nor small by standards of previous NSSO rounds.
- ➢ The unemployment rate based on current daily status in 2004–05 for males was 8.0% (up from 7.2% in 1993-94) in rural areas and at 7.5% percent (up from 7.3% in 1993-94) in urban areas.
- ➢ The corresponding figure for females was 8.7% (up from 7.0% in 1993-94) in rural areas and 11.6% (up from 9.4% in 1993-94) in urban areas.

Employment Opportunities

- ➢ Instead of achieving an employment elasticity of 0.38 as projected in the Ninth Plan, the actual employment elasticity achieved during 1993-94 to 1999-2000 was 0.15.
- ➢ The employment projections reveal that with 6.5% GDP growth, employment will increase from a level of 397 million in 1999-2000 to 468 million in 2012 - an increase of 71 million in a period of 12 years, giving an annual average growth of 5.9 million.

Development and employment programmes at a glance

SL. No.	Programme/Plan/ Institution	Year of beginning	Objective/Description
1.	Community Development Programme (CDP)	1952	Over all development of rural area with people's participation.
2.	Intensive Agriculture Development Programme (IADP)	1960-61	To provide loan, seeds, fertilizer tools to the farmers.
3.	Intensive Agriculture Area Programme (IAAP)	1964-65	To develop the Special harvests.
4.	High Yielding Variety Programme (HYVP)	1966-67	To increase productivity of food grains by adopting latest varieties of inputs for crops.
5.	Indian Tourism Development Corporation (ITDC)	Oct. 1966	To arrange for the construction of Hotels and Guest houses at various places of the country.
6.	Green Revolution	1966-67	To increase the foodgrains, spec ially wheat production (Credit goes to Dr. M.S. Swaminathan in India and Nobel laureate Dr. Norman Borlaug in the world).

SL. No.	Programme/Plan/ Institution	Year of beginning	Objective/Description
7.	Nationalisation of 14 Banks	19 July 1969	To provide loans for agriculture, rural development and other priority sectors.
8.	Employment Guarantee Scheme of Maharashtra	1972-73	To assist the economically weaker sections of the rural society.
9.	Accelerated Rural Water Supply Programme (ARWSP)	1972-73	For providing drinking water in the villages.
10.	Small Farmer Development Agency (SFDA)	1974-75	For technical and financial assistance to small farmers.
11.	Command Area Development Programme (CADP)	1974-75	To ensure better and rapid utilisation of irrigation capacities of medium and large projects.
12.	Twenty Point Programme (TPP)	1975	Poverty eradication and raising the standard of living.
13.	National Institution of Rural Development (NIRD)	1977	Training, investigation and advisory organisation for rural development.
14.	Desert Development Programme (DDP)	1977-78	For controlling the desert expasion and maintaining environmental balance.
15.	Food for Work Programme (FWP)	1977-78	Providing foodgrains to labour for the works of development.
16.	Antyodaya Yojana	1977-78	To make the poorest families of the village economically independent (only in Rajasthan State).
17.	Training Rural Youth for Self-Employment (TRYSEM)	August 15, 1979	Programme of training rural youth for self-employment.
18.	Integrated Rural Development Programme (IRDP)	October 2, 1980	All-round development of the rural poor through a programme of asset endowment for self-employment.
19.	National Rural Employ-ment Programme (NREP)	1980	To provide profitable employment opportunities to the rural poor.
20.	Development of Women and Children in Rural Areas (DWCRA)	September 1982	To provide suitable opportunities of self-employment to the women belonging to the rural families who are living below the poverty line.
21.	Rural Landless Employment Guarantee Progra-mme (RLEGP)	August 15, 1993	For providing employment to landless farmers and labourers.
22.	Self-Employment to the Educated Unemployed Youth (SEEUY)	1983-84	To provide financial and technical assistance for self-employment.

SL. No.	Programme/Plan/ Institution	Year of beginning	Objective/Description
23.	Farmer Agriculture Service Centre's (FASC's)	1983-84	To popularise the use of improved agricultural instruments and tool kits.
24.	National Fund for Rural Development (NFRD)	February 1984	To grant 100% tax rebate to donors and also to provide financial assistance for rural development projects.
25.	Industrial Reconstruction Bank of India	March 1985	To provide financial assistance to sick and closed industrial units for their reconstruction.
26.	Comprehensive Crop Insurance Scheme	April 1, 1985	For insurance of agricultural crops.
27.	Council for Advancement of People's Actionand Rural Technology (CAPART) (H.Q.-New Delhi)	Sep. 1, 1986	To provide assistance for rural prosperity.
28.	Self-Employment Programme for the Urban Poor (SEPUP)	Sep. 1986	To provide self-employment to urban poor through provision of subsidy and bank credit.
29.	Formation of Securities and Exchange Board of India (SEBI)	April 1988	To safeguard the interest of investors in capital market and to regulate share market.
30.	Jawahar Rozgar Yojana	April 1, 1989	For providing employment to rural unemployed.
31.	Nehru Rozgar Yojana	October 1989	For providing employment to urban unemployed.
32.	Agriculture and Rural Debt Relief Scheme (ARDRS)	1990	To exempt bank loans upto Rs.10,000 of rural artisans and weavers.
33.	Scheme of Urban Micro Enterprises (SUME)	1990	To assist the urban poor people for small enterprise.
34.	Scheme of Urban Wage Employment (SUWE)	1990	To provide wages employment after arranging the basic facilities for poor people in the urban areas where population is less than one lakh.
35.	Scheme of Housing and and Shelter Upgradation (SHASU)	1990	To provide employment by means of shelter upgradation in the urban areas where population is between 1 to 20 lakh.
36.	Supply of Improved Toolkits to Rural Artisans	July 1992	To supply modern toolkits to the rural craftsmen except the weavers, tailors, embroiders and tobacco labourers who are living below the poverty line.

SL. No.	Programme/Plan/ Institution	Year of beginning	Objective/Description
37.	Employment Assurance Scheme (EAS)	October 2, 1993	To provide employment of at least 100 days in a year in villages.
38.	Members of Parliament Local Area Development Scheme (MPLADS)	December 23, 1993	To sanction Rs. 5 crore per year to every Member of Parliament for various development works in their respective areas through DM of the district.
39.	District Rural Development Agency (DRDA)	1993	To provide financial assistance for rural development.
40.	Mahila Samridhi Yojana	October 2, 1993	To encourage the rural women to deposit in Post Office Savings Account.
41.	Child Labour Eradication Scheme	August 15, 1994	To shift child labour from hazardous industries to schools.
42.	Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP)	November 18, 1995	To attack urban poverty in an integrated manner in 345 towns having population between 50,000 to 1 lakh.
43.	Group Life Insurance Scheme in Rural Areas	1995-96	To provide insurance facilities to rural people on low premium
44.	National Social Assistance Programme	1995	To assist people living below the poverty line.
45.	Ganga Kalyan Yojana	1997-98	To provide financial assistance to farmers for exploring and developing ground and surface water resources.
46.	Kasturba Gandhi Education Scheme	August 15, 1997	To establish girls schools in districts having low female literacy rate.
47.	Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	December, 1997	To provide gainful employment to urban unemployed and under employed poor through self-employment or wage employment.
48.	Bhagya Shree Bal Kalyan Policy	Oct. 19, 1998	To uplift the girls conditions.
49.	Rajrajeshwari Mahila Kalyan Yojana (RMKY)	Oct. 19, 1998	To provide insurance protection to women.
50.	Annapurna Yojana	March 1999	To provide 10 kg. foodgrains to senior citizens (who do not get pension).

SL. No.	Programme/Plan/ Institution	Year of beginning	Objective/Description
51.	Swarna Jayanti Gram Swarozgar Yojana (SJGSY)	April 1999	For eliminating rural poverty and unemployment and promoting self-employment.
52.	Jawahar Gram Samridhi Yojana (JGSY)	April 1999	Creation of demand driven community village infrastructure.
53.	Jan Shree Bima Yojana	Aug. 10, 2000	Providing Insurance Security to people living below the poverty line.
54.	Pradhan Mantri Gramodaya Yojana	2000	To fulfill basic requirements in rural areas.
55.	Antyodaya Anna Yojana	Dec. 25, 2000	To provide food security to the poor.
56.	Ashraya Bima Yojana	June 2001	To provide compensation to labourers who have lost their employment.
57.	Pradhan Mantri Gram Sadak Yojana (PMGSY)	Dec. 25, 2000	To line all villages with Pucca Road.
58.	Khetihar Mazdoor Bima Yojana	2001-2002	Insurance of Landless Agricultural workers.
59.	Shiksha Sahyog Yojana	2001-2002	Education for Children below Poverty Line.
60.	Sampurna Gramin Rojgar Yojana	Sept. 25, 2001	Providing employment and food security to rural people.
61.	Jai Prakash Narain Rojgar Guarantee Yojana	Proposed in 2002-03 Budget	Employment Guarantee in most poor districts.
62.	Swajaldhara Yojana	2002	Started in Dec. 2002, for ensuring drinking water supply to all villages by 2004.
63.	Hariyali Pariyojana	2003	Inaugurated on January 27, 2003 by the Prime Minister. It aims at tackling the problems of irrigation and drinking water, along with boosting tree plantation programme and fisheries developments in rural areas.
64.	Social Security Pilot Scheme	Jan. 23, 2004	Scheme for labourers of unorganised sector for providing family pension, insurance and medical.
65.	Vande Matram Scheme	Feb. 9, 2004	Major initiative in public-private partnership during pregnancy check-up.

SL. No.	Programme/Plan/ Institution	Year of beginning	Objective/Description
66.	National Food for Work Programme	November 14, 2004	Inaugurated by the Prime Minister on November 14, 2004. This programme is to be implemented initially in 150 districts of the country. It aims at providing 100 days' employment in a year to all able bodied unemployed rural folk.
67.	Janani Suraksha Yojana	April 12, 2005	Takes the place of National Maternity Benefit Scheme. It will be a part of the National Rural Health Mission (NRHM).
68.	Bharat Nirman Yojana	Dec. 16, 2005	Development of Rural infrastructure including six components: Irrigation, Water supply, Housing, Road, Telephone and Eelectricity.
69.	National Rural Employment Guarantee Programme (NREGP)	Feb. 2, 2006	The provisions are the same as for food for work programme. The scheme was enforced in 200 districts of the country to begin with. To provide atleast 100 days wages employment in rural areas in a year. The scheme is 100% centrally sponsored.

Bharat Nirman Yojana

➢ The Union Government launched a new comprehensive scheme, named 'Bharat Nirman Yojana' on December 16, 2005.

➢ This scheme aims at developing rural infrastructure.

➢ The duration of implementing this scheme has been fixed for four years with an expected expenditure of Rs. 174000 crore.

➢ The major six sectors and their targets for next four years are :

- ★ Irrigation : To ensure irrigation for additional one crore hectare of land by 2009.
- ★ Roads : To link all villages of 1000 population with main roads and also to link all ST and hilly villages upto 500 population with roads.
- ★ Housing : Construction of 60 lakh additional houses for the poor.
- ★ Water supply : To ensure drinking water to all remaining 74000 villages.
- ★ Electrification : To supply electricity to all remaining 1,25,000 villages and to provide electricity connections to 2.3 crore houses.
- ★ Rural Communication : To provide telephone facility to all remaining 66,822 villages.

Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)

- The National Rural Employment Guarantee Bill was passed by Parliament on September 7, 2005. It secured Presidential assent later in 2005 itself and became an Act.
- The Act provides for at least 100 days of employment to one able bodied person in every rural household every year.
- The wages admissible are around Rs. 120 per day.
- The Act (NREGA) came into force from Feb. 2, 2006. Initially 200 districts have been selected for the enforcement of the scheme.
- Works under the NREGA generated 90 crore (nearly one billion) person days of employment in 2006-07, at a cost of about Rs. 9,000 crore.
- The Government has extended the NREGA to all 604 districts of the country, with a total budget outlay of Rs. 16,000 crore for the extended scheme for 2008-09 (April 1, 2008).

Note : *The Govt. of India, October 2, 2009 renamed the NREGA as the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA).*

Employment guarantee act, 2005

The Government, on the advice of the National Advisory Council, has passed the National Rural Employment Guarantee Act. The main features of the Act are :

1. Every household in rural India will have a right to at least 100 days of guaranteed employment every year for at least one adult member. The employment will be in the form of casual manual labour at the statutory minimum wage, and the wages shall be paid within 7 days of the week during which work was done.
2. Work should be provided within 15 days of demanding it, and the work should be located within 5 kilometer distance.
3. If work is not provided to anybody within the given time, he/she will be paid a daily unemployment allowance, which will be at least one-third of the minimum wages.
4. Workers employed on public works will be entitled to medical treatment and hospitalization in case of injury at work, along with a daily allowance of not less than half of the statutory minimum wage. In case of death or disability of a worker, an ex-gratia payment shall be made to his legal heirs as per provisions of the Workmen Compensation Act.
5. 5% of wages may be deducted as contribution to welfare schemes like health insurance, accident insurance, survivor benefits, maternity benefits and social security schemes.
6. For non-compliance with rules, strict penalties have been laid down.
7. For transparency and accountability, all accounts and records of the programme will be made available for public scrutiny.
8. The District Collector/Chief Executive Officer will be responsible for the programme at the district level.
9. The Gram Sabha will monitor the work of the Gram Panchayat by way of social audit.

Some Important Development and Employment Programmes

- During the Seventh Five-Year Plan, a scheme called 'Jawahar Rozgar Yojana' was introduced from April 1989 to solve the problem of unemployment in the rural sector. The former ongoing two main rural employment programmes National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP) were merged with Jawahar Rozgar Yojana.
- The total expenditure on Jawahar Rozgar Yojna was shared by the Centre and the State Government in the ratio of 80 : 20.
- Under the Jawahar Rozgar Yojana, 30% employment opportunities was reserved for women.
- Under the Jawahar Rozgar Yojana, it was made compulsory to spend 60% of the total expenditure on labour used in the works completed under the scheme.
- A sub-plan of Jawahar Rozgar Yojana—'Indira Awas Yojana' was made an independent scheme in itself on January 1, 1996.
- The Employment Assurance Scheme (EAS), was introduced on October 2, 1993, in selective rural areas. The aim of this scheme is to provide work in the form of unskilled physical labour to all the employment seeking men and women (of ages between 18 years to 60 years) in rural areas. The expenditure on this scheme is shared by the Centre and the States in the ratio of 80 : 20. From maximum of 2 members from one family can be benefitted under this scheme. Since January 1, 1996, the Integrated Jawahar Rozgar Yojana (IJRY) has been merged with Employment Assurance Scheme (EAS).
- The Integrated Rural Development Programme (IRDP) was started on an experimental basis in 1978-79. This programme was launched in the whole country on October 2, 1980. The basic aim of IRDP was to provide assistance to rural poor families living below the poverty line.
- The Integrated Rural Development Programme is financially assisted by the Centre and States in the ratio of 50 : 50.
- Under the Integrated Rural Development Programme, targeted group includes atleast 50% families belonging to scheduled caste and scheduled tribe. Apart from this, among the beneficiaries, 50% were females and 3% physically handicapped persons.
- Development of Women and Children in Rural Areas (DWCRA) and Training Rural Youth for Self-Employment (TRYSEM) were the sub-plans of Integrated Rural Development Programme (IRDP).
- The objective of TRYSEM was to provide training to those rural youth (ages 18-35 years) who belong to the families living below the poverty line. This programme was started on August 15, 1979.

Development of Women and Children in Rural Area Programme (DWCRA) was started in September 1982. Under this programme, a group of 10-15 women was taken, who belong to the families living below the poverty line and they were given training for starting any economic activity. Every group was given the economic assistance of Rs. 25,000.

Swarn Jayanti Shahari Rozgar Yojana

- The Urban Self-employment Programme and Urban Wage-Employment Programmes of the Swaran Jayanti Shahari Yojana, which substituted (in December 1997) various programmes operated earlier for poverty alleviation.
- SJSRY is funded on 75:25 basis between the Centre and the States.
- During the 3-year period (1997-98 and 1999-2000), a total of Rs. 353 crores were spent on SJSRY generating 21.8 million mandays of employment.

Swarna Jayanti Gram Swarozgar Yojana (SGSY) : The Government has introduced Swarna Jayanti Gram Swarozgar Yojana on April 1, 1999 and the previous six ongoing schemes have been merged with this scheme, they are—1. IRDP 2. TRYSEM 3. DWCRA 4. MWS 5. SITRA 6. Ganga Kalyan Yojana. The SGSY is a holistic programme covering all the aspects of self employment. The scheme is funded on 75 : 25 basis by the centre and states.

- The Drought-prone Area Programme was started in 1973 with the objective of developing the drought-prone area and also re-establishing the environmental balance. This programme is financially assisted by the Centre and the concerned State Governments in the ratio of 50 : 50.
- The Desert Development Programme was started in 1977-78 to end the ill-effects of drought in desert areas and also to stop the process of desert expansion. This programme is implemented on the basis of cent-per-cent financial assistance rendered by the Central Government.
- The Rural Landless Employment Guarantee Programme (RLEGP) began on August 15, 1993 and National Rural Employment Programme (NREP) on October 2, 1980. During Seventh Five-Year Plan, these programmes were *merged with* Jawahar Rozgar Yojana.
- Council for Advancement of Peoples Action and Rural Technology (CAPART) is an independent section of the Rural Development Department of the Government of India; which was established on September 1, 1986. For rural development works, 'CAPART' provides grants to voluntary organisations. The head office of CAPART is at New Delhi.
- Following programmes are being implemented by the Ministry of the Urban Development to eradicate Urban Poverty—(i) Nehru Rozgar Yojana (ii) Urban Basic Services for the Poor (iii) Programme of Environment Improvement of Urban Slums.
- The Nehru Rozgar Yojana began on October 1989 which was revised in March 1990. Under this Yojana following schemes were included—(i) Scheme of Urban Micro Enterprises—SUME (ii) Scheme of Urban Wage Employment—SUWE (iii) Scheme of Housing and Shelter Upgradation—SHASU.
- The Prime Minister's Rozgar Yojana (PMRY) was started for October 2, 1993 for the educated unemployed youth and initially was in

operation in urban areas. From April 1, 1994 onwards the scheme is being implemented throughout the country. Its objective was to give employment to 10 lakhs educated unemployed urban youth by establishing 7 lakh micro enterprises during the Eighth Five Year Plan. During 1993-94, this yojana was implemented in urban areas only but since April 1, 1994 it was extended to the whole country.

★ SHGs (Self-Help Groups) are considered eligible for financing under the PMRY, effective from December 8, 2003 (terms modified on July 30, 2004) provided all members individually satisfy the eligibility criteria laid down and total membership does not exceed twenty (20). There is also a ceiling on the loan amount.

6. Trade and Commerce

- Indian Trade was extremely developed during ancient time.
- After the British East India Company was established in 1600, the trade between India and Britain was in India's favour till 1757.
- At that time East India Company used to purchase clothes and spices in exchange for costly metals.
- The British Government decided to impose heavy Duty on the clothes to destroy the structure of Industries.
- During the later part of 18th Century, after Industrial revolution in Britain there was heavy production of cheap items. To sell those cheap items in world market, the tradition of colonisation began.
- British Companies established monopoly on the sale of cotton. As a result, the Indian weaver got costly raw material and thus Indian products became costly.By 1813, Indian Handloom business was completely ruined.
- In the later part of 19th Century, the establishment of modern industries on the basis of power machines started. First time in India, the textile industries came into being.
- *First Factory of Cotton Textile* in India was established in 1818 at Ghughari near Kolkata, which failed.
- The Second Factory of Cotton Textile was established by a businessman Kawas Ji Nana Bhai in Mumbai in 1853.
- In 1855, first Jute Factory was established in Rishara (West Bengal).
- In 1853, after the establishment of railway in India industrial development got momentum here. Rapid expansion of Indian industries started due to development of the means of communication.
- Jamshedji Tata established first Steel Factory in Jamshedpur in 1907.

7. New Economic Policy

- New Economic Policy is related to economic reforms. Its aim is to bring about reforms in production pattern, to obtain new technology and to use full capacity expeditiously and in toto.
- The New Economic Policy was devised and implemented, for the first time in the year 1985 during the period of Prime Minister Rajiv Gandhi.

- The second wave of new economic reforms came in the year 1991 during the period of P.V. Narsimha Rao government.
- The main reason to start new economic policy (1991) was Gulf-War and problem of balance of payment in India.
- Three main objectives of new economic policy were – Liberalisation Privatisation, and Globalisation.
- Main sectors of new economic reform policy, 1991 were – Fiscal Policy, Monetary Policy, Value Fixation Policy, Foreign Policy, Industrial Policy, Foreign Investment Policy, Business Policy and Public Sector Policy.
- The following four main steps were taken under the Fiscal Policy, 1991:
  (i) To control public expenditure strictly
  (ii) To expand Tax Net
  (iii) To observe discipline in management of funds of Central and State governments.
  (iv) To curtail grants (subsidy)
- Under the Monetary Policy, steps were taken to control inflation.
- Measures implemented under the Industrial Reforms Policy, 1991 were:
  (i) Delicencing of industries except the list of 18 industries.
  (ii) M.R.T.P. norms were relaxed for disinvestment.
  (iii) The areas reserved for public sector were opened to private sector.
- The objectives fixed for reforms in the Foreign Investment Policy, 1991 were :
  (i) Direct foreign investment upto 50% was given automatic approval, in many industries.
  (ii) Foreign companies, involved in export activities were allowed to invest upto 51% capital.
  (iii) The government gave automatic approval for Technology Agreement in the industries of high priorities.
- Under the Trade Policy 1991, steps were taken to abolish the excessive protection given to many industries, for the promotion of international integration of economy.
- The measures implemented to bring efficiency and market discipline under the Public Sector Policy 1991 were as under :
  (i) Number of reserved industries decreased to 8. Presently these are only four.
  (ii) The work of rehabilitation of sick industries handed over to Board of Industrial Financial Reconstruction.
  (iii) Industries were made powerful with the help of Memorandam of Understandings (MoU).
  (iv) Voluntary Retirement Schemes started to cut down the size of work force.

Economic Reforms

- Economic Reforms were introduced in 1991 in India. *First Generation Reforms* were aimed at stabilisation of Indian economy and were macro level in nature. It includes liberalisation and deregulation of industry, financial sector reforms, taxation reforms etc. *Second Generation Reforms* aimed at structural changes and are micro level in nature. It will include labour reforms, land reforms, capital market reforms, expenditure reforms and power sector reforms etc.
- Since economic reform, poverty has been declining from 36% in 1993 to 26% by the end of 10th plan. But as far as inequality is concerned it has increased. A World Bank Report 1999-2000 confirms this rise in inequality.
- The New Economic Reforms Policy, by making progress from 1991 to 2005-06 has become more open, liberal and global.
- Disinvestment means to decrease the share of government in the industries.
- In 1996, Disinvestment Commission was constituted to review, give suggestions and make regulations on the issue of disinvestment.
- Shri G.V. Ramkrishna was the first Chairman of Disinvestment Commission.
- In the year 1992, National Renewal Fund was constituted for rehabilitation of displaced labourers of sick industrial units affected due to industrial modernization, technological development etc.
- "Navratna" is a company which is rising at world level. To encourage these companies, the government has given them complete autonomy.
- In the second phase of economic reforms programme, the main aim is to eradicate poverty from the country and development at the rate of 7 to 8%.

Some Important Terminology Relating to the New Economic Reforms Policy

- Privatisation : To increase participation of private sector in the public sector companies by capital investment or by management or both or to hand over a public sector unit to a private company is called Privatisation.
- Liberalisation : Liberalisation is the process by which government control is relaxed or abolished. In this process privatisation is also included.
- Globalisation : The process of amalgamation of an economy with world-economy is called Globalisation. It is signified by lower duties on import and export. By doing so, that sector will also get private capital and foreign technology.
- Disinvestment : To reduce the government share in the public sector is called disinvestment.

8. Indian Financial System

- Indian Financial System is a system in which People, Financial Institutions, Banks, Industrial Companies and the Government demand for fund and the same is supplied to them.

- There are two parts of Indian Financial System–first demand side and second supply side. The representative of demand side can be Individual investor, Industrial and Business Companies, Government etc. and the representative of supply side will be Banks, Insurance Companies, Mutual Fund and other Financial Institutions.
- The Indian financial system, which refers to the borrowing and lending of funds or to the demand for and supply of funds of all individuals, institutions, companies and of the Government consists of two parts, viz., the Indian money market and the Indian capital market.
- The Indian money market is the market in which short-term funds are borrowed and lent. The capital market in India, on the other hand, is the market for medium-term and long-term funds.
- The Indian financial system performs a crucial role in economic development of India through saving–investment process, also known as capital formation.
- The financial system is, commonly, classified into : (a) Industrial finance, (b) Agricultural finance, (c) Development finance and (d) Government finance.
- Devaluation means lowering the official value of the local money in terms of foreign currency or gold.
- Balance of Payments (BOP) is a systematic record of all the economic transactions between one country and the rest of the world in a given period.
- Balance of Trade (BOT) is the difference between the value of goods exported and the value of goods imported per annum. Services not included in BOT.
- BOP is divided in current account and capital account.
- EXIM Policy 2000-01 introduced Special Economic Zones Scheme (SEZ).
- 1994-95, Indian Rupee was made fully convertible on current account.
- Fiscal Policy is the policy relating to public revenue and public expenditure and allied matters.
- Usually, the Indian money market is classified into organised sector and the unorganised sector.
- The unorganised sector consists of indigenous bankers including the non-banking financial companies (NBFCs). Besides, these two, there are many sub-markets in the Indian money market.
- The organised banking system in India can be broadly divided into three categories, viz., the central bank of the country known as the Reserve Bank of India, the commercial banks and the co-operative banks which includes private sector and public sector banks and also foreign banks.
- The highest financial institution in organized sector is Reserve Bank of India and in addition to this Banks of Public Sector, Banks of Private Sector, Foreign Banks and other financial institutions are also part of organized sector.

- The *Reserve Bank of India* regulates and controls the money of the country.
- The RBI was established under the Reserve Bank of India Act, 1934 on 1st April, 1935 with a capital of Rs. 5 crore. It was nationalised on 1st January, 1949; on the recommendation of Parliamentary Committee in 1948. It is the Central Bank of India.
- The Reserve Bank of India is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country. It keeps the reserves of all commerical banks and hence is known as the "Reserve Bank". Its financial year is 1st July to 30th June.

The Indian Capital Market

- The Indian capital market is the market for long–term capital; it refers to all the facilities and institutional arrangements for borrowing and lending "term funds" — medium term and long term funds.
- The Capital Market in India includes : (i) Government Securities (Gilt-edged market) (ii) Industrial Securities Market (iii) Development financial institutions like IFCI, IDBI, ICICI, SFCs, IIBI, UTI etc. (iv) Financial Intermediaries like Merchant banks.
- Individuals who invest directly on their own in securities are also supplier of fund to capital market. The trend in the capital market is basically affected by two important factors : (i) operations of the institutional investors in the market and (ii) the excellent results flowing in from the corporate sector.
- The capital market in India can be classified into :
  - ★ Gilt–edged market or market for Government and semi–government securities;
  - ★ Industrial securities market;
  - ★ Development financial institutions; and
  - ★ Non–banking financial companies.
- *The gilt–edged securities market* is the market for Government and semi government securities which carry fixed interest rates.
- *The industrial securities market* is the market for equities and debentures of companies of the corporate sector. This market is further classified into—
  - (a) new issue markets for raising fresh capital in the form of shares and debentures, (commonly referred to as *primary market*) and
  - (b) old issues market (or *secondary market*) for buying or selling shares and debentures of existing companies— this market is commonly referred to as the stock market or stock exchange.
- If shares or debentures of private corporations, primary sureties of government companies or new sureties and issue of bonds of public sector are sold or purchased in the capital market, then the market is called Primary Capital Market.
- Secondary Market includes transactions in the stock exchange and gilt-edged market.

- Merchant Bank, Mutual Fund, Leasing Companies, Risk Capital Companies etc. collect and invest public money into the capital market.
- Unit Trust of India (UTI) is the biggest Mutual Fund Institution of India.

Stock Exchange

- The stock exchange is the market for buying and selling of stocks, shares, securities, bonds and debentures etc. It increases the market ability of existing securities by providing simple method for public and others to buy and sell securities.
- The first organised stock exchange in India was started in Bombay (now Mumbai) when the "Native Share Brokers' Association" known as the Bombay Stock Exchange (BSE) was formed by the brokers in Bombay. BSE was Asia's oldest stock exchange.
- In 1894, the Ahmedabad stock Exchange was started to facilitate dealings in the shares of textile mills there.
- The Calcutta Stock Exchange was started in 1908 to provide a market for shares of plantations and jute mills.
- The number of stock exchanges rose from 7 in 1939 to 21 in 1945.
- Under the securities contract (Regulation) Act of 1956, the Government of India has so far recognised 23 stock exchanges. Bombay is the premier exchange in the country.
- With the setting up of National Stock Exchange, all regional stock exchanges have lost relevance.
- The BSE transformed itself into a corporate entity from being a brokers association, from the middle of August, 2005.
- As a public limited company, BSE (Bombay Stock Exchange) is obliged to dilute stock brokers stake to 49%
- To prevent excessive speculation and volatility in the stock market SEBI has introduced rolling settlements from July 2, 2001, under which settlement has to be made every day.

Some Important Share Price Index of India

- BSE SENSEX : This is the most sensitive share index of the Mumbai Stock Exchange. This is the representative index of 30 main shares. Its base year is 1978-79. BSE is the oldest stock exchange of India, founded in 1875.
- BSE 200 : This represents 200 shares of Mumbai Stock Exchange. Its base year is 1989-90.
- DOLLEX : Index of 200 BSE Dollar Value Index is called DOLLEX. Its base year is 1989-90.
- NSE-50 : From 28th July, 1998, its name is S and P CNX Nifty. National Stock Exchange has launched a new share Price Index, NSE-50 in place of NSE-100 in April 1996. NSE-50 includes 50 companies shares. This stock exchange was founded on Ferwani Committee's recommendation in 1994.

- CRISIL, set up in 1988, is a credit rating agency. It undertakes the rating fixed deposit programmes, convertible and non–convertible debentures and also credit assessment of companies.
- CRISIL 500 : is the new share Price Index introduced by Credit Rating Agency the "Credit Rating Information Services of India Limited" (CRISIL) on January 18, 1996.
- Apart from CRISIL, there is another credit rating agency called "Investment Information and Credit Rating Agency of India Limited (ICRA)." It rates debt instruments of both financial and manufacturing companies.
- The National Stock Exchange (NSE) has launched a new version of its online trading software called 'National Exchange for Automatic Trading' (NEAT).

9. Indian Fiscal System

- Fiscal System : It refers to the management of revenue and capital expenditure finances by the state. Hence, fiscal system includes budgetary activities of the government that is revenue raising, borrowing and spending activities.
- Fiscal Policy : Fiscal Policy refers to the use of taxation, public expenditure and the management of public debt in order to achieve certain specified objectives.
- Indian Fiscal System includes or refers to the management of revenue sources and expenditure of the Central and State governments, Public debt, Deficit financing, Budget, Tax structure etc.
- Sources of Revenue for Centre : The revenue of the Central Government consists of the following elements : (i) Tax revenue and (ii) Non-tax revenue. Tax revenue comes broadly from three sources— (a) taxes on income and expenditure (b) taxes on property and capital transactions (c) taxes on commodities and services. Non-tax revenue, consists of—(a) currency, coinage and mint (b) interest receipts and dividends; and other non–tax revenue.
- Sources of Revenue for State : The main sources are (a) state tax revenue (b) share in central taxes (c) income from social, commercial and economic service and profits of state-run enterprises. State tax revenue includes among others, land revenue, stamp, registration and estate duty etc.
- Expenditure of the Centre : The central government makes expenditures broadly under two heads : (i) Plan expenditure and (ii) Non-Plan expenditure.
- Under Plan expenditure comes outlay for agriculture, rural development, irrigation and flood control, energy, industry and minerals, transport, communications, Science and Technology, environment and economic services etc.
- The major non-plan expenditures are interest payments, defence, subsidies and general services.

- Expenditure of State: Like the Union Government, the State Governments too have two broad heads of expenditure : (a) Non–Development Expenditure; and (b) Development Expenditure.
- Public debt of the government of India is of two kinds–Internal and External.
- Internal debt : It comprises loans raised from the open market, compensation bonds, prize bonds etc. treasury bills issued to the RBI, commercial banks etc.
- External debt : It consists of loans taken from World Bank, IMF, ADB and individual countries like USA, Japan etc.
- Deficit Financing is a fiscal tool in the hands of the government to bridge the gap between revenue receipt and revenue expenditure.

Deficits

- In a budget statement, there is a mention of four types of deficits : (a) revenue, (b) budget, (c) fiscal, and (d) primary.
  (a) Revenue Deficit refers to the excess of revenue expenditure over revenue receipts. [In fact, it reflects one crucial fact : what is the government borrowing for ? As an individual if you are borrowing to play the house rent, then you are in a situation of revenue deficit, i.e. while you are borrowing and spending, you are not creating any durable asset. This implies that there will be a repayment obligation (sometime in the future) and at the same time there is no asset creation via investment.]

  Revenue Deficit = Total Revenue Expenditure – Total Revenue Receipts
  = Non-plan Expenditure + Plan Expenditure – (net tax revenue + non tax revenue)

  (b) Budget Deficit refers to the excess of total expenditure over total receipts. Here, total receipts include current revenue and net internal and external capital receipts of the government.

  Budget Deficit = Total Expenditure – Total Receipts
  = (non-plan expenditure + plan expenditure) – (Revenue Receipts + Capital Receipts)

  (c) Fiscal Deficit refers to the difference between total expenditure (revenue, capital, and loans net of repayment) on one hand; and on the other hand, revenue receipts plus all those capital receipts which are not in the form of borrowings but which in the end accrue to the government.

  Fiscal Deficit = Revenue Receipts *(net tax revenue + non-tax revenue)* + Capital Receipts *(only recoveries of loans and other receipts)* – Total Expenditure *(plan and non-plan)*

  (d) Primary Deficit refers to fiscal deficit minus interest payments. In other words, it points to how much the government is borrowing to pay for expenses other than interest payments. Also, it underscores another key fact : how much the government is adding to future burden (in terms of repayment) on the basis of past and present policy.

Primary Deficit = Revenue Deficit – Interest Payments
Monetised Deficit = Increment in Net RBI Credit to the Central Government.

Budget

- The Budget of the Government of India, for any year, gives a complete picture of the estimated receipts and expenditures of the Government for that year on the basis of the budget figures of the two previous years.
- Every budget, for instance, gives three sets of figures : (a) actual figures for preceding year, (b) budget and revised figures for the current year, and (c) budget estimates for the following year.
- The core of the budget is called the Annual financial statement. This is the main budget document. Under article 112 of the constitution, a statement of estimated receipts and expenditure of the Govt. of India has to be laid before the parliament in respect of every financial year running from April 1 to March 31 while under article 202 of the constitution a statement of estimated receipts and expenditures of the state Governments has to be laid before the house of the state legislature concerned.
- The Annual Budget of the Central Government provides estimates of receipts and expenditures of the Government. The Budget consists of two parts viz; (i) Revenue Budget (ii) Capital Budget.
- Revenue Budget : All "current" 'receipts' such as taxation, surplus of Public enterprises, and 'expenditures' of the Government.
- Capital Budget : All "Capital" 'receipts' and 'expenditure' such as domestic and foreign loans, loan repayments, foreign aid etc.
- Finance Bill is ordinarily introduced every year to give effect to the financial proposals of the Government for the following financial year.

10. Banking in India

- The Reserve Bank of India was established on 1st April, 1935 and it was nationalized on 1st January, 1949.
- The Finance Ministry issues Currency Notes and Coins of rupee one, all other Currency Notes are issued by the Reserve Bank of India.
- The first bank of limited liability managed by Indians was Oudh Commercial Bank founded in 1881. Subsequently, Punjab National Bank was established in 1894.
- Swadeshi movement, which began in 1906, encouraged the formation of a number of commercial banks.
- The Banking Companies Act was passed in February 1949, which was subsequently amended to read as Banking Regulation Act, 1949.
- Commercial banks mobilise savings in urban areas and make them available to large and small industrial and trading units mainly for working capital requirements.
- The Indian banking system consists of commercial banks, both in public and private sector, Regional Rural Banks (RRBs) and cooperative banks.

- As on June 30, 2009, Commercial Banking system in India consisted of 171 scheduled commercial banks out of which 113 were in public sector, including 86 RRBs. The remaining 27 banks, other than RRBs, in the public sector, consisted of 19 nationalized banks, 7 banks in SBI group and IDBI Bank Limited. Public sector banks (excluding RRBs) accounted for about 76.6% of the deposits of all scheduled commercial banks.
- Commercial banks are broadly classified into nationalised or public sector banks and private sector banks, with a few foreign banks. The public sector banks account for more than 92% of the entire banking business in India-occupying a dominant position in the commercial banking. The State Bank of India and its 7 associate banks along with another 19 banks are the public sector banks.
- Oudh Commercial Bank was the first complete Commercial Bank of India.
- The Imperial Bank was established in the year 1921 by merging three main Presidency Banks.
- The largest bank-Imperial Bank was nationalised in 1955 on recommendation of Gorewala Committee and rechristened as State Bank of India.
- In 1959, 7 regional banks were nationalised and given the status of Associate Banks of State Bank of India.
- On 19th July, 1969, 14 big commercial banks with deposits worth Rs. 50 crores or more and on 15th April, 1980, six other scheduled banks were nationalised, bringing total number of nationalised banks to 27 (19 + SBI + 7 SBI Associates).
- Before the merger of New Bank of India in Punjab National Bank (in 1993) the total number of nationalised banks was 28 (8* *SBI and Associates* + 14 + 6).
  - ★ *After the merger of "State Bank of Saurashtra" and "State Bank of Indore" in the State Bank of India, the number of Associates of SBI has come to 6.*

Lead Bank Scheme

- After the nationalisation of 14 banks the Lead Bank Scheme of the RBI was adopted in 1969 for branch expansion programme of banks.
- Under the scheme, all the nationalised banks and private banks were allotted specific distracts where they were asked to take the lead in surveying the scope of banking development particularly expansion of credit facilities.

Banking Reforms

- On the recommendation of Narsimhan Committee, a number of steps taken to improve functioning of banking sector. SLR and CRR were reduced.
- Banks were given freedom to open new branches. Rapid computerisation of banks was undertaken.
- Banking "Ombudsmen Scheme" started functioning to expedite inexpensive resolution of customer's complaints.

Scheduled and Non-scheduled Banks

- The scheduled banks are those which are entered in the second schedule of the RBI Act, 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs and satisfy the RBI that their affairs are carried out in the interest of their depositors.
- All commercial banks (Indian and foreign), regional rural banks and state co-operative banks are scheduled banks. Non scheduled banks are those which are not included in the second schedule of the RBI Act 1934. At present there is only one such bank in the country.

Regional Rural Banks

- The Regional Rural Banks (RRBs), the newest form of banks, have come into existence since middle of 1970s (sponsored by individual nationalised commercial banks) with the objective of developing rural economy by providing credit and deposit facilities for agriculture and other productive activities of all kinds in rural areas.
- Theemphasisisonprovidingsuchfacilitiestosmallandmarginalfarmers, agricultural labourers, rural artisans and other small entrepreneurs in rural areas.
- First Regional Rural Bank was established on 2nd October, 1975.

Co-operative Banks

- Co-operative banks are so called because they are organised under the provisions of the Co-operative Credit Societies law of the states. The major beneficiary of the Co-operative Banking is the agricultural sector in particular and the rural sector in general. The first such bank was established in 1904.
- The Co-operative credit institutions operating in the country are mainly of two kinds : agricultural (dominant) and non-agricultural.
- At the apex is the State Co-operative Bank (SCB) (co-operation being a state subject in India), at the intermediate (district) level are the Central Co-operative Banks (CCBs), and at the village level are Primary Agricultural Credit Societies (PACs); Long-term agricultural credit is provided by the Land Development Banks.
- In the year 1991, Narsimhan Committee was constituted to advice on the issue of reconstruction of banking system.

Development Banks

- Industrial Development Bank of India (IDBI), established in 1964. Main functions : Providing finance to large and medium scale industrial units.
- Industrial Finance Corporation of India (IFCI), established in 1948. Main functions : (a) Project finance (b) Promotional services.
- Industrial Credit and Investment Corporation of India Limited (ICICI), established in 1991.

  Main functions : Providing term loans in Indian and foreign currencies; Underwriting of issues of shares and debentures.
- SmallIndustriesDevelopmentBankofIndia(SIDBI), establishedin1989. Main functions : Providing assistance to small scale industries through

state finance corporations, state industrial development corporations, commercial banks etc.

- Export-Import Bank of India (Exim. Bank) was established in 1982. Main functions : Coordinating the working of institutions engaged in financing export and import trade, Financing exports and imports.
- National Housing Bank (NHB) started operations in 1988. Main functions : Development of housing finance in the country.
- NABARD (National Bank for Agriculture and Rural Development) was established in 1982. The paid-up capital of NABARD stood at Rs. 2000 crore as on 31 March 2010.

  Main functions : to serve as an apex refinancing agency for institutions engaged in providing agricultural finance to develop credit delivery system to coordinate rural financing activities.

Insurance

- The basic concept of insurance is of spreading the loss of a few over many. Insurance industry includes two sectors-Life Insurance and General Insurance. Life Insurance in India was introduced by Britishers. A British firm in 1818 established the Oriental Life Insurance Company at Calcutta now Kolkata.
- Life Insurance Corporation (LIC) of India was established in September 1956. General Insurance Corporation (GIC) was established in November 1972.
- Indian Insurance sector has low penetration particularly in rural areas. It also has low turnover and profitability despite high premium rate. The committee on Insurance Sector Reforms was set-up in 1993 under the chairmanship of R.N. Malhotra which submitted its report in 1994.
- Since opening up, the number of particpants in the industry has gone up from 6 insurers (including Life Insurance Corporation of India, 4 public sector general insurers and General Insurance Corporation of India as the national reinsurer) in the year 2000 to 47 insurers as on March, 2010 operating in the life, non-life and reinsurance segments (including specialised insurers viz. Export Credit Guarantee Corporation and Agriculture Insurance Company of India Ltd. AICIL)
- 36 companies in the private sector are operating in the country in collaboration with established foreign insurance companies from across the globe as on 31 March, 2010.
- The Life Insurance Corporation with its Central Office in Mumbai, 8 Zonal Offices at Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Kanpur, Bhopal and Patna, 109 Divisional Offices including one Salary Savings Schemes (SSS) Division at Mumbai, 2048 Branch Offices and 1004 Satellite Offices as on 31 March, 2010, spreads the message of Insurance the length and breadth of India.
- At present LIC is operating internationally through Branch Offices in Fiji, Mauritius and U.K. and through Joint Venture Companies in Bahrain, Nepal, Sri Lanka, Kenya and Saudi Arabia. Its Representative Office in Singapore was opened on 6 Nov. 2008.

11. Tax System

Tax – GDP ratio
9.9% (in 2011–12)
9.6% (in 2009–10)
11.9% (in 2007–08)

- A compulsory contribution given by a citizen or organisation to the Government is called Tax, which is used for meeting expenses on welfare work.
- Tax imposing and Tax collecting is at three levels in India – Central level, State level and Local level.
- The distribution of tax between Centre and State has been clearly mentioned in the provisions of Indian Constitution. For rationalising it from time to time, Finance Commission has been constituted.
- The tax system has been divided into two parts :

  Tax by Central Government : Custom Duty, Income Tax and Corporate Tax etc.

  Tax by State Government : The state government has right to collect all the taxes in this category and to spend them.
- There are two types of taxes : 1. Direct Taxes 2. Indirect Taxes :
  - ★ Direct Taxes : The taxes levied by the central government on incomes and wealth are important direct taxes. The important taxes levied on incomes are—corporation tax and income tax. Taxes levied on wealth are wealth tax, gift tax etc.
  - ★ Indirect Taxes : The main forms of indirect taxes are customs and excise duties and sales tax. The central government is empowered to levy customs and excise duties (except on alcoholic liquors and narcotics) whereas sales tax is the exclusive jurisdiction of the state governments.
- However, the union excise duties form the most significant part of central taxes. The major tax revenue sources for states are their shares in union excise duties and income tax, commercial taxes, land revenue, stamp duty, registration fees, state excise duties on alcohol and narcotics etc. Sales tax forms the most important component of commercial taxes.
- Progressive Tax : A tax that takes away a higher proportion of one's income as the income rises is known as progressive tax. Indian Income Tax is a progressive and direct tax.
- R. Chelliah Committee was constituted in August 1991 for suggesting reforms in Tax Structure.
- Chelliah Committee recommended Income Tax for agricultural income of more than Rs. 25,000 p.a. Chelliah Committee also recommended for lowering down the tax rates and reducing the tax slabs.
- K.L. Rekhi Committee was constituted in 1992 for suggesting uniform regulations for indirect taxation (Custom Duty and Excise Duty).

Finance Commission

- Finance Commission is constituted by the President under Art 280 of the constitution. Since Independence, 12 Finance Commissions have submitted their reports.
- 1st Finance Commission was constituted under chairmanship of K. C. Neogi while 12th Finance Commission was constituted under chairmanship of Dr. C. Rangarajan. The recommendations of 12th Finance Commission cover period 1st April, 2005 to 31st March, 2010.

- 13th Finance Commission, for the period 2010–2015, has been constituted in November, 2007 with Dr. Vijay L. Kelkar as the Chairman.

Important Taxes imposed in India

- Tax on Income and Wealth : The central government imposes different types of tax on income and wealth, viz. income tax, corporate tax, wealth tax and gift tax. Out of them income tax and corporate tax are more important from the revenue point of view.
- Personal Income Tax : Personal income tax is generally imposed on an individual combined Hindu families and total income of people of any other communities.
- In addition to tax, separate surcharges are also imposed some times.
- Agricultural income in India is free from income tax.
- Corporate Tax : Corporate Tax is imposed on Registered Companies and Corporations.
- The rate of corporate tax on all companies is equal. However, various types of rebates and exemptions have been provided.
- Custom Duties : As per the Constitutional provisions, the central government imposes import duty and export duty both. Import and Export duties are not only sources of income but with the help of it the central government regulates the foreign trade.
- Import Duties : Generally import duties are ad-velorem in India. It means import duties are imposed on the taxable item on percentage basis.
- Export Duties : Export Duties are more important, compared to Import Duties in terms of revenue and regulation of foreign trade.
- Excise Duties : Excise duties are commodity tax as it is imposed on production of an item and it has no relevance with its sale. This is the largest source of revenue for the Central Government.
- Except liquor, opium and other drugs, production of all the other items is taxable under Central Excise Duties.
- On July 15, 2010 Indian rupee got the much awaited symbol, just like other leading currencies of the world viz. Dollar, Euro, Pound Sterling and Yen.

- The new symbol is an amalgamation of Devanagari 'Ra' and the Roman 'R' without the stem. Till now the rupee was written in various abbreviated forms in different languages.
- On March 5, 2009 the Government announced a contest to create a symbol for the Rupee.
- Over 3000 entries received only 5 entries had been selected by the jury, headed by the Deputy Governor of R.B.I.
- The new symbol designed by D. Udaya Kumar, a post–graduate of IIT Bombay, was finally selected by the Union Cabinet on July 15, 2010.
- Though the symbol '₹' will not be printed or embossed on currency notes or coins, it would be included in the 'Unicode Standard' and major scripts of the world to ensure that it is easily displayed and printed in the electronic and print media.

- One Coin and One Rupee note belong to "Legal Tender Money" category.
- M_1 is known as Narrow Money.
- M_3 is known as Broad Money.

Types of Tax

Direct Tax	Income Tax, Property Tax, Gift Tax etc.
Indirect Tax	Sales Tax, Excise Duty, Custom Duty etc.
Taxes imposed by the Central Government.	Income Tax, Corporate Tax, Property Tax, Succession Tax, Wealth Tax, Gift Tax, Custom Duty, Tax on agricultural wealth etc.
Taxes imposed by the State Government	Land revenue tax, Agricultural income tax, Agricultural Land Revenue, State Excise Duty, Entertainment Tax, Stamp duty, Road Tax, Motor Vehicle Tax etc.

Some Financial institutions and their year of establishment

1.	Industrial Credit and Investment Corporation of India	Jan., 1955
2.	Industrial Finance Corporation of India	1948
3.	Unit Trust of India (Head Office - Mumbai)	1 Feb., 1964
4.	National Bank for Agricultural and Rural Development (NABARD)	12 July, 1982
5.	Industrial Reconstruction Bank of India	20 March, 1985
6.	Small Scale Industries Development Bank of India (SIDBI) (Head Office – Lucknow)	1990
7.	Export-Import Bank of India (EXIM Bank)	1 Jan., 1982
8.	Regional Rural Bank (RRB) (Head Office - Kolkata)	2 October, 1975
9.	Life Insurance Corporation of India (LIC) (Head Office – Mumbai)	Sep., 1956

12. Industry

- India started her quest for industrial development after independence in 1947.
- The Industrial Policy Resolution of 1948 marked the beginning of the evolution of the Indian Industrial Policy.
- In the Industrial Policy of 1948, the importance of both public sector and private sector was accepted. However, the responsibility of development of basic industries was handed over to Public Sector.
- The Industrial Policy Resolution of 1956 gave the public sector strategic role in the economy.
- Earmarking the pre-eminent position of the public sector, it envisaged private sector co-existing with the state and thus attempted to give the policy framework flexibility.

- The main objective of the Industrial Policy of 1956 was to develop public sector, co-operative sector and control on private monopoly.
- There were four categories of industries in the Industrial Policy of 1948 which was reduced to three in the Industrial Policy of 1956.
- In 1973, Joint Sector was constituted on the recomendations of Dutta Committee.
- The Industrial Policy of 1980 was influenced by the concept of federalism and the policy of giving concession to agriculture based industries was implemented through it.
- Various liberlised steps to be taken were declared at comprehensive level, in the Industrial Policy declared on 24th July, 1991.
- Privatisation and liberlisation are the main thrust areas in the New Industrial Policy.

New Industrial Policy, 1991

This new policy deregulates the industrial economy in a substantial manner. The Major Features of NIP, 1991 are :

- Abolition of industrial licensing : In a major move to liberalise the economy, the new indsutrial policy abolished all industrial licensing, irrespective of the level of investment, except for certain industries related to security and strategic concerns, social reasons, concerns related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption.
- Entry of foreign investment and technology made easier : For the promotion of exports of Indian products in world markets, the government would encourage foreign trading companies to assist Indian exporters in export activities. Approval would be given for direct foreign investment up to 51% foreign equity in high priority industries.
- Public sector's role diluted : The new industrial policy has removed all these (the number of industries reserved for the public sector since 1956 was 17) industries from the Reserved List. Industries that continue to be reserved for the public sector are in areas where security and strategic concerns predominate. These areas are (i) arms and ammunition and allied items of defence equipment, defence aircraft and warships, (ii) atomic energy, (iii) mineral oils and minerals specified in the schedule to the atomic energy (control of production and use) order, 1953, (iv) railways.
- MRTP Act : Under the MRTP Act, all firms with assets above a certain size (Rs. 100 crore since 1985) were classified as MRTP firms. Such firms were permitted to enter selected industries only and this also on a case-by-case approval basis. The new industrial policy scrapped the threshold limit of assets in respect of 'MRTP' and dominant undertakings.
- Liberalisation of Industrial location policy : The new Industrial policy provides that in locations other than cities of more than one million population, there will be no requirement of obtaining industrial approvals from the centre, except for industries subject to compulsory

licensing. In cities with a population of more than one million, industries other than those of a non-polluting nature will be located outside 25 kms. of the periphery.

➢ **Abolition of Phased Manufacturing Programmes for new projects** : To force the pace of indigenisation in manufacturing, Phased Manufacturing Programmes have been in force in a number of engineering and electronic industries.

➢ **Mandatory convertibility clause removed** : A large part of industrial investment in India is financed by loans from banks and financial institutions. These institutions have followed a mandatory practice of including a convertibility clause in their lending operations for new projects. This has provided them an option of converting part of their loans into equity, if felt necessary by their management. This has often been interpreted as an unwarranted threat to private firms of takeover by financial institutions. This mandatory convertibility clause put forward by the financial institutions has been abolished by the new industrial policy.

➢ In the Union Budget of 1997-98, nine public sector undertakings, which performed very well were given the name of "Navratna" and were made autonomous. These "Navratnas" included :

SAIL	Steel Authority of India Limited
IOC (Sept. 1964)	Indian Oil Corporation
BPCL (Aug. 1, 1977)	Bharat Pertroleum Corporation Limited
HPCL (Est. July 15, 1974)	Hindustan Petroleum Corporation Limited
BHEL	Bharat Heavy Electricals Limited
NTPC	National Thermal Power Corporation
BEL	Bharat Electronics Limited
HAL	Hindustan Aeronautics Limited
ONGC (Est Aug. 14, 1956)	Oil and Natural Gas Corporation

Following undertakings were also included in this list later :

GAIL (Aug. 1984)	Gas Authority of India Limited
MTNL	Mahanagar Telephone Nigam Limited
NMDC	National Mineral Development Corporation
PFC	Power Finance Corporation
PGCIL	Power Grid Corporation of India Limited
REC	Rural Electrical Corporation Limited
NALCO	National Aluminium Company
SCI	Shipping Corporation of India
CIL	Coal India Limited

Navratna Public sector enterprises have been given enhanced autonomy and delegation of powers to incur capital expenditure (without any monentary ceiling), to enter into technology joint ventures, to raise capital from domestic and international market, to establish financial joint ventures and to wholly own subsidiary.

Public Sector

➢ In terms of ownership public sector enterprise (PSE) comprises all undertakings that are owned by the government, or the public, whereas private sector comprises enterprises that are owned by private persons.

➢ **The main Objectives of Public Sector are :**
- ★ To promote rapid economic development through creation and expansion of infrastructure;
- ★ To generate financial resources for development;
- ★ To promote redistribution of income and wealth;
- ★ To create employment opportunities;
- ★ To encourage the development of small scale and ancillary industries;
- ★ To promote exports on the new side and import substitution on the other; and
- ★ To promote balanced regional development.

Disinvestment and Privatisation

➢ There is a difference between privatisation and disinvestment. Privatisation implies a change in ownership resulting in a change in management. Disinvestment is a wider term extending from dilution for the stake of the government to the transfer of ownership (when govt. stake reduced beyond 51%).

➢ The Government of India constituted the Disinvestment Commission with Mr. G.V. Ramakrishna as the chairman in August 1996 to advise it on disinvestment programme of public sector enterprises. It has suggested classification of PSE in to core and non core. In core sector maximum of 49% disinvestment would be allowed while in non core disinvestment would be upto 74%. PSEs shares will given to small investors and employees to ensure wide dispersal of shares thus introduce mass ownership and workers shareholding. It has also suggested greater autonomy to PSEs.

➢ To minimize the financial burden on the Public Sector Enterprises the Government has started Voluntary Retirement Scheme (VRS) for the employees by giving full compensation to employees. This is called "Golden Hand Shake Scheme".

➢ Privatisation refers to a general process of involving the private sector in the ownership, or operation of a state owned enterprise. Thus it refers to private purchase of all or part of a company.

Small Scale Industries

Small scale and cottage industries have an important role to play in a labour surplus developing economy like India. Their importance can be explained as

(i) Employment Generation : Large scale industries are generally capital intensive. Small-scale industries, on the other hand, are generally labour intensive and have a substantially higher employment potential.

(ii) Equitable Distribution : The ownership of SSIs is more wide spread inter of both individuals as well as areas. Thus, these ensure equitable distribution of income individually and regionally.

(iii) Mobilisation of Small Savings : S.S.Is can be run with the help of small capital. Thus, they facilitate mobilisation of small savings.

(iv) Export Contribution : The share of small industries in the total export has increased over the years. It contributes 35% of total exports.

(v) Environment Friendly : As these are dispersed far away from urban centres they do not pollute urban environment.

However, Small Scale Industries are suffering from a number of problems like (i) Lack of timely, adequate and easy finance, (ii) Lack of availability of raw material, (iii) Lack of sound marketing system, (iv) Competition with large scale sector.

Sick Industries

➢ A sick unit is one which is in existence for at least five years and had found at the end of accounting year that it had fully eroded its net worth. 30,000 units fall sick every year. A weak unit is one which erode 15% or more of its net worth.

➢ Textile industry is the largest industry in the country. The share of Textile and Clothing industry in total industrial production is about 14%. It also contributes 13.14% in total merchandise exports of the country. This industry provides employment to about 350 lakh people in the country.

➢ There are about 1,100 mills (900 spinning mills and 200 composite mills) in the country with 28 million spindles and 2 lakh looms.

➢ There are 112 cotton mills in Gujarat. In Ahmedabad alone, there are 66 mills. It is known as Bostan of East. In Maharastra there are 104 mills out of which 54 alone are in Mumbai. Mumbai is called cottonopolis. In Kanpur there are 10 cotton mills and this city is called Manchester of North India.

➢ The first cycle making factory of India was established in Calcutta in 1932. India holds second place in the field of cycles production in the world. About 90 lakh cycles are produced annually in India.

➢ The share of small scale industries (SSI sector) in total exports of India is 32.3% in 2005–06

➢ Small and Cottage industries were given high priority in the Industrial Policy of 1977.

➢ District Industry Centres were established in 1977.

➢ With the aim to provide finance, *Small Industries Development Bank of India* (SIDBI) was established in 1990.

➢ Abid Husain Committee is related to reforms in small industries.

- The industries in which maximum Rs.1 crore is invested are called Small industries.
- *Industrial Finance Corporation of India* (IFCI) was established on 1st July, 1948 by a special Act of Parliament.
- The main aim of IFCI was to make available long term and mid term credit to the Industries of private and public sectors.
- *Industrial Credit and Investment Corporation of India* (ICICI) was established in 1955 under the Indian Companies Act.
- The function of ICICI is to support the establishment, development and modernization of industries in the private sector.
- Industrial Development Bank of India (IDBI) is an apex institution in the field of industrial finance.
- IDBI was established on 1st July, 1964.
- *Industrial Reconstruction Board of India* (IRBI) was established in 1971 with the aim to reconstruct the sick industrial units.
- Unit Trust of India was established in 1964.
- Unit Trust of India (UTI) collects small savings of people through sale of units and invests them into sureties.
- Life Insurance Company now *Life Insurance Corporation of India* or (LIC) was established in September 1956.
- The head office of Life Insurance Corporation of India is in Mumbai. Presently, it has 7 zonal offices and 100 regional offices.
- *General Insurance Company of India* (GIC) was established in 1972.
- Indian Industrial Investment Bank Limited was established on 17th March, 1997 by the government, under Companies Act 1956. Presently, its authorized capital is 1000 crore rupees and its head office is in Kolkata.

Industrial Growth

- The target growth of industry during the Tenth Plan (2002–07) was put at 10% consistent with an over all GDP growth 8%.
- According to the CSO's latest data, during 2006-07, (the last year of the 10th plan) the industrial goowth stood at 10.0% compared to 9.6% in the corresponding period of 2005-06.
- Manufacturing production grew by 11.3% against 9.1%, electricity generation by 7.7% against 53% and mining out put by 4.5% against 3.6% between the last two consecutive years.
- Growth of industrial sector, from a low of 2.7% in 2001-02, revived to 7.1% and 7.4% in 2002-03 and 2003-04 respectivety, and after accelerating to over 9.5% in the next two years, touched 10.0% in 2006-07.

Current Industrial Production

- The growth rate of Industrial Production, as per the Quick Estimates of Index of Industrial Production (IIP) with base year 1993-94, improved from an average of 5.0% per annum during 1997– 2002 (9th Plan) to 10.5% in 2009–10.

- India is the second largest manufacturer of cement in the world. Cement *industry* is one of the most advanced industries in the country.
- At present there are 156 large cement plants with an installed capacity of 233.94 million tonnes and more than 350 mini cement plants with an estimated capacity of 11.10 million tonnes per annum.
- The small scale, cottage and artisan sector account for over 75% of the leather production.
- More than 30% of the work force employed in this sector constitutes women.

Automobile Industry

- Automobile Industry was delicensed in July 1991 with the annoucement of the New Industrial Policy.
- The passenger car was however delicensed in 1993.
- At present 100% Foreign Direct Investment (FDI) is permissible under automatic route in this sector including passenger car segment.
- The industry also offers substantial scope of employment with 4.5 lakh direct employment and about one crore indirect employment.

Steel

- Iron and steel Industry took birth in India in the year 1870 when Bengal Iron Woks Company established its plant at Kulti, West Bengal.
- Large scale iron and steel production was started in 1907 by TISCO, established at Jamshedpur (Jharkhand).
- As per the data from International Iron and Steel Institute (IISI) India is the 7th largest producer of steel in the world.
- At present India is the 9th largest Crude Steel producing country in the world.
- Today, India is the largest producer of sponge iron in the world.

Small Enterprises Sector

- The employment provided by the sector is estimated to be over 280 lakh persons at present.
- In recognition of this role, the SE sector had been assigned targets of 12% annual growth in production and creation of 44 lakh additional employment opportunities in the Tenth Five-Year Plan.

Micro, Small and Medium Enterprise Development Act, 2006

- Small and Medium Enterprised Development Bill 2005 (which was introduced in the Parliament on May 12, 2005) has been approved by the President and thus became an Act.
- This new Act, named as 'Small and Medium Enterprise Development Act, 2006' has become effective from October 2, 2006.
- This Act makes a different category for medium level enterprises.
- This Act provides the first-ever legal frame work for recognition of the concept of *'enterprise'* (comprising both manufacturing and services) and integrating the three tiers of these enterprises, viz., micro, small and medium.

13. Foreign Trade

- Before independence, the foreign trade of India was being operated on the principles of colonialism. But after independence, there have been huge changes in its state and direction.
- After independence, inward looking foreign trade policies were accepted and the policy of import replacement was its base.
- Efforts were made for trade liberlisation during the decade of 1980 and the comprehensive policy of liberalisation and globalisation was made in the decade of 1990s (after the year 1991).

Volume of India's Foreign Trade

- After independence, Indian foreign trade has made cumulative progress both qualitatively and quantitatively. Though the size of foreign trade and its vlaue both have increased during post-independence era, this increase in foreign trade cannot be said satisfactory because Indian share in total foreign trade of the world has remained remarkable low.
- In 1950, the Indian share in the total world trade was 1.78%, which came down to 0.6% in 1995. According to the Economic Survey 2001-02 this share percentage of 0.6% continued in years 1997 and 1998. Since 1970, this share has remained around 0.6% which clearly indicates that India has failed to increase its share in the total world trade.
- India's total external trade (exports + imports including re–exports) in the year 2009–10 reached a level of Rs. 8,45,534 crore registering a growth of 0.57%. In US $ terms, exports reached a level of US $ 178.8 billion, registering a negative growth of –3.5% as compared to a growth of 13.6% during the previous year.

Composition of India's Foreign Trade

- Imports have been classified into Bulk imports and Non-bulk imports.
- Bulk imports are further sub-divided into Petroleum, oil and lubricants (POL) and non-POL items such as consumption goods, fertilizers and iron and steel.
- Non-bulk items comprise capital goods (which include electrical and non-electrical machinery), pearls, precious and semiprecious stones and other items.
- The structural changes in imports since 1951 show : (a) rapid growth of industrialisation necessiating increasing imports of capital goods and raw materials; (b) growing imports of raw materials on the basis of liberalisation of imports for export promotion; and (c) declining imports of food grains and consumer goods due to the country becoming self-sufficient in food grains and other consumer goods through agricultural and industrial growth.
- Exports of India are broadly classified into four categories : (i) Agriculture and allied products which include coffee, tea, oil cakes, tobacco, cashew kernels, spices, sugar, raw cotton, rice, fish and fish preparations, meat and meat preparations, vegetable oils, fruits, vegetables and pulses; (ii) Ores and minerals which include manganese ore, mica and iron ore; (iii)

Manufactured goods which include textiles and ready-made garments, jute manufactures, leather and footwear handicrafts including pearls and precious stones, chemicals, engineering goods and iron steel; and (iv) Mineral fuels and lubricants.

➢ Exports of India over the years show a clear decline in the importance of agriculture and allied products and a substantial increase in the importance of manufactured goods. This has been due to changing production structure of the economy and the overall growth of the economy.

Direction of Foreign Trade

➢ India is having maximum trade with OECD countries (mainly the USA, EU and Japan).

➢ The direction of Indian trade registered a change during recent past years. Indian trade has been partially shifted from West-Europe to East Asia and OECD countries.

➢ The high growth rate in Japan and ASEAN countries gave a high demand and favourable market to Indian exports. This has been one of the major reasons responsible for increasing Indian exports to East-Asian region of the world.

New Foreign Trade Policy (2009–2014)

➢ In the Foreign Trade policy for the year 2009–14 announced on 27 August, 2009, the Government spelt out a bold vision to double India's exports of goods and services by 2014 and to double India's percentage share of global trade by 2020 and to focus on the generation of additional employment.

➢ Stability of trade policy regime and need based support measures extended from time have yielded positive results since the inception of the Foreign Trade Policy (FTP) 2009–14.

Exim Policy 2002-07

➢ **The major highlights of Exim Policy 2002-07 are :**

(i) Removal of quantitative and packaging restrictions on agri exports.

(ii) Transport assistance for movement of agri goods.

(iii) Export thrust on items indentified in Medium Term Export Strategy.

(iv) Continuance of existing duty neutralisation schemes till the Value Added Tax (VAT) becomes fully operational.

(v) Extension of the period for fulfilling export obligations under Export Promotion Capital Goods (EPCG) Scheme from 8 to 12 years.

(vi) Exemption of banking units set up in SEZs from statutory requirements like SLR and CRR.

(vii) Easing of external commercial borrowing norms by permitting less than three years tenure loans.

(viii) Provision for repatriation of export earnings within 360 days instead of the earlier 180 days.

(ix) Retention of entire export earnings in Export Earners Foreign Currency Account (EEFA).

(x) Tax benefits on sales from domestic tariff areas to Special Economic Zones (SEZs).

(xi) Reduction of processing fees, fewer physical inspections, same day licensing in all offices of DGFT (Director Gen. of Foreign Trade).

(xii) Common classification for DGFT and customs department to eliminate classification related disputes.

(xiii) No licence requirement for relocation of overseas industrial plants in India.

(xiv) Industrial towns such as Tirpur, Panipat and Ludhiana to get Market Access Initiative (MAI) funds, priority for infrastructure development.

(xv) Allocation to states from Rs. 350 cr. Assistance to States for Infrastructure Development (ASIDE) fund linked to their export performance.

(xvi) Permission for captive power generation and duty free import of fuel for power generation, for exporters.

(xvii) Reduction in the eligibility for getting Export House status from Rs. 15 crores to Rs. 5 crores.

Balance of Payment : A statement of all transactions of a country with the rest of the world during a given period. Transactions may be related to trade, such as imports and exports of goods and services; movement of short-term and long-term investments; gifts, currency and gold. The balance of payments may be classified into current account, capital account, unilateral transfer account and gold account.

Balance of Trade : Part of the nation's balance of payments concerning imports and exports. A favourable balance of trade means that exports exceed imports in vlaue.

Invisibles : A term used to describe those items, such as financial series, included in the current Balance of Payments accounts, as distinct from physically visible Imports and Exports of goods. Invisibles include government grants to overseas countries and subscriptions to international organizations,net payment for shiping services, travel, royalties, commissions for banking and other services, transfers to or from overseas residents, Interest, Profits and Dividends received by or from overseas residents.

Foreign Exchange Reserves in India

Foreign Exchange Reserves in India, at the end of January 2013 was $ 295.60 billion.

- The foreign exchange reserves of the country include three important components : (i) Foreign Exchange Assets of RBI. (ii) Gold Stock of RBI (iii) SDR holdings of the Government.
- After 1991, Indian foreign exchange reserves have rapidly increased due to various reasons which are as follows : (i) Devlauation of Rupee. (ii) Availability of loans from international institutions. (iii) Availability of foreign exchange from NRIs under various schemes. (iv) Increased foreign investment (both direct and indirect). (v) Full convertibility of Rupee on current account.

➢ FEMA (Foreign Exchange Management Act) came into force in July 2000. This FEMA has replaced Foreign Exchange Regulation Act., 1973 (FERA-1973).

➢ Under FEMA provisions related to foreign exchange have been modified and liberalised so as to simplify foreign trade and payments. FEMA will make favourable development in foreign Money Market.

India's foreign trade

Year	Exports (Rs. crore)	Imports (Rs. crore)	Total trade (Rs. crore)	Trade deficit (Rs. crore)
1997-1998	1,30,101	1,54,176	2,84,277	-24,075
1998-1999	1,39,753	1,78,332	3,18,085	-38,579
1999-2000	1,59,561	2,15,236	3,74,797	-55,675
2000-2001	2,03,571	2,30,873	4,34,444	-27,302
2001-2002	2,09,018	2,45,200	4,54,218	-36,182
2002-2003	2,55,137	2,97,206	5,52,343	-42,069
2003-2004	2,93,367	3,59,108	6,52,475	-65,741
2004-2005	3,75,340	5,01,065	8,76,405	-1,25,725
2005-2006	4,56,418	6,60,409	11,16,827	-2,03,991
2006-2007	5,71,779	8,40,506	14,12,285	-2,68,727
2007-2008	6,55,864	10,12,312	16,68,176	-3,56,448
2008-2009	8,40,755	13,74,436	22,15,191	-5,33,681
2009-2010	8,45,534	13,63,736	22,09,270	-5,18,202

(Sources : DGCI and S, Kolkata)

(Courtesy : India 2011)

➢ India's total external trade (exports plus imports including re-exports) in the year 1950-51 stood at Rs. 1214 crore. Since then, this has witnessed continuous increase with occasional downturns.

➢ India's share in total world trade has gone up from 1.1% in 2004–i.e. initial year of the Foreign Trade Policy (2004–09) to 1.5% in 2006.

➢ During 2008-09 the vlaue of India's external trade reached Rs. 22,15,191 crore.

➢ India's imports were highest from Asia and ASEAN (35.22%) followed by West Europe (21.17%) and America (7.78%), during 2005-06.

➢ During 2009–10 India's imports reached to Rs. 13,63,736 crore from Rs. 13,74,436 crore in 2008–09, registering a negative growth of 0.78% in rupee terms. In US $ terms, imports reached a level of US $ 288.37 billion in 2009–10, registering a negative growth of –5.05%.

➢ During 2009–10, UAE (13.4%) has been the most important country to export destination followed by USA (10.9%), China (6.5%), Hong Kong (4.4%), Singapore (4.2%), Netherlands (3.6%), U.K. (3.5%), Germany (3%), Saudi Arabia (2.2%).

- Asia and ASEAN accounted for 60.9% of India's total imports during 2009–10 followed by Europe (19.2%) and America (10.2%). Among individual countries the share of China stood highest at 10.7% followed by UAE (6.8%), Saudi Arabia (5.95%), USA (5.9%).
- During 2009–10, the share of Asia and ASEAN region comprising South Asia, East Asia, North East Asia, WANA accounted for 53.93% of India's total exports.
- Trade deficit decreased during 2009–10 to Rs. –5,18,202 crore as against Rs. –5,33,681 crore – during 2008–09. In Us $ terms also, trade deficit decreased to US $ 109.6 billion from a level of US $ 118.4 billion during 2008–09.
- The share of Europe and America in India's exports stood at 21.56% and 15.02% respectively of which EU countries (27) comprises 20.17%.

Trade Organisations

- International Monetary Fund (IMF) was established on 27th December, 1945 on the basis of decision taken in the Bretenwood Conference and it started functioning w.e.f. 1st March, 1947.
- The total member countries of IMF in 2002 were 183.
- The function of IMF is to encourage financial and economic co-operation between member countries and to extend world trade.
- International Bank for Reconstruction and Development (IBRD) was established in 1945.
- IBRD alongwith other institutions is also called World Bank. The other institutions are International Finance Corporation, International Development Agency and Multilateral Investement Guarantee Agency.
- Presently, it is helping member countries in capital investment and encouraging long-term balanced development.
- General Agreement on Tariffs and Trade (GATT), came into being on 30th October, 1947 and started functioning from 1st January, 1948.
- The principle of GATT was – equal tariffs policy, to remove quantitative ban and disposal of business dispute in a democratic way.
- On 1st January, 1995 the World Trade Organisation took over the place and position of GATT.
- The Headquarter of WTO is in Geneva and the number of its member countries in the year 2003 was 146. India is a founder member of it.
- The India–ASEAN Trade in Goods Agreement has come into effect on Jan. 1, 2010, though it was signed on August 13, 2009.
- The signing of the India–ASEAN Trade in Goods Agreement paves the way for the creation of one of the world's largest *free trade areas* (FTA)—market of almost 1.8 billion people with a combined GDP of US $ 2.75 trillion.

14. Miscellaneous Facts

- According to the World Bank, on the basis of the purchasing power parity, the economy of India is the fourth largest economy in the world.

- In the production of vegetables, India is on the second position (after China).
- India is on the first position in the production of milk.
- The highest producer of milk in India is Uttar Pradesh.
- India is the third largest producer of Tobacco. The largest producer and consumer of tobacco is China.
- Four industries which have been reserved for public sector are -Arms and Ammunition, Atomic Energy, Rail Transportation and Minerals mentioned in the scheduled list of Atomic Energy.
- The position of India is first as a producer of pulses.
- The Centre receives maximum net revenue through Excise Duty.
- First Hydel Power Plant in India was started in Darjiling.
- The Money-Order system in India was launched in 1880.
- First postal stamp was launched in India in 1852.
- Maharashtra is the 1st state which accorded the status of Industry to agriculture in 1997.
- The "Big Push Theory" has been given by R. Rodan.
- Alfred Marshal propounded the "Principle of consumer surplus".
- Central Agmark Laboratory is in Nagpur.
- First Cotton Industry of the country was established in Kolkata in 1818 and the second by Kovas Jee Nana Bhai in Mumbai in 1853.
- Sindri Fertilizer Factory, Chitaranjan Locomotives, Indian Telephone Industry, Integral Coach Factory, Penciline Factory, Indian Telephone Industry were all established during first five-year plan.
- The largest number of co-operative institutions is in India.
- Unorganised sectors are creating more employment than organised sector in India.
- The share of groundnut is the highest in the production of oil seeds.
- Three cities of India have more than 1 crore population – Mumbai, Kolkata and Delhi.
- Urbanisation is highest in Goa in India.
- Asian Development Bank was established in 1966. (Head Office - Manila)
- The social accounting method of estimating national income was developed by Richard Stone.
- TRIFED : Tribal Co-operative Marketing Development Federation of India Ltd. established by government in 1987 to benefit small tribal farmers.
- NAFED : National Agricultural Co-operative Marketing Federation of India Ltd. was established for marketing the agricultural products.
- In 1993 FERA (Foreign Exchange Regulation Act 1973) was replaced by FEMA (Foreign Exchange Management Act).
- Small Industries have been completely relaxed from licencing.

- Since 2002, price of all petroleum products are market determined. Kerosene and domestic LPG is supplied at subsidised rates to target groups.
- Foreign exchange rates are not fixed. It changes with market conditions. But for example the exchange rate as on April 4, 2013 :

  1 US Dollar = 54.99 Rupees
  1 Pound Sterling = 83.18 Rupees
  1 Euro = 70.49 Rupees
- Average size of holding in India is continuously decreasing due to rigid population growth.
- Agriculture Income Insurance Scheme was announced in 2004 to provide insurance safeguards and economic security to farmers.
- Department of Agriculture and Co-operation formulated the Farm Income Insurance Scheme.
- Green Revolution is associated with the use of HYVS (High Yielding Variety Seeds), Chemical fertilizers and new techniques.
- Seed Crop Insurance is operational since 1999-2000.
- Seed Bank is in operation since 1999-2000. Its functions include meeting contigency requirement, development infrastructure for production and distribution of seeds.
- Types of loans provided to Indian Farmers :
  (a) Short Term Loans : Less than 15 months
  (b) Medium Term Loans : 15 months to 5 years
  (c) Long Term Loans : more than 5 years
- Loans are acquired from Institutional Sources (Banks) and Non-institutional sources (money lenders).
- Export-Import (EXIM) Bank was set up in 1982 for financing exports and imports.

Glossary of Economic and Financial Terms

Accrued interest : The interest due on a bond since the last interest payment was made. The buyer of the bond pays the market price plus accrued interest.

Acquisition : The acquiring of control of one corporation by another. In "unfriendly" takeover attempts, the potential buying company may offer a price well above current market values, new securities and other inducements to stockholders. The management of the subject company might ask for a better price or try to join up with a third company.

Active Market : This is a term used by stock exchange which specifies the particular stock or share that deals in frequent and regular transactions. It helps the buyers to obtain reasonably large amounts any time.

Administered Prices : When the prices of an item or a commodity are decided by the central power, generally the government or any other agency and not on the basis of demand and supply, such types of prices are called Administered Prices.

Ad-valorem Tax : Ad-valorem tax is a kind of indirect tax in which goods are taxed by their values. In the case of ad-valorem tax, the tax amount is calculated as the proportion of the price of the goods. Value Added Tax (VAT) is an ad-valorem tax. In other words when the tax is determined on the basis of value of a commodity, it is known as Ad-valorem tax.

Amalgamation : It means 'merger'. As and when necessity arises two or more companies are merged into a large organisation. The old firms completely lose their identity when the merger takes place.

American Depositary Receipt (ADR) : A security issued by a U.S. bank in place of the foreign shares held in trust by that bank, thereby facilitating the trading of foreign shares in U.S. markets.

Amortization : Accounting for expenses or charges as applicable rather than as paid. Includes such practices as depreciation, depletion, write-off of intangibles, prepaid expenses and deferred charges.

Annual report : The formal financial statement issued yearly by a firm, composing or corporation. The annual report shows assets, liabilities, revenues, expenses and earnings - how the company stood at the close of the business year, how it fared profit-wise during the year, as well as other information of interest to shareowners.

Appreciation : Appreciation means an increase in the value of something e.g. stock of raw materials or manufactured goods. It also includes an increase in the traded value of currency. It is an increase in the value of assets over a particular time period. Example : land, building, paintings etc. Appreciation is just opposite to depreciation. When the prices rise due to inflation, appreciation may occur.

Arbitrage : *A technique employed to take advantage of differences in price.* If, for example, ABC stock can be bought in New York for $10 a share and sold in London at $10.50, an arbitrageur may simultaneously purchase ABC stock here and sell the same amount in London, making a profit of $.50 a share, less expenses. Arbitrage may also involve the purchase of rights to subscribe to a security, or the purchase of a convertible security - and the sale at or about the same time of the security obtainable through exercise of the rights or of the security obtainable through conversion.

Arbitration : Where there is an industrial dispute, the Arbitration comes to the force. The judgement is given by the Arbitrator. Both the parties have to accept and honour the Arbitration. Arbitration is the settlement of labour disputes that takes place between employer and the employees.

Assets : Everything a corporation or an organisation owns or that is due to it: cash, investments, money due it, materials and inventories, which are called current assets; buildings and machinery, which are known as fixed assets; and patents and goodwill, called intangible assets.

Auction : When a commodity is sold by auction, the bids are made by the buyers. Who so ever makes the highest bid, gets the commodity which is being sold. The buyers make the bid taking into consideration the quality and quantity of the commodity.

Auction market : The system of trading securities through brokers or agents on an exchange such as the Bombay Stock Exchange. Buyers compete with other buyers while sellers compete with other sellers for the most advantageous price.

Auditor's report : Often called *the accountant's opinion*, it is the statement of the accounting firm's work and its opinion of the corporation's financial statements, especially if they conform to the normal and generally accepted practices of accountancy.

Autarchy : It means self-sufficiency and self-reliance of an economy. Autarchy is an indicator of self-sufficiency. It means that the country itself can satisfy the needs of its population without making imports from other countries.

Averages : Various ways of measuring the trend of securities prices, one of the most popular of which is the Dow Jones Industrial Average of 30 industrial stocks listed on the New York Stock Exchange. The prices of the 30 stocks are totaled and then divided by a divisor that is intended to compensate for past stock splits and stock dividends, and that is changed from time to time. As a result, point changes in the average have only the vaguest relationship to dollar-price changes in stocks included in the average.

Balance of Payment : It is the difference between country's payments and receipts from other countries during a year. In other words the balance of payment shows the relationship between the one country's total payment to all other countries and its total receipts from them. Balance of payment not only includes visible export and imports but also invisible trade like shipping, banking, insurance, tourism, royalty, payments of interest on foreign debts.

Balance of Trade : It refers to the relationship between the values of country's imports and its export, i.e. the visible balance. Balance of trade refers to the total of country's export commodities and total value of imports commodities. Thus, balance of trade includes only visible trade *i. e.* movement of goods (exports and imports of goods). Balance of trade is part of Balance of Payment statement.

Balance Sheet : Balance sheet is a statement showing the assets and liabilities of a business at certain date. Balance sheet helps in estimating the real financial situation of a firm.

Bank : Bank is a financial institution. It accepts funds on current account and savings accounts. It also lends money. The bank pays the cheques drawn by customers against current or savings bank account. The bank is a trader that deals in money and credit.

Bank Draft : Banker's draft (Demand Draft) is a negotiable claim drawn upon a bank. Drafts are as good as cash. The drafts cannot be returned unpaid. Bank Draft is safer than a cheque.

Bank Rate : It is official rate of interest charged by Reserve Bank of India on loans to other banks. It is the rate at which R.B.I. discounts first class securities including bills of exchange. Thus, it is also known as discount rate.

Bankruptcy : It is a situation in which a person is unable to discharge his debt obligations.

Basis point : One gradation on a 100 point scale representing 1%; used especially in expressing variations in the yields of bonds. Fixed income yields vary often and slightly within one percent and the basis point scale easily expresses these changes in hundredths of 1%. For example, the difference between 12.83% and 12.88% is 5 basis points.

Basket of Currency : In this system the exchange value of a country's currency is fixed in terms of some major international currencies. Indian rupee is valued against US Dollar, British Pound, Japanese Yen, French Franc and German Deutsche Mark. India opted for this system in 1975.

Bear and Bull : These terms are used in stock exchange. '*Bear*' is an individual who sells shares in a hope that the stock's price would fall. '*Bull*' is an individual who buys shares in a hope that the stock's price would rise.

Bearer bond : A bond that does not have the owner's name registered on the books of the issuer. Interest and principal, when due, are payable to the holder.

Bid and Asked : Often referred to as a quotation or quote. The bid is the highest price anyone wants to pay for a security at a given time, the asked is the lowest price anyone will take at the same time.

Bill of Exchange : It is an unconditional order in writing addressed by one person to another requiring the addressee to pay on demand or at a fixed future time a certain sum of money to the order of the specified person or to the bearer.

Birth Rate : Birth Rate (or Curde Birth Rate) is number of the births per thousand of the population during a period, usually a year. Only live births are included in the calculation of birth rate.

Black Money : It is unaccounted money which is concealed from tax authorities. All illegal economic activities are dealt with this black money. Howala market has deep roots with this black money. Black money creates parallel economy. It puts an adverse pressure on equitable distribution of wealth and income in the economy.

Block : A large holding or transaction of stock – popularly considered to be 10,000 shares or more.

Blue Chip : It is the most reliable industrial shares on a stock exchange. It is concerned with such equity shares whose purchase is extremely safe. It is a safe investment. It does not involve any risk.

Blue Collar Jobs : These Jobs are concerned with factory. Persons who are unskilled and depend upon manual jobs that require physical strain on human muscle are said to be engaged in Blue Collar Jobs. In the age of machinery, such Jobs are on the decline these days.

Blue Sky Laws : A popular name for laws various states have enacted to protect the public against securities frauds. The term (generally used in the context of U.S.A)is believed to have originated when a judge ruled that a particular stock had about the same value as a patch of blue sky.

Bond : A bond is evidence of a debt on which the issuing company usually promises to pay the bondholders a specified amount of interest for a specified length of time, and to repay the loan on the expiration date.

Book value : An accounting term. Book value of a stock is determined from a company's records, by adding all assets then deducting all debts and other liabilities, plus the liquidation price of any preferred issues. The sum arrived at is divided by the number of common shares outstanding and the result is book value per common share. Book value of the assets of a company or a security may have little relationship to market value.

Boom : The point at which price and employment are the maximum. The trade is also at its highest point and beyond this no upward movement is possible.

Bounty : It is a subsidy paid by the government to exporters. It reduces the price of exportable goods and hence act as incentive to enhance exports.

Brain-Drain : It means the drift of intellectuals of a country to another country. Scientists, doctors and technology experts generally go to other prominent countries of the world to better their lot and earn huge sums of money. This Brain-Drain deprives a country of its genius and capabilities.

Bridge loan : A loan made by a bank for a short period to make up for a temporary shortage of cash. On the part of borrower, mostly the companies, for example, a business organisation wants to install a new company with new equipments etc. While its present installed company or equipments etc. are not yet disposed off. Bridge loan covers this period between the buying the new and disposing of the old one.

Broad Banding : It means providing more flexibility to manufacturers to produce wider variety of products with same raw material mix so as to ensure optimum capacity.

Broker : An agent who handles the public's orders to buy and sell securities, commodities or other property. A commission is charged for this service

Brokers' loans : Money borrowed by brokers from banks or other brokers for a variety of uses. It may be used by specialists to help finance inventories of stock they deal in; by brokerage firms to finance the underwriting of new issues of corporate and municipal securities; to help finance a firm's own investments; and to help finance the purchase of securities for customers who prefer to use the broker's credit when they buy securities.

Budget : It is a document containing a preliminary approved plan of public revenue and public expenditure. It is a statement of the estimated receipt and expenses during a fixed period. It is a comparative table giving the accounts of the receipts to be realised and of the expenses to be incurred.

Budget Deficit : Budget deficit is the difference between the estimated public expenditure and public revenue. The government meets the deficit by way of printing new currency or by borrowing. Budget may take a shape of deficit when the public revenue falls short to public expenditure.

Buffer stocks : These are the stocks (generally of primary goods) accumulated by a government agency when supply is plentiful. These stocks are released in case of shortage of supply. In India Food Corporation of India (FCI) accumulates foodgrains as buffer stocks.

Bullion : It is gold or silver having a spesific degree of purity. Generally it is in the form of gold or silver bars.

Bull Market : It is a market where the speculators buy shares or commodities in anticipation of rising prices. This market enables the speculators to resale such shares and make a profit. The opposite is Bear Market.

Buoyancy : In the inflationary period, the increase in tax revenue is known as buoyancy. When the government fails to check inflation , it raises income tax and the corporate tax. Such a tax is called Buoyancy. It concerns with the revenue from taxation in the period of inflation.

Buyer's market : When the market is favourable to buyer's market. This situation occurs when there is a change from boom to recession i.e. demand is less than supply.

Buy side : The portion of the securities business in which institutional orders originate.

Callable : A bond issue, all or part of which may be redeemed by the issuing firm, institution or organisation under specified conditions before maturity. The term also applies to preferred shares that may be redeemed by the issuing organisation.

Call Money : It is a loan that is made for a very short period of a few days only or for a week. It carries a low rate of interest. In case of stock exchange market, the duration of the call money may be for a fortnight.

Capital : The stock of goods which are used in production and which themselves have been produced. It is one of the major factors of production, the other being land, labour and entrepreneurship .

Capitalism : The economic system based on free enterprise and private profit. Capitalism is an economic system in which all means of production are owned by private individuals. Self-profit motive is the guiding feature for all the economic activities under capitalism. Under pure capitalist system econonic conditions are regulated solely by free market forces. This system is based on 'Laissez-faire system' *i.e.* no state intervention. Sovereignty of consumer prevails in this system.

Capital Market : It is a market for long term loans. Capital market is the market which gives medium term and long term loans. It is different from money market which deals only in short term loans.

Capital stock : All shares representing ownership of a business, including preferred and common.

Capitalization : Total amount of the various securities issued by organisation or a company. Capitalization may include bonds, debentures, preferred and common stock, and surplus. Bonds and debentures are usually carried on the books of the issuing company in terms of their par or face value. Preferred and common shares may be carried in terms of par or stated value. Stated value may be an arbitrary figure decided upon by the director or may represent the amount received by the company from the sale of the securities at the time of issuance.

Cash flow : Reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization, and extraordinary charges to reserves, which are bookkeeping deductions and not paid out in actual rupees and paise or dollars and cents.

Cash Reserve Ratio (CRR) : It refers to that portion of banker's total cash reserves which they are statutorily required to hold with the R.B.I. The commercial banks are required to keep a certain amount of cash reserves at the central bank i.e. RBI. This percentage amount is called CRR. It influences the commercial bank's volume of credit because variation in CRR affects the liquidity position of the banks and hence their ability to lend.

Cash sale : A transaction on the floor of the stock exchange that calls for delivery of the securities the same day. In "regular way" trade, the seller is to deliver on the third business day, except for bonds, which are the next day.

Ceiling Prices : This is the maximum limit fixed generally by government or its agency. Beyond it the prices cannot rise.

Certificate : The actual piece of paper that is evidence of ownership of stock in a company or an organisation. Watermarked paper is finely engraved with delicate etchings to discourage forgery.

Certificate of deposit (CD) : A money market instrument characterized by its set date of maturity and interest rate. There are two basic types of CDs: traditional and negotiable.Traditional bank CDs typically incur an early-withdrawal penalty, while negotiable CDs have secondary market liquidity with investors receiving more or less than the original amount depending on market conditions.

Cheap Money : It indicates a situation when bank rate and other rates of interest are low.

Cheque : Cheque is an order in writing issued by the drawer to a bank. If the customer has sufficient amount in his account, the cheque is paid by the bank. Cheques are used in place of cash money.

Clearing House : Clearing house is an institution which helps to settle the mutual indebtedness that occurs among the members of its organisation.

Closed Economy : Closed economy refers to the economy having no foreign trade (*i.e.* export and import). Such economies depend exclusively on their own internal domestic resources and have no dependence on out side world.

Collateral : Securities or other property pledged by a borrower to secure repayment of a loan.

Commercial paper : Debt instruments issued by companies to meet short-term financing needs.

Commission : The broker's basic fee for purchasing or selling securities or property as an agent.

Commission broker : An agent who executes the public's orders for the purchase or sale of securities or commodities.

Common stock : Securities that represent an ownership interest in a company. If the company has also issued preferred stock, both common and preferred have ownership rights. Common stockholders assume the greater risk, but generally exercise the greater control and may gain the greater award in the form of dividends and capital appreciation. The terms common stock and capital stock are often used interchangeably when the company has no preferred stock.

Competitive trader : A member of the exchange who trades in stocks on the floor for an account in which there is an interest. Also known as a registered trader.

Conglomerate : A company or an organisation that has diversified its operations usually by acquiring enterprises in widely varied industries.

Consolidated balance sheet : A balance sheet showing the financial condition of a corporation and its subsidiaries.

Convertible : A bond, debenture or preferred share that may be exchanged by the owner for common stock or another security, usually of the same company, in accordance with the terms of the issue.

Core Industries : Core Industries include strategic, basic and critical industries which remain generally under state control, e.g. defence, iron and steel, fertilizers etc.

Core Sector : Economy needs basic infrastructure for accelerating development. Development of infrastructure industries like cement, iron and steel, petroleum, heavy machinery etc. can only ensure the development of the economy as a whole. Such industries are core sector industries.

Corporate Tax : It is a direct tax levied on company's profit. It is calculated on profits after interest and allowance (*i.e.* capital allowance) have been deducted.

Correspondent : A securities firm, bank or other financial organization that regularly performs services for another in a place or market to which the other does not have direct access. Securities firms may have correspondents in foreign countries or on exchanges of which they are not members. Correspondents are frequently linked by private wires.

Cost Price Index (CPI) : It is used for measuring cost of living and it covers large number of commodities than Wholesale Price Index (WPI) which is used for measuring rate of inflamation.

Coupon bond : Bond with interest coupons attached. The coupons are clipped as they come due and presented by the holder for payment of interest.

Credit Control : It implies the measures employed by central bank of a country to control the volume of credit in the banks.

Credit Rating : It is the assessed credit worthiness of prospective customer.

Credit Rationing : Credit rationing takes place when the banks discriminates between the borrowers. Credit rationing empowers the bank to lend to someone and refuse to lend others. In this way credit rationing restricts lending on the part of bank.

Credit Squeeze : Monetary authorities restrict credit as and when required. This credit restriction is called credit squeeze. In other words when the credit control is very tight and restrict, this situation is known as credit squeeze.

Cumulative preferred : A stock having a provision that if one or more dividends are omitted, the omitted dividends must be paid before dividends may be paid on the company's common stock.

Current assets : Those assets of a company that are reasonably expected to be realized in cash, sold or consumed during one year. These include cash, Government bonds, receivables and money due usually within one year, as well as inventories.

Current liabilities : Money owed and payable by a company, usually within one year.

Custom Duty : It implies tax on imports. Custom duty is a duty that is imposed on the products received from exporting nations of the world. It is also called protective duty as it protects the home industries.

Cyclical Unemployment : It is that phase of unemployment which appears due to the occurance of the downward phase of the trade cycle. Such an employment is reducted or eliminated when the business cycle turns up again.

Day order : An order to buy or sell that, if not executed, expires at the end of trading day on which it was entered.

Dealer : An individual or firm in the securities business who buys and sells stocks and bonds as a principal rather than as an agent. The dealer's profit or loss is the difference between the price paid and the price received for the same security. The dealer's confirmation must disclose to the customer that the principal has been acted upon. The same individual or firm may function, at different times, either as a broker or dealer.

Death Rate : Death rate signifies the number of deaths in a year per thousand of the population. It is mostly known as *crude death rate*. Life expectancy is important determinant of death rate. A country having high life expectancy will have a high crude death rate.

Debentures : It is a document which enlists the terms or conditions of a loan. The debentures are used by corporate sector (companies). The debenture holders are to be paid a fixed annual rate of interest and they have the first claim on the assets of a company as creditors.

Debit balance : In a customer's margin account, that portion of the purchase price of stock, bonds or commodities that is covered by credit extended by the broker to the margin customer.

Decentralisation : Decentralisation means the establishment of various units of the same industry at different places. Large scale organisation or industry can not be run at one particular place or territory. In order to increase the effeciency of the industry, various units at different places are located.

Deed : It is a written contract signed under legal seal.

Deflation : Deflation is a fall in the general price level over a particular period of time. It is opposite to inflation.

Demand Draft : It is a bill of exchange payable at sight.

Depletion accounting : Natural resources, such as metals, oil, gas and timber, that conceivably can be reduced to zero over the years, present a special problem in capital management. Depletion is an accounting practice consisting of charges against earnings based upon the amount of the asset taken out of the total reserves in the period for which accounting is made. A bookkeeping entry, it does not represent any cash outlay nor are any funds earmarked for the purpose.

Depository Trust Company (DTC) : A central securities certificate depository through which members effect security deliveries between each other via computerized bookkeeping entries thereby reducing the physical movement of stock certificates.

Depreciation : It is the reduction in the value of a fixed asset due to wear and tear.

Depression : It is just opposite to "boom". It implies a state of economy when lack of demand result in heavy unemployment and stagnation in economy.

Devaluation : It is the reduction in the official rate of a currency in terms of a foreign currency. Indian rupee has been devalued thrice in 1949, 1966 and 1991.

Director : Person elected by shareholders to serve on the board of directors. The directors appoint the president, vice presidents, and all other operating officers. Directors decide, among other matters, if and when dividends shall be paid.

Direct Tax : It is a tax whose burden cannot be shifted i.e. the burden of direct tax is borne by the person on whom it is initially fixed, e.g.- personal income tax, social security tax paid by employees, death tax etc.

Discount : The amount by which a preferred stock or bond may sell below its par value. Also used as a verb to mean "takes into account" as the price of the stock has discounted the expected dividend cut.

Discretionary account : An account in which the customer gives the broker or someone else discretion to buy and sell securities or commodities, including selection, timing, amount, and price to be paid or received.

Diversification : Spreading investments among different types of securities and various companies in different fields.

Dividend : It is earnings on stocks paid to shareholders.

Dow theory : A theory of market analysis based upon the performance of the Dow Jones Industrial Average and transportation stock price averages. The theory says that the market is in a basic upward trend if one of these averages advances above a previous important high, accompanied or followed by a similar advance in the other. When both averages dip below previous important lows, this is regarded as confirmation of a downward trend. The Dow Jones is one type of market index.

Dumping : It means selling goods in international market at a price which is lower than that in domestic or home market.

Earnings report : A statement, also called an income statement, issued by a company showing its earnings or losses over a given period. The earnings report lists the income earned, expenses and the net result.

Elasticity of demand : The responsiveness of demand of a commodity to the change in its price is known as elasticity of demand.

Embargo : It means prohibition of entry of goods from certain countries into a particular country.

Engel's law : Ernest Engel, the 19th century German statistician, analysed the budget data of working families and established a relationship between the families income and expenditure. According to the Law "When a family's income increases the percentage of its income spent on food decreases."

Equity : The ownership interest of common and preferred stockholders in a company. Also refers to excess of value of securities over the debit balance in a margin account.

Exchange Rate : The rate at which central banks will exchange one country's currency for another.

Excise Tax : Tax imposed on the manufacture, sale or the consumption of various commodities, such as taxes on textiles, cloth, liquor etc.

Ex-dividend : A synonym for "without dividend." The buyer of a stock selling ex-dividend does not receive the recently declared dividend. When stocks go ex-dividend, the stock tables include the symbol "x" following the name.

Ex-rights : Without the rights. Corporations/Companies raising additional money may do so by offering their stockholders the right to subscribe to new or additional stock, usually at a discount from the prevailing market price. The buyer of a stock selling ex-rights is not entitled to the rights.

Extra : The short form of "extra dividend." A dividend in the form of stock or cash in addition to the regular or usual dividend the company has been paying.

Face value : The value of a bond that appears on the face of the bond, unless the value is otherwise specified by the issuing company. Face value is ordinarily the amount the issuing company promises to pay at maturity. Face value is not an indication of market value. Sometimes referred to as par value.

Factor cost : It is the sum total of amount paid to four main factors of production i.e. Land (rent), Labour (compensation of employees), Capital (interest), entrepreneurship (profit). It is exclusive of taxes or subsidies.

FINRA : The Financial Industry Regulatory Authority (f/k/a National Association of Securities Dealers), is the largest non-governmental regulator for all securities firms doing business in the United States. FINRA was created in July 2007 through the consolidation of NASD and the member regulation, enforcement and arbitration functions of the New York Stock Exchange.

Fiscal year : A firm's or company's or a corporation's accounting year. Due to the nature of their particular business, some companies do not use the calendar year for their bookkeeping. A typical example is the department store that finds December 31 too early a date to close its books after the Christmas rush. For that reason many stores wind up their accounting year January 31. Their fiscal year, therefore, runs from February 1 of one year through January 31 of the next. The fiscal year of other companies may run from July 1 through the following June 30. Most companies, though, operate on a calendar year basis.

Fixed charges : A company's fixed expenses, such as bond interest, which it has agreed to pay whether or not earned, and which are deducted from income before earnings on equity capital are computed.

Flat income bond : This term means that the price at which a bond is traded includes consideration for all unpaid accruals of interest. Bonds that are in default of interest or principal are traded flat. Income bonds that pay interest only to the extent earned are usually traded flat. All other bonds are usually dealt in "and interest," which means that the buyer pays to the seller the market price plus interest accrued since the last payment date.

Floating of a Currency : When the exchange value of a currency in terms of other currencies is not fixed officially, that currency is said to be floating.

Floor : The huge trading area - about the size of a football field - where stocks, bonds and options are bought and sold on the Stock Exchange.

Floor broker : A member of the stock exchange who executes orders on the floor of the Exchange to buy or sell any listed securities.

Foreign Exchange Reserves : Foreign Exchange Reserves of a country includes foreign currency assets and interest bearing bonds held by it. In India it also includes SDR and value of gold.

Formula investing : An investment technique. One formula calls for the shifting of funds from common shares to preferred shares or bonds as a selected market indicator rises above a certain predetermined point - and the return of funds to common share investments as the market average declines.

Free and open market : A market in which supply and demand are freely expressed in terms of price. Contrasts with a controlled market in which supply, demand and price may all be regulated.

Free Trade : It implies absence of any protective tariffs or trade barriers by any economy with respect to export and import.

Fundamental research : Analysis of industries and companies based on such factors as sales, assets, earnings, products or services, markets and management. As applied to the economy, fundamental research includes consideration of gross national product, interest rates, unemployment, inventories, savings, etc.

Funded debt : Usually interest-bearing bonds or debentures of a company. Could include long-term bank loans. Does not include short-term loans, preferred or common stock.

General mortgage bond : A bond that is secured by a blanket mortgage on the company's property but may be outranked by one or more other mortgages.

Gilt-edged:High-gradebondissuedbyacompanythathasdemonstrated its ability to earn a comfortable profit over a period of years and pay its bondholders their interest without interruption.

Give-up : A term with many different meanings. For one, a member of the exchange on the floor may act for a second member by executing an order for him or her with a third member. The first member tells the third member that he or she is acting on behalf of the second member and "gives up" the second member's name rather than his or her own.

Good delivery :Certain basic qualifications must be met before a security sold on the Exchange may be delivered. The security must be in proper form to comply with the contract of sale and to transfer title to the purchaser.

Good 'til canceled (GTC) or open order : An order to buy or sell that remains in effect until it is either executed or canceled.

Greshan's law : "If not limited in quantity; bad money drives good money out of circulation." This statement was given by economist Sir Thomas Gresham, the economic advisor of Queen Elizabeth.

Gross Domestic Product (GDP) : It is the aggregate of total flow of goods and services produced by an economy in a year.

Gross National Product (GNP) : Gross Domestic Product plus net factor income from abroad is equal to Gross National Product.

Growth stock : Stock of a company with a record of growth in earnings at a relatively rapid rate.

Holding company : A corporation that owns the securities of another, in most cases with voting control.

Hot Money : It is a volatile money which comes easily but can also go out easily, e.g. portfolio investment.

Hypothecation : The pledging of securities as collateral - for example, to secure the debit balance in a margin account.

Income bond : Generally income bonds promise to repay principal but to pay interest only when earned. In some cases unpaid interest on an income bond may accumulate as a claim against the corporation when the bond becomes due. An income bond may also be issued in lieu of preferred stock.

Indenture : A written agreement under which bonds and debentures are issued, setting forth maturity date, interest rate and other terms.

Independent broker : Member on the floor of the Stock Exchange who executes orders for other brokers having more business at that time than they can handle themselves, or for firms who do not have their exchange member on the floor.

Index : A statistical yardstick expressed in terms of percentages of a base year or years. For instance, the BSE Composite Index of all BSE common stocks is based on 1965 as 50. An index is not an average.

Indirect Tax : Tax levied on goods purchased by the consumer (and exported by the producer) for which the tax payer's liabilities vary in proportion to the quantity of particular goods purchased or sold.

Inflation : It is a sustained increase in general price level over a particular period of time. It reduces the purchasing power of money.

Institutional investor : An organization whose primary purpose is to invest its own assets or those held in trust by it for others. Includes pension funds, investment companies, insurance companies, universities and banks.

Interest : Payments borrowers pay lenders for the use of their money. A corporation pays interest on its bonds to its bondholders.

Interim Budget : It is an addition to the general budget and is presented as a part of it through the financial year.

International Monetary Fund (IMF) : It is a multinational institution set up in 1945. It started working as an independent organisation in 1947. It seeks to maintain cooperative and orderly currency arrangements between member countries with the aim of promoting increased international trade and BOP equilibrium.

Interrogation device : A computer terminal that provides market information - last sale price, quotes, volume, etc. - on a screen or paper tape.

Investment : The use of money for the purpose of making more money, to gain income, increase capital, or both.

Investment banker : Also known as an underwriter. The middleman between the corporation issuing new securities and the public. The usual practice is for one or more investment bankers to buy outright from a corporation a new issue of stocks or bonds. The group forms a syndicate to sell the securities to individuals and institutions. Investment bankers also distribute very large blocks of stocks or bonds - perhaps held by an estate.

Investment counsel : One whose principal business consists of acting as investment advisor and rendering investment supervisory services.

I.O.U. : It means 'I owe you'. It is *non-negotiable promissory note* indicating the debt owed by one party to another.

IRA : Individual retirement account. A pension plan with tax advantages. IRAs permit investment through intermediaries like mutual funds, insurance companies and banks, or directly in stocks and bonds through stockbrokers.

Issue : Any of a company's securities, or the act of distributing such securities.

Joint Stock Company : It is a form of company in which a number of people contribute funds to finance a firm in return for 'shares' in the company.

Keogh plan : Tax-advantaged personal retirement program that can be established by a self- employed individual.

Laissez-faire : Literally it means 'to let people do as they choose'. It is an economic doctrine which emphasizes the superiority of 'free' trade and 'free' markets over state's interference in economic affairs. It is of French orgin of which British variation is 'Laissez-faire'.

Legal Tender : It is the currency (coins and bank notes) which have to be accepted in payment.

Leverage : The effect on a company when the company has bonds, preferred stock, or both outstanding. Example: If the earnings of a company with 1,000,000 common shares increases from \$1,000,000 to \$1,500,000, earnings per share would go up from \$1 to \$1.50, or an increase of 50%. But if earnings of a company that had to pay \$500,000 in bond interest increased that much, earnings per common share would jump from \$.50 to \$1 a share, or 100%.

Liabilities : All the claims against a corporation. Liabilities include accounts, wages and salaries payable; dividends declared payable; accrued taxes payable; and fixed or long-term liabilities, such as mortgage bonds, debentures and bank loans.

Limit, limited order, or limited price order : An order to buy or sell a stated amount of a security at a specified price, or at a better price, if obtainable after the order is represented in the trading crowd.

Liquidation : The process of converting securities or other property into cash. The dissolution of a company, with cash remaining after sale of its assets and payment of all indebtedness being distributed to the shareholders.

Liquidity : The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes. Liquidity is one of the most important characteristics of a good market.

Listed stock : The stock of a company that is traded on a securities exchange.

Load : The portion of the offering price of shares of open-end investment companies in excess of the value of the underlying assets. Covers sales commissions and all other costs of distribution. The load is usually incurred only on purchase, there being, in most cases, no charge when the shares are sold (redeemed).

Locked in : Investors are said to be locked in when they have profit on a security they own but do not sell because their profit would immediately become subject to the capital gains tax.

Manipulation : An illegal operation. Buying or selling a security for the purpose of creating false or misleading appearance of active trading or for the purpose of raising or depressing the price to induce purchase or sale by others.

Margin : The amount paid by the customer when using a broker's credit to buy or sell a security. Under Federal Reserve regulations, the initial margin requirement since 1945 has ranged from the current rate of 50% of the purchase price up to 100%.

Margin call : A demand upon a customer to put up money or securities with the broker. The call is made when a purchase is made; also if a customer's account declines below a minimum standard set by the exchange or by the firm.

Market order : An order to buy or sell a stated amount of a security at the most advantageous price obtainable after the order is represented in the trading crowd.

Market price : The last reported price at which the stock or bond sold, or the current quote.

Market value : The market value of an equity share is the price at which it is traded in the market . This price can be easily established for a company that is listed on the stock market and actively traded. (For a company that is listed on the stock market but traded very infrequently, it is difficult to obtain a reliable market quotation . For a company that is not listed on the stock market, one can merely conjecture as to what its market price would be if it were traded.)

Maturity : The date on which a loan or bond comes due and is to be paid off.

Merchant Banking : In Merchant Banking banks act as "underwriter" and do business on behalf of corporate sector . Such banking helps in larger participation of people in capital market e.g. ICICI.

Merger : Combination of two or more corporations.

MODVAT : The *modified system of value added taxation* is based on the idea of tax final products and not inputs that go into production.

Money Market : It is a market engaged in short-term lending and borrowing of money linking together the financial institutions, companies and the government.

Money market fund : A mutual fund whose investments are in high-yield money market instruments such as federal securities, CDs and commercial paper. Its intent is to make such instruments, normally purchased in large denominations by institutions, available indirectly to individuals.

Monopoly : It is a type of market structure having one seller and many buyers. There is a lack of substitute products and entry of new firms into market is not possible.

Mortgage bond : A bond secured by a mortgage on a property. The value of the property may or may not equal the value of the bonds issued against it.

MoU : The concept of *Memorandom of Understanding* (MoU) was introduced in 1988. The main objective of MoU is to reduce the quantity of control and increase the quality of accountability. The emphasis is on achieving the negotiated and agreed objectives rather than interfering in the day-to-day affairs.

Mutual Fund : It is a form of collective investment that is useful in spreading risks and optimising returns.

Nasdaq : An automated information network that provides brokers and dealers with price quotations on securities traded over-the-counter. Nasdaq is an acronym for National Association of Securities Dealers Automated Quotations.

National Income : It is equal to the total money value of goods and services produced over the given time period less capital consumption.

Negotiable : Refers to a security, the title to which is transferable by delivery.

Net asset value : Usually used in connection with investment companies to mean net asset value per share. An investment company computes its assets daily, or even twice daily, by totaling the market value of all securities owned. All liabilities are deducted, and the balance is divided by the number of shares outstanding. The resulting figure is the net asset value per share.

Net change : The change in the price of a security from the closing price on one day to the closing price the next day on which the stock is traded. The net change is ordinarily the last figure in the newspaper stock price list.

Net Domestic Product (NDP) : The money value of a nation's annual output of goods and service, less capital consumption (depreciation) experienced in producing that output.

Net National Product (NNP) : Net National Product is equal to Net Domestic Product plus Net factor income from abroad.

New York Futures Exchange (NYFE) : A subsidiary of the New York Stock Exchange devoted to the trading of futures products.

New York Stock Exchange (NYSE) : The largest organized securities market in the United States, founded in 1792. The Exchange itself does not buy, sell, own or set the prices of securities traded there. The prices are determined by public supply and demand. The Exchange is a non-profit corporation of 1,366 individual members, governed by a board of directors consisting of 10 public representatives, 10 Exchange members or allied members and a full-time chairman, executive vice chairman and president.

Noncumulative : A type of preferred stock on which unpaid dividends do not accrue. Omitted dividends are, as a rule, gone forever.

NYSE Composite Index : The composite index covering price movements of all common stocks listed on the New York Stock Exchange. It is based on the close of the market December 31, 1965, as 50 and is weighted according to the number of shares listed for each issue. The index is computed continuously and printed on the ticker tape. Point changes in the index are converted to dollars and cents so as to provide a meaningful measure of changes in the average price of listed stocks. The composite index is supplemented by separate indexes for four industry groups: industrial, transportation, utility and finance.

Octroi : It is an internal tariff system among different region of a country.

Odd Lot : An amount of stock less than the established 100-share unit.

Off-board : This term may refer to transactions over-the-counter in unlisted securities or to transactions of listed shares that are not executed on a national securities exchange.

Offer : The price at which a person is ready to sell. Opposed to bid, the price at which one is ready to buy.

Overbought : An opinion as to price levels. May refer to a security that has had a sharp rise or to the market as a whole after a period of vigorous buying which, it may be argued, has left prices "too high."

Oversold : The reverse of overbought. A single security or a market which, it is believed, has declined to an unreasonable level.

Over-the-counter : A market for securities made up of securities dealers who may or may not be members of a securities exchange. The over-the-counter market is conducted over the telephone and deals mainly with stocks of companies without sufficient shares, stockholders or earnings to warrant listing on an exchange. Over-the-counter dealers may act either as principals or as brokers for customers. The over-the-counter market is the principal market for bonds of all types.

Paper profit (loss) : An unrealized profit or loss on a security still held. Paper profits and losses become realized only when the security is sold.

Par : In the case of a common share, par means a dollar amount assigned to the share by the company's charter. Par value may also be used to compute the dollar amount of common shares on the balance sheet. In the case of preferred stocks it signifies the dollar value upon which dividends are figured. With bonds, par value is the face amount, usually $1,000.

Participating preferred : A preferred stock that is entitled to its stated dividend and to additional dividends on a specified basis upon payment of dividends on the common stock.

Passed dividend : Omission of a regular or scheduled dividend.

Penny stocks : Low-priced issues, often highly speculative, selling at less than $1 a share. Frequently used as a term of disparagement, although some penny stocks have developed into investment-caliber issues.

Per Capita Income : It implies income per person . It is obtained by dividing national income of country by its population.

Plastic Money : It refers to use of instruments like *"credit cards"* instead of cash in business transactions. It is called so because *credit cards* are made of plastic. Plastic Money also carries information about its holder in coded form which makes it theft proof. No one, but the holder is able to use the card.

Point : In the case of shares of stock, a point means $1. If ABC shares rise 3 points, each share has risen $3. In the case of bonds a point means $10 since a bond is quoted as a percentage of $1,000. A bond that rises 3 points gains 3% in $1,000, or $30 in value. An advance from 87 to 90 would mean an advance in dollar value from $870 to $900. In the case of market averages the word point means merely that and no more.

Portfolio : Holdings of securities by an individual or institution. A portfolio may contain bonds, preferred stocks, common stocks and other securities.

Poverty Line : The poverty line has been fixed by the planning commission on the basis of an average daily intake of 2400 calories per person in rural areas and 2100 calories per capita in urban areas. In monetary terms the poverty line is commented to be Rs. 76 per month in rural and Rs. 88 in urban areas in terms of 1979- 80 prices.

Preferred stock : A class of stock with a claim on the company's earnings before payment may be made on the common stock and usually entitled to priority over common stock if the company liquidates. Usually entitled to dividends at a specified rate - when declared by the board of directors and before payment of a dividend on the common stock - depending upon the terms of the issue.

Premium : The amount by which a bond or preferred stock may sell above its par value. May refer, also, to redemption price of a bond or preferred stock if it is higher than face value.

Price-to-earnings ratio : A popular way to compare stocks selling at various price levels. The P/E ratio is the price of a share of stock divided by earnings per share for a 12-month period. For example, a stock selling for $50 a share and earning $5 a share is said to be selling at a price-to-earnings ratio of 10.

Primary distribution : Also called primary or initial public offering. The original sale of a company's securities.

Prime rate : The lowest interest rate charged by commercial banks to their most credit- worthy customers; other interest rates, such as personal, automobile, commercial and financing loans are often pegged to the prime.

Principal : The person for whom a broker executes an order, or dealers buying or selling for their own accounts. The term "principal" may also refer to a person's capital or to the face amount of a bond.

Profit-taking : Selling stock that has appreciated in value since purchase, in order to realize the profit. The term is often used to explain a downturn in the market following a period of rising prices.

Prospectus : The official selling circular that must be given to purchasers of new securities registered with the Securities and Exchange Commission. It highlights the much longer Registration Statement file with the Commission.

Proxy : Written authorization given by a shareholder to someone else to represent him or her and vote his or her shares at a shareholders meeting.

Proxy statement : Information given to stockholders in conjunction with the solicitation of proxies.

Recession : Recession cycle characterised by a modest downturn in the level of economic activity means fall up of demand.

Reflation : It is an increase in the level of *National Income and Output.* Reflation is often deliberately brought about by the authorities in order to secure full employment and to increase the rate of economic growth.

Quote : The highest bid to buy and the lowest offer to sell a security in a given market at a given time. If you ask your financial advisor for a "quote" on a stock, he or she may come back with something like "45 1/4 to 45 1/2." This means that $45.25 is the highest price any buyer wanted to pay at the time the quote was given on the floor of the exchange and that $45.50 was the lowest price that any seller would take at the same time.

Rally : A brisk rise following a decline in the general price level of the market, or in an individual stock.

Record date : The date on which you must be registered as a shareholder of a company in order to receive a declared dividend or, among other things, to vote on company affairs.

Redemption price : The price at which a bond may be redeemed before maturity, at the option of the issuing company. Redemption value also applies to the price the company must pay to call in certain types of preferred stock.

Refinancing : Same as refunding. New securities are sold by a company and the money is used to retire existing securities. The object may be to save interest costs, extend the maturity of the loan, or both.

Registered bond : A bond that is registered on the books of the issuing company in the name of the owner. It can be transferred only when endorsed by the registered owner.

Registrar : Usually a trust company or bank charged with the responsibility of keeping record of the owners of a corporation's securities and preventing the issuance of more than the authorized amount.

Regulation T : The federal regulation governing the amount of credit that may be advanced by brokers and dealers to customers for the purchase of securities.

Regulation U : The federal regulation governing the amount of credit that may be advanced by banks to customers for the purchase of listed stocks.

Rights : When a company wants to raise more funds by issuing additional securities, it may give its stockholders the opportunity, ahead of others, to buy the new securities in proportion to the number of shares each owns. The piece of paper evidencing this privilege is called a right.

Scheduled bank : It is a bank included in the second schedule of RBI. It has a minimum cash reserve of "Rs. 5 lakh".

Scale order : An order to buy (or sell) a security, that specifies the total amount to be bought (or sold) at specified price variations.

Scripophily : A term coined in the mid-1970s to describe the hobby of collecting antique bonds, stocks and other financial instruments. Values are affected by beauty of the certificate and the issuer's role in world finance and economic development.

SDRs (Special Drawing Rights) : The SDR is a reverse asset created within the framework of the International Monetary Fund in an attempt to increase international liquidity and forming a part of country's official reserves along with gold, reserve positions in the IMF and convertible foreign currencies. It is also known as "Paper Gold".

Seat : A traditional figure of speech for a membership on an exchange.

SEBI : It was set up in 1988 by the Government of India to regulate the operations in stock market of India. The SEBI stands for Securities and Exchange Board of India.

Self Reliance : Self Reliance, in short, can mean attainment of economic independence which, in turn, implies capability to sustain a higher rate of growth of economy essentially with the help of the domestic resources.

Seller's Market : It is market situation which exists for a short time period. During this period there is an excess demand for good and services at current prices which forces price up to the advantage of the seller.

Sell side : The portion of the securities business in which orders are transacted. The sell side includes retail brokers, institutional brokers and traders, and research departments. If an institutional portfolio manager changes jobs and becomes a registered representative, he or she has moved from the buy side to the sell side.

Sensex : The Stock Exchange Sensitive Index (popularly referred to as the SENSEX) reflects the weighted arithmetic average of the price relative of a group of share included in the index of sensitive shares. For example, Bombay Stock Exchange Sensitive Index is a group of 30 sensitive shares.

Serial bond : An issue that matures in part at periodic stated intervals.

Settlement : Conclusion of a securities transaction when a customer pays a broker/dealer for securities purchased or delivers securities sold and receives from the broker the proceeds of a sale.

Shares : These are the equal portions of the capital of a limited company. Shares in a company do not carry fixed rate of interest. The holders of the *ordinary shares* carry the residual risk of the business; they rank after *debenture holders* and *preference shareholders* for the payment of dividends and they are liable for losses, although this liability is limited to the value of the shares and to the limit of guarantee given by them. *Preference shares* are such shares of a company on which interest is paid before any others, and owners have prior right to repayment of capital if company is wound up.

Share Capital : Money raised by issuing of shares is called Share Capital.

Share Index : It is the statistical indicator of overall share values, based on selected group.

Short covering : Buying stock to return stock previously borrowed to make delivery on a short sale.

Short sale : A transaction by a person who believes a security will decline and sells it, though the person does not own any. Sometimes people will sell short a stock they already own in order to protect a paper profit. This is know as selling short against the box.

Sinking fund : Money regularly set aside by a company to redeem its bonds, debentures or preferred stock from time to time as specified in the indenture or charter.

Speculation : The employment of funds by a speculator. Safety of principal is a secondary factor.

Speculator : One who is willing to assume a relatively large risk in the hope of gain.

Spin off : The separation of a subsidiary or division of a corporation from its parent company by issuing shares in a new corporate entity. Shareowners in the parent company receive shares in the new company in proportion to their original holding and the total value remains approximately the same.

Split : The division of the outstanding shares of a corporation into a larger number of shares. A 3-for-1 split by a company with 1 million shares outstanding results in 3 million shares outstanding. Each holder of 100 shares before the 3-for-1 split would have 300 shares, although the proportionate equity in the company would remain the same; 100 parts of 1 million are the equivalent of 300 parts of 3 million. Ordinarily, splits must be voted by directors and approved by shareholders.

Stock exchange : An organized marketplace for securities featured by the centralization of supply and demand for the transaction of orders by member brokers for institutional and individual investors.

Stock dividend : A dividend paid in securities rather than in cash. The dividend may be additional shares of the issuing company, or in shares of another company (usually a subsidiary) held by the company.

Stockholder of record : A stockholder whose name is registered on the books of the issuing corporation.

Stop limit order : A stop order that becomes a limit order after the specified stop price has been reached.

Stop order : An order to buy at a price above or sell at a price below the current market. *Stop buy orders* are generally used to limit loss or protect unrealized profits on a short sale. *Stop sell orders* are generally used to protect unrealized profits or limit loss on a holding. A *stop order* becomes a market order when the stock sells at or beyond the specified price and, thus, may not necessarily be executed at that price.

Street name : Securities held in the name of a broker instead of a customer's name are said to be carried in "street name." This occurs when the securities have been bought on margin or when the customer wishes the security to be held by the broker.

Swapping : Selling one security and buying a similar one almost at the same time to take a loss, usually for tax purposes.

Syndicate : A group of investment bankers who together underwrite and distribute a new issue of securities or a large block of an outstanding issue.

Technical research : Analysis of the market and stocks based on supply and demand. The technician studies price movements, volume, trends and patterns, which are revealed by charting these factors, and attempts to assess the possible effect of current market action on future supply and demand for securities and individual issues.

Tender offer : A public offer to buy shares from existing stockholders of one public corporation by another public corporation under specified terms good for a certain time period. Stockholders are asked to "tender" (surrender) their holdings for stated value, usually at a premium above current market price, subject to the tendering of a minimum and maximum number of shares.

Third market : Trading of stock exchange-listed securities in the over-the-counter market by non-exchange member brokers.

Ticker : A telegraphic system that continuously provides the last sale prices and volume of securities transactions on exchanges. Information is either printed or displayed on a moving tape after each trade.

Trader : Individuals who buy and sell for their own accounts for short-term profit. Also, an employee of a broker/dealer or financial institution who specializes in handling purchases and sales of securities for the firm and/or its clients.

Transfer : This term may refer to two different operations. For one, the delivery of a stock certificate from the seller's broker to the buyer's broker and legal change of ownership, normally accomplished within a few days. For another, to record the change of ownership on the books of the corporation by the transfer agent. When the purchaser's name is recorded, dividends, notices of meetings, proxies, financial reports and all pertinent literature sent by the issuer to its securities holders are mailed directly to the new owner.

Transfer agent : A transfer agent keeps a record of the name of each registered shareowner, his or her address, the number of shares owned, and sees that certificates presented for transfer are properly canceled and new certificates issued in the name of the new owner.

Treasury stock : Stock issued by a company but later reacquired. It may be held in the company's treasury indefinitely, reissued to the public or retired. Treasury stock receives no dividends and has no vote while held by the company.

Turnover rate : The volume of shares traded in a year as a percentage of total shares listed on an exchange, outstanding for an individual issue or held in an institutional portfolio.

Unlisted stock : A security not listed on a stock exchange.

Up tick : A term used to designate a transaction made at a price higher than the preceding transaction. Also called a "plus" tick. A "zero-plus" tick is a term used for a transaction at the same price as the preceding trade but higher than the preceding different price. Conversely, a down tick, or "minus" tick, is a term used to designate a transaction made at a price lower than the preceding trade. A plus sign, or a minus sign, is displayed throughout the day next to the last price of each stock at the trading post on the floor of the New York Stock Exchange.

Variable annuity : A life insurance policy where the annuity premium (a set amount of dollars) is immediately turned into units of a portfolio of stocks. Upon retirement, the policyholder is paid according to accumulated units, the dollar value of which varies according to the performance of the stock portfolio. Its objective is to preserve, through stock investment, the purchasing value of the annuity which otherwise is subject to erosion through inflation.

VAT : It seeks to tax the value added at every stage of manufacturing and sale with a provision of refunding the amount of VAT already paid at earlier stages to avoid double taxation.

Volume : The number of shares or contracts traded in a security or an entire market during a given period. Volume is usually considered on a daily basis and a daily average is computed for longer periods.

Voting right : Common stockholders' right to vote their stock in affairs of a company. Preferred stock usually has the right to vote when preferred dividends are in default for a specified period. The right to vote may be delegated by the stockholder to another person.

Warrants : Certificates giving the holder the right to purchase securities at a stipulated price within a specified time limit or perpetually. Sometimes a warrant is offered with securities as an inducement to buy.

Working control : Theoretically, ownership of 51% of a company's voting stock is necessary to exercise control. In practice - and this is particularly true in the case of a large corporation - effective control sometimes can be exerted through ownership, individually or by a group acting in concert, of less than 50%.

Yield : Also known as return. The dividends or interest paid by a company expressed as a percentage of the current price.

Yield to maturity : The yield of a bond to maturity takes into account the price discount from or premium over the face amount. It is greater than the current yield when the bond is selling at a discount and less than the current yield when the bond is selling at a premium.

Zero coupon bond : A bond that pays no interest but is priced, at issue, at a discount from its redemption price.

Some Important Books on Economics

The Wealth of Nations	Adam Smith
Money Illusion	Irwin Fisher
Capital and growth	Hicks
General Theory of Employment, Interest and Money	J. M. Keynes
Planned Economy for India	M. Vishveshwaraiya
The Value and Capital	Hicks
The Canon (theory) of Consumer's Surplus	Marshall
Big Push Theory	A. R. Rodon
Datt & Sundharam Indian Economy	Gaurav Datt and Ashwani Mahajan

Some Noteworthy Facts

- Inflation, in theory, occurs when money supply grows at a higher rate than GDP in real terms.

- The existence of a large parallel economy, fluctuations in agricultural and industrial output and indirect taxation are the reasons for : *cost-push inflation.*
- Among the supply side measures to contain iflation is : *to increase the supply of products or commodities.*
- Population experts refer to the possible 'demographic bonus' that may accrue to India around 2016 A.D. They are referring to the phenomenon of : *a surge in the population in the productive age group.*
- The significant change in the new FEMA which has replaced FERA is that the emphasis from imprisonment will be shifted to : *Voluntary compliance.*
- 'Level playing field' argument industries requires : *Domestic industry to be treated at par with MNCs.*
- One of the disadvantages of the Wholesale Price Index in India is that : *it does not cover the services sector.*
- Check off system refers to the verification of membership through : *deduction of subscription from pay.*
- Direct taxation is a better form of taxation because : *it allows for taxation according to means.*
- Lender of the last resort, periodic inspection of commercial banks, issue of bank notes of all denominations are the functions of : *Reserve Bank of India.*
- Multi Fibre Agreement deals with : *Textiles.*
- Under the Medium Term Fiscal Restructuring Programme, state governments have been permitted to borrow from international financial institutions like the World Bank and Asian Development Bank (ADB) to : *replace their high cost debt with low cost funds.*
- Open market operation of RBI Refers to trading in securities.
- The new definition of fiscal deficit was suggested by : *Chakravarthy Committee.*
- According to the Chakravarthy Committee, one of the principal causes affecting price stability in India is : *Violent fluctuation in agricultural production.*
- The concept of Total Fertility Rate (TFR) in population means the average number of children born to a woman during her lifetime.
- Tarapore Committee recommended that before capital account was made convertible the rate of inflation should be brought down for three years within 3 – 4%.
- Tarapore Committee recommended that foreign exchange reserves should not be below the requirements of import for 6 months.
- The first bank managed by Indians was : *Oudh Bank.*
- The statement, "India has achieved national food security but has not ensured household food sercurity" means : *there is sufficient food stock but all households donot have access to it.*

- The permit for duty free trade issued by the East India Company at a price to private traders was called : *Diwani.*
- The demand for establishment of a department of agriculture in India was made by : *Manchester Cotton Supply Association.*
- The birth rate measures the number of births during a year per : *1000 of population.*
- Structural unemployment arises due to : *inadequate productive capacity.*
- 'Disguised unemployment' refers to : *more persons employed for a job which a few can accomplish.*
- The Securities and Exchange Board of India (SEBI) has imposed a restriction on money flow in equity through 'P–Notes'. The full form of 'P–Notes' is : *Participatory Notes.*
- The money which government of India spends on the development of infrastructure in country comes from the following sources — Loan from World Bank / ADB etc., Taxes collected from the people, Loan from the RBI etc.
- 'Investor Protection Fund' has been established by : *Stock Exchange*
- The full form of FII is : *Foreign Institutional Investor.*
- The Finance Ministry (on Feb. 15, 2008) has allowed companies to issue Foreign Currency Exchangeable Bonds (FCEBs) with a maturity of five years to raise funds from the overseas market by unlocking part of the holding in group companies. The investment under the scheme shall comply with Foreign Direct Investement (FDI) policy as well as the External Commercial Borrowing (ECB) policy requirements.
- The Union Goverment, on March 3, 2008, launched a conditional cash transfer scheme for the girl child. The conditions of this scheme include registration of birth of the girl, following a total immunisation schedule, school enrolment and delaying of marriage until the age of 18 years. The name of the scheme is : *Dhan Laxmi.*
- The Securities and Exchange Board of India (SEBI), on May 29, 2008 has allowed overseas sovereign wealth fund to register as foreign institutional investors (FIIs) and invest in shares and government securities.
- The Centre approved the amendment to the Prevention of Money Laundering Act (PMLA), a move aimed at bringing casinos, international credit card payment gateways such as VISA and Master Card, full fledged money changers (FFMCs) and money transfer service providers (MTSPs) such as the Western Union under the purview of Indian laws.
- The Central Government has decided on April 6, 2008 to form a strategic reserve of 5 million tonnes of foodgrains, to be consisted of 3 million tonnes of wheat and 2 million tonnes of rice.
- The National Association of Software and Service Companies (NASSCOM), the premier trade body represents : *the IT and BPO industry.*

- The biggest consumer of natural gas in the world is : *the USA.*
- The country which leads in oil-consumption in the world is : *the USA.*
- The country which leads in Internet users in the world is : *the USA.*
- World's leading gold producer country is : *South Africa*
- Entry for Normal Loss is recorded in : *Trading Account*
- In Product Life Cycle the cost per unit is generally highest in the stage of : *Introduction*
- Accounting acronym GAAP stands for : *Generally Accepted Accounting Practices*
- Limited Liability is available in the kind of business organisation called: *Company*
- Bank account is called : *Real Account*
- The form of accounting states that transactions are to be recorded in the period that they occur is : *Accrual basis of accounting*
- The most important ratio for the Sales Tax Department from the control point of view is : *Gross Profit Ratio*
- The most important ratio for the Income Tax Department from the control point of view is : *Net Profit Ratio*
- The abbreviations for debit and credit (Dr. and Cr.) come from the language : *Latin, 'debere and credere'*
- A Public Limited Company tries to maximise : *Wealth of Sharecholders*
- Anticipated losses are recorded in the books of accounts as per : *Matching of Cost and Revenue*
- Goodwill is recorded in the books of accounts only when : *It is valued*
- Depreciation Account is called : *Nominal Account*
- Monopoly is when there is single : *Seller*
- We can get the current Ratio by : *dividing current assets by current liabilities*
- The major rubber producing state in India is : *Kerala*

According to The Economic Survey 2012–13

Total government debt	51.7% of GDP
Total external debt	283.9 bn. U.S. dollar (in Spt. 2012)
Production of Coal	540 million tonnes in 2011–12 (Target for current Plan period (2012–17) is 795 million tonnes)
India's share in World exports	1.6% (Jan.–Oct. 2012)
Gross Domestic Savings	30.8% (of GDP)
Total Telephones	935.18 million (97% cell phones + 3% land lines) as of Oct. 2012 [Overall Teledensity is 77]
Project growth rate for 2013–14	6.1 to 6.7%
GDP growth rate for 2011–12 was	6.2%

Source : The Hindu

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