Toppersnotes

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RAS

GENERAL STUDIES PAPER-I

Volume-IV

ECONOMY | SOCIOLOGY

ACCOUNTING & AUDITING | MANAGEMENT

SIERRA INNOVATIONS

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ECONOMY

INDIAN ECONOMY

1. Basic concepts
2. Planning
3. Capital Markets
4. Unemployment & Poverty
5. Agriculture
6. International Organisations.
   - WTO
   - IMF
   - World bank

References

Imp
1. NCERT of std XI – Indian Economic Development
2. New NCERT of std XII – Micro economics
   Macroeconomics ***
3. Text books
   ✓ Indian Economy – Mishra & Puri
   (or)
   Dutt & Sundaram.
   TMH – Ramesh Singh
4. Imp Newspaper Reading
   Hindu – Economic Review weekly.
   Business line
5. Economic survey – By Govt of India, performance of the govt in the last financial year.
6. 12^{th} Plan Document → By planning commission – online.
   Overview – 1^{st} part of document
7. Economic and Political weekly → Selected Articles

BASIC CONCEPTS

Difference between Microeconomics and Macroeconomics

Microeconomics = word micro refers to individual
It is that branch of economics which deals with individual decision making process.

→ We find individual has got certain resources which are limited.
Based on this limited ~~know~~ how the individual makes his decisions is microeconomics

= eg:- Individual household level.
↓
doesn't mean only a person can be a individual institution.

Macroeconomics – Macro = aggregate
It is the branch of economics which is either looking into aggregate or behaviour of economic aggregates
eg:- i) National Income and any behaviour of national income like national income growth rate.
ii) Inflation.

MICROECONOMIC CONCEPTS

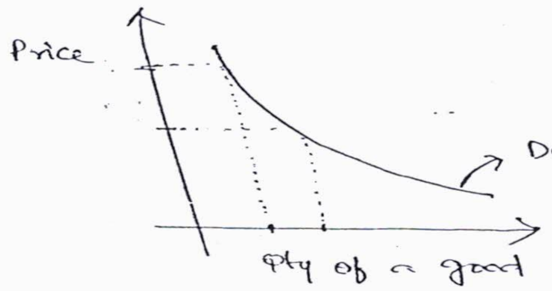
1) Demand
2) Supply.

Demand – Quantity of a ~~g~~ Good that the consumer is willing to buy at different prices.

Supply – Quantity of a Good that the producer is willing to sell at different prices.

Law of Demand

Qty demanded $\xrightarrow{\text{Inverse}}$ Own prices



Diminishing marginal Utility

→ Marginal utility is the utility or satisfaction that one gets on the ~~last~~ consumption of the last unit.

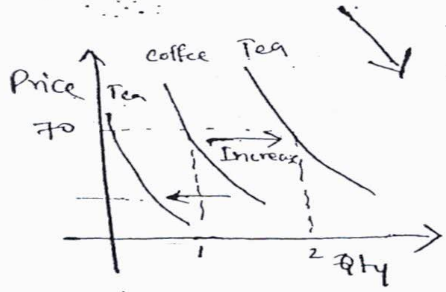
→ DMU – As we go on consuming more units of goods, then the utility from the successive goods consumption or marginal utility → decreases.

DMU relates to law of demand.

Other factors that have impact on demand

1. Price of Related goods.

Substitutes goods | Complimentary goods

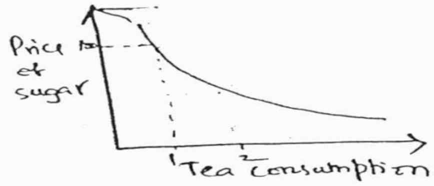


Increase in demand would mean rightward shift

Decrease in demand, then demand curve would shift leftword.

complimentary goods - Tea and sugar, car - petrol etc

complimentary goods are opposite to Substitute goods.



2. Income

→ Higher income should have increase in demand

→ Lower income should have decrease in demand

But there are certain conditions where it changes

Normal goods → food grains. (Rice, wheat)

Inferior goods → coarse grains. (Bajra, Jowar)

NSS - National sample survey.

→ It said food grain consumption had been decreasing both in urban and rural areas Because people are consuming meat, milk, fruits, vegetables etc with better income and reduced consuming rice and wheat. so now rice and wheat are inferior

Giffen Goods → Extremely inferior goods.

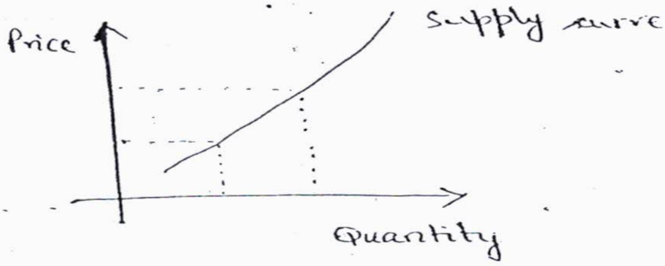
Even for a decreased price a certain good, if it doesn't increase its demand then it comes into the Giffen goods category.

Giffen goods are exceptional to the law of demand.

Law of supply

Relationship between Qty supplied and own prices.

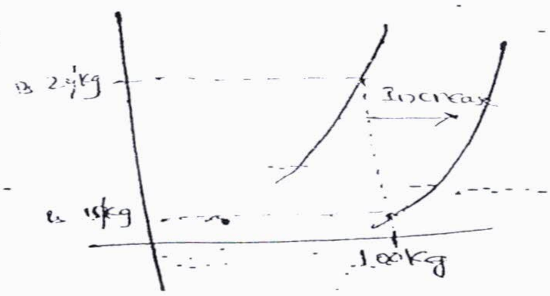
Qty supplied $\xrightarrow{\text{Direct}}$ own prices



Other factors having impact on law of supply

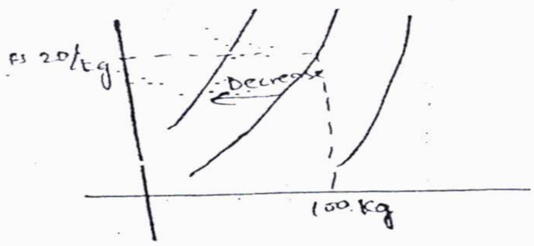
1) Technology

→ cost of production



2) Input prices

Fertilizer prices if increase then cost of prod^n ↑es



3) Taxes

If taxes increase cost of prod^n & increases and vice-versa

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Law of demand

It states that as the own price of a good ↓es the qty demanded of it by the consumer ↑es, keeping other factors constant

Normal goods - They are the goods for which qty demanded ↑es with ↑ in income.

Inferior goods - for them qty demanded falls with ↑ in income

Giffen goods - They are extremely inferior goods for which even a decrease in price doesnot increase qty demanded Thereby violating the law of demand.

Law of supply

It states that an ↑ in price of a good leads to an ↑ in qty supplied by the producer keeping other factors unchanged

MARKET DEMAND AND - MARKET SUPPLY

Market demand - Sum total of/all individual dd

Market supply - Sum total of all individual supplies of a large no of producers

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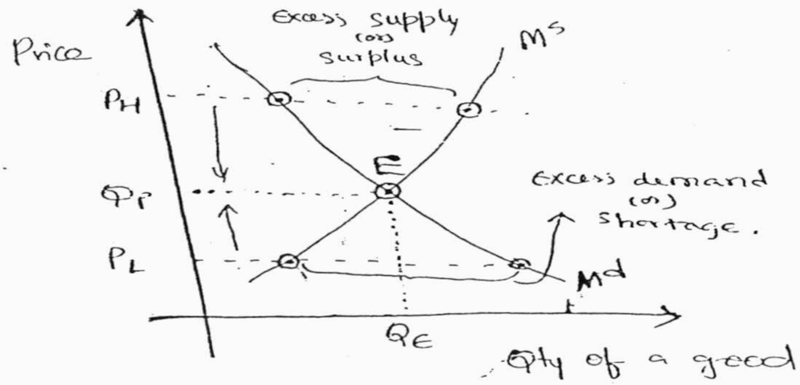


M^d - Market demand
M^s - Market supply
E - Market Equilibrium.
Q_E - Equilibrium Qty
P_P - " price
P_H - Highes Price
P_L - lowes price

Point of equilibrium is associated with optimal use of resources.

ELASTICITY

PRICE ELASTICITY OF DEMAND

Price elasticity of demand

$$= \frac{\text{\% change in Quantity demanded}}{\text{\% Change in Price } 1\%}$$

|PED| → always taken as a modulus.

- |PED| > 1 → Elastic demand eg: Ind. goods
- |PED| < 1 → Inelastic demand eg: Agr. products.
- |PED| = 1 → Unitary elastic demand (not realistic)
- |PED| → ∞ – perfectly Infinitely elastic demand
- |PED| → 0 Perfectly inelastic demand. eg:- Selective giffen goods

INCOME ELASTICITY OF DEMAND

$$\frac{\text{\% change in Quantity demanded}}{\text{\% Change in Income } 1\%}$$

IED > 0 → Incase of normal goods

Positive IED — normal goods
negative IED — inferior goods

IED > 1 → Luxury goods

0 < IED < 1 → Necessary goods or Necessities
· IED is positive but lower.
eg:- common salt

Definitions

MARKET EQUILIBRIUM

It is the point where market demand for a good equals market supply or total qty that all producers are willing to sell at a particular price exactly matches total quantity that all consumers are willing to buy at that very prices leading to optimal use of resources.

PRICE ELASTICITY OF DEMAND

It captures the degree of responsiveness of qty demanded to a 1% change in price.

ENGEL'S LAW

It states that proportion of expenditure on the necessities like food items falls with increase in income because for them IED is less than 1.

MARCO ECONOMIC CONCEPTS

AGENTS	ROLES
1. House holds	→ Consumption Expenditure → Savings → Factors of Production (contribution of the households to the producers for prodⁿ) Land, labour, Capital → long term assets, Entrepreneurship → Factor incomes / payments Land → Factor payment Rent Labour → " wages Capital → " Interest Entrepreneurship → " Profit
2. Firms	→ Production → Investment Expenditure Process of adding new capital → Savings (corporate savings)
3. Government	→ Govt. expenditure Public goods → Building, roads, Infrastructure etc Human Development → Employ. Gen., Health etc Subsidies → Govt Revenue → Taxes → Transfer payments

Tax → Taxes are those transfer payment paid by House holds and firms to govt

Subsidies → subsidies are transfer payment paid by govt to households & firms

→ Savings

AGGREGATE DEMAND

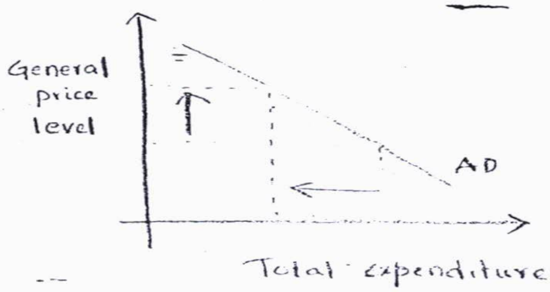
Total expenditure on goods and services

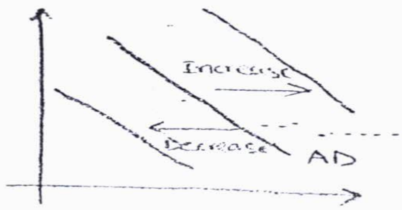
General Price level

Price index

wholesale Price index	Consumer Price index

Increase in General price level leads to inflation.



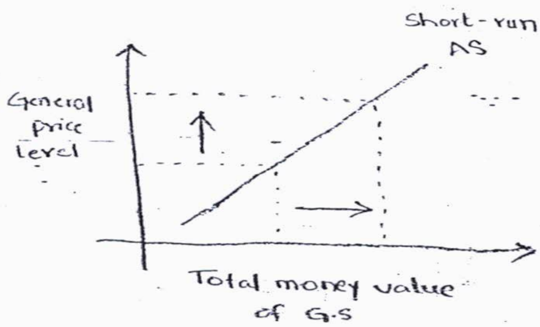


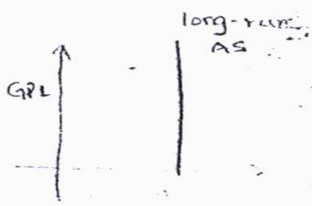
AD = C + I + G + NX

- C ↓ Consumption expenditure
- I ↓ Investment expenditure
- G ↓ Govt expenditure
- NX ↓ Net exports (exports – imports)

AGGREGATE SUPPLY

Total money value of goods and services





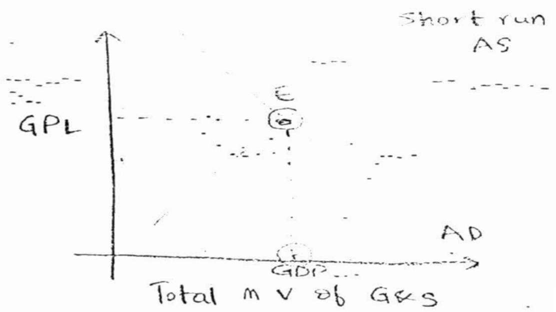
AGGREGATE DEMAND

AD is the total expenditure that all households, firm and govt. are willing to make on goods and services produced in an economy at various general price levels (GPL). With rise in GPL, AD tends to fall making AD curve downward sloping.

AGGREGATE SUPPLY

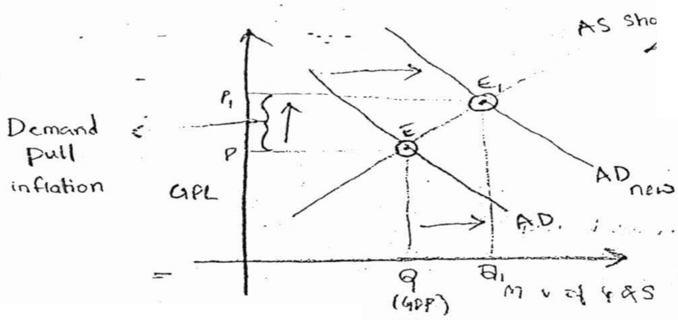
AS is the total money value of goods and services that all producers in the economy are willing to sell at different GPL's. In short-run an increase in GPL increases AS from the producers making AS curve upward sloping.

MACRO ECONOMIC EQUILIBRIUM



Also called "The level of Effective demand"

INFLATION – GROWTH CONFLICT



EFFECTIVE DEMAND

It refers to the equilibrium level where AD = AS. It is interpreted as that part of AD which is actually realised or made effective given the potential capabilities of production reflected by $\bar{AS}$ curve. The money value of goods and services corresponding to effective demand is the GDP of the economy.

INFLATION - GROWTH CONFLICT

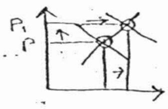
Whenever GDP growth takes places due to higher aggregate demand it is also associated with rising prices or inflation reflecting the inflation-growth conflict.

Inflation caused due to change in AD is called Demand pull inflation.

Fiscal policy

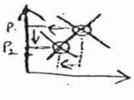
Any policy related to govt revenue or expenditure

1. Expansