

Notes for TNPSC Group Exams

Group I, II/IIA, IV & VAO



Nature of Indian Economy

Nature of Indian Economy

Basics of an Economy

Economy is economics at play in a certain region such as a city, state or country. For instance, Indian economy denotes the economy of India as a whole.

Economics is the study of how goods and services are produced, distributed and consumed.

Traditionally, the subject matter of economics has been studied under two broad branches:

Microeconomics and Macroeconomics.

Microeconomics

- It studies the behaviour of individual economic agents in the markets for different goods and services.
 - For example, analyzing the demand and supply of a good/service.
- It examines the functioning of the particular sector of the economy.

Economic agents are those individuals or institutions which take economic decisions. They can be

- Consumers who decide what and how much to consume.
- Producers of goods and services who decide what and how much to produce.
- Entities like the government, corporation, banks.

Macroeconomics

- This is the study of the economy as a whole by focusing on aggregate measures.
 - For example, studying total output, employment and aggregate price level and their change over time.
- It examines the various interlinkages that exist between the different sectors of an economy. For example, the effects of inflation on unemployment.

Organization of Economic Activities

- Production, exchange and consumption of goods and services are among the basic economic activities of life.
- Every economy faces the problem of allocating the scarce resources to the production and distribution of different goods and services among the individuals within the economy.
- Based on how an economy is organized to address this problem, three models of economic system evolved, namely-
 - Market Economy
 - State Economy
 - Mixed economy
- These models also decide the role of the state in an economy.

Market Economy

- A market is a set of arrangements where economic agents can freely buy or sell the products.
- In market economy, the decisions of what to produce, how much to produce and at what price to sell are taken solely by the market.

Features

- There is private ownership of means of production.
- The role of government is absent or minimal. State/government play a passive role as a regulator.
- It emphasizes on the 'division of labour' and 'laissez faire' (non-interference by the government).
- This form of economy was proposed by **Adam Smith** in his work "Wealth of Nations" (1776).
- United States of America and European countries are the best examples of this model.

State Economy

- The government or the central authority plans all the important activities like production, distribution and pricing in the economy.

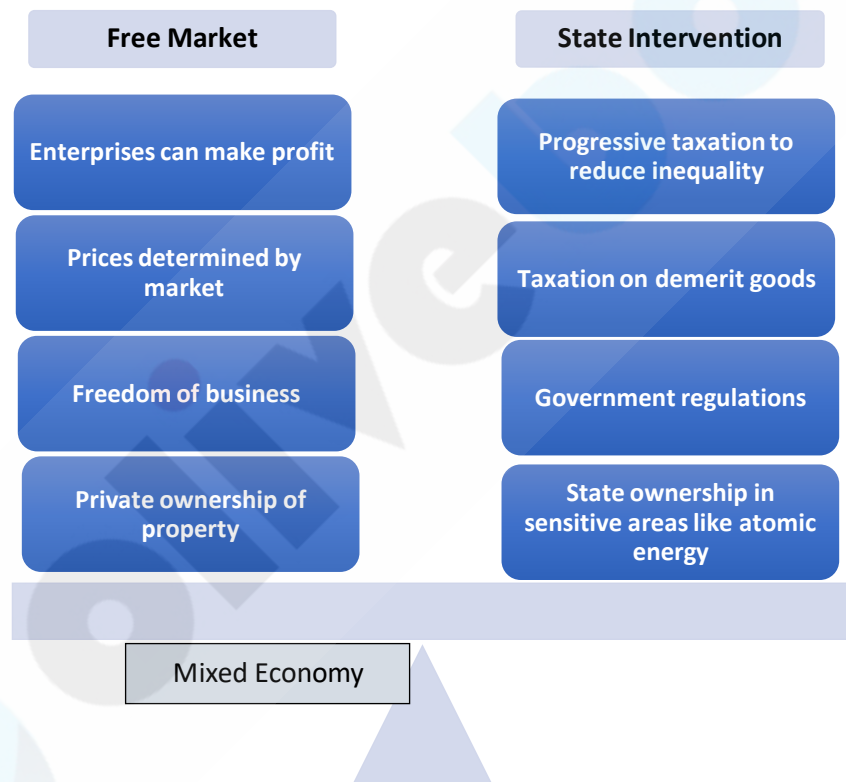
Features

- The role of government is high.
- The government may even produce the goods and services that it thinks are much needed for equitable distribution.
- Government carries out the role of producer/supplier of private goods and services like food, clothing as well as public goods and services like roads, defence, etc.
- This form of economy was proposed **Karl Marx**.
- There are two versions of the state economy, namely

Socialistic economy	Communist economy
<ul style="list-style-type: none">• Collective ownership of the means of production (Land, Labour and capital).• A large role of state in running the economy.• Erstwhile USSR followed this model.	<ul style="list-style-type: none">• State ownership of means of production.• Absolute power of state in running the economy.• China, before 1980s followed this model.

Mixed Economy

- It is a blend of both market economy and state economy.
- Under this system there is freedom of economic activities as well as government interferences for the social welfare.
- It evolved as a response to the Great depression in 1929 in the USA, which marked the setback of free market theory.
- In 1936, the English economist **John Maynard Keynes** proposed a new approach which suggested '*strong government intervention*' in the economy along with '*freedom of market*'.
- Presently, most countries follow this model.



Features

Closed economy vs Open economy

Domestic economies are also categorized based on the degree of openness to the world trade.

Closed Economy	Open Economy
<ul style="list-style-type: none">• No trade activity with outside economies.• In this set up, no imports come into the country and no exports leave the country.• This economy is self-sufficient in nature.• They are referred to as protectionist markets.	<ul style="list-style-type: none">• There are economic activities between the domestic economy and rest of the world.• They prefer free trade policies to eliminate discrimination against imports and exports.• They are highly accessible with few restrictions on participation in the economy.• It is a characteristic of Market-economies.

Sectors of an Economy

- As an economy develops, improved technology enables division and specialization of labour.
- This enables the classification of economic activities broadly into three sectors, namely-
 1. Primary sector
 2. Secondary sector
 3. Tertiary sector

Primary sector

- This sector includes all those economic activities where there is a direct use of natural resources.
- It includes Agriculture, forestry, fishing, mining of metals, minerals, fuels etc. In some economies, like India, mining is considered as part of secondary sector.
- This sector dominates the economies of under-developed countries like few countries in Sub-Saharan Africa, Latin America, etc.

Secondary sector

- This sector produces finished goods from the raw materials and thus can be called as manufacturing or Industrial sector.
- All construction jobs and manufacturing like production of automobiles, textiles, electricity, water supply and other utility services are included in this sector.

Tertiary sector

- This sector involves the commercial output of services rather than the production of tangible goods.
- The production involves the 'provision' of services that are 'consumed'.
- The output is indirectly measured in terms of wages and salaries.
- It includes services like trade, transport and communication facilities that are used to overcome distance, etc.
- The main difference between secondary and tertiary activities is that the expertise provided by services relies more heavily on specialised skills, experience and knowledge of the workers rather than on the machinery and factory processes.
- The tertiary activities are further divided into **Quaternary and Quinary sector**.

Quaternary Sector

- It involves the
 - collection
 - production and
 - dissemination of information
- These activities centre around Research and Development, specialized knowledge and technical skills.
- It is also called the '**knowledge economy**'.
- Activities associated with this sector include government, culture, libraries, scientific research, education, and information technology.
- These activities drive technological advancement, which have a huge impact on short- and long-term economic growth.

Quinary sector

- Quinary activities are services that focus on
 - Creation, rearrangement and interpretation of new and existing ideas;
 - Data interpretation and the use and evaluation of new technologies.
- These are referred to as '**gold collar**' professions as it includes the highest levels of decision makers or policy makers in an economy.
- Examples are highly paid skills of senior business executives, government officials, research scientists, financial and legal consultants, etc.
- Their importance in the structure of advanced economies far outweighs their numbers.

Types of Economies

Depending upon the share of the particular sectors in the total production of an economy and the ratio of the dependent population on them for their livelihood, economies are categorised as:

1. Agrarian Economy
2. Industrial Economy
3. Services Economy

Agrarian Economy

- When the share of the primary sector is 50 per cent or more in the GDP of the economy, then it is categorized as Agrarian Economy.
- India cannot be categorized as an Agrarian Economy as only 18 per cent of its total produce comes from primary sector, 49 per cent of the population depends on the primary sector for their livelihood.
- So, while India is no more an agrarian economy in terms of contribution to GDP, it is agrarian because of its dependency ratio.
- This economic character of India makes it unique in the World.

Industrial Economy

- If the secondary sector's contribution to the GDP of an economy is 50 per cent or more then it is referred to as industrial economy.
- This indicates that the economy has reached a considerable level of industrialization.

Services Economy

- An economy where 50 per cent or more of the produced value comes from the tertiary sector is called services economy.

Stages of growth of an economy

- The general shift of an economy, across the world happened or happens in the following pattern.



- Industrialization process reduced the dependency on the primary sector for livelihood and increased the dependency on the secondary sector.
- Once, process of industrialization in an economy reaches the saturation level, the population will shift from the secondary to the tertiary sector. Most of the Euro-American countries falls under this category.
- This shift is called as stages of growth of an economy.
- But in case of India, the shift was different. India shifted directly from being an Agrarian to Service economy. This resulted in skewed development of the Industrial sector.

Indian Economy

- The economy of India is the 6th largest in the world in terms of nominal Gross Domestic Product (GDP).
- It has an average growth of around 7 % in terms of industrialization and economic growth.
- Though the rate of growth has been sustainable and stable, there are still signs of backwardness.

Features of Indian Economy

1. Mixed Economy

- Indian economy is an example of a mixed economy, which means both the public and private sectors co-exist and function smoothly.
- The public sector operates some of the fundamental and heavy industrial units.
- While the private sector has gained importance after the liberalization and it has set foot in most of the industries in India.
- This makes the Indian economy a perfect model of public-private partnership.

2. Agriculture

- Around 44% of the Indian population is involved in agriculture contributing about 20% of the GDP.
- Green revolution and inventions in biotechnology have made Indian agriculture self-sufficient and surplus in production.
- The export of agricultural products such as fruits, vegetable oils, tobacco, animal skin, etc contributes to the forex earnings.

3. Emerging economy

- Even in the midst of a global downtrend, India has sustained its GDP growth rate.
- This led to increased inflow of foreign capital into India through FDI and FII.
- Thus, India has a high potential for prospective growth, which makes it an emerging market for the world.



4. Fast-growing service sector

- The service sector contributes around 55% of the GDP in India taking the lion's share in the Indian economy.
- This was made possible through high growth in the technology sector like Information technology, BPO, etc.
- The emerging service sectors have helped the country to go global and spread its branches.

5. Large Domestic Consumption

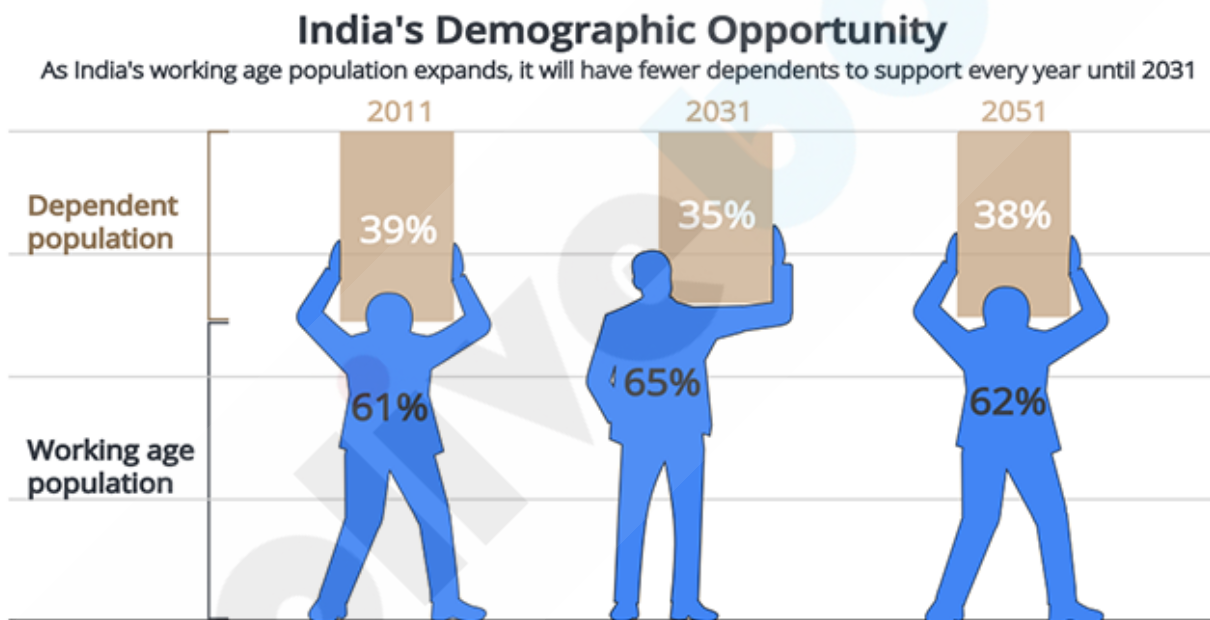
- Due to the faster growth rate of the economy, the standard of living of people in India has improved.
- This in turn resulted in the rapid increase in domestic consumption in the country.

6. The rapid growth of urban areas

- Urbanization plays a key role in the growth of any economy.
- After independence, there was a rapid growth of urban areas in India.
- The improvement in transport and communication, education, and health have speeded up the pace of urbanization.

7. Demographic dividend

- India is a young nation with a maximum percentage of the youth population in it.
- Since human capital plays a key role in maximizing the growth prospects in the country, It has invited foreign investments to the country and outsourcing opportunities.



Weakness of Indian Economy

1. Large Population

- India stands 2nd in terms of population next only to China and is likely to overtake China shortly.
- The population growth rate of India is very high and is always a hurdle to the growth rate.
- The annual population growth rate in India is 1.2 percent as of 2019 data.

2. Inequality and poverty

- A huge economic disparity exists in the Indian economy.
- The proportion of income and assets owned by the top 10% of Indians goes on increasing.
- This has led to an increase in the country's poverty level and a higher percentage of the population still lives below the poverty line (BPL).
- The United Nations estimated the number of poor in the country to be 364 million in 2019, or 28 per cent of the population.

3. Increasing Prices of Essential goods

- Even though there has been a constant growth in the GDP, the prices of essential goods and services are continuously increasing.
- The steady rise in prices erodes the purchasing power and adversely affects poor people.

4. Weak Infrastructure

- India has built a robust infrastructure gradually in the past few decades.
- However, there is a scarcity of basic infrastructure like power, transport, storage, etc.

5. Inadequate Employment generation

- With the increase in the youth population, there is a huge demand for employment opportunities.
- The growth in production is not accompanied by the creation of jobs.
- Thus Indian economy is characterized by 'Jobless growth'.

6. Outdated technology

- The level of technological improvements in agriculture and small-scale industries are not adequate and are obsolete in nature.

Previous year questions

1. A closed economy is one which
 - 1) Does not trade with other countries
 - 2) Does not impose restrictions on international trade
 - 3) Does not have a coastal line
 - 4) Is not a member of the United Nations Organization

Select the correct answer using the code given below:

- (A) 1 only
- (B) 1 and 2 only
- (C) 1,2, and 3 only
- (D) All the above

References

NCERT, Samacheer books, NIOS, Shodhganga website, eGyanKosh

Indian Economy by Ramesh Singh, downtoearth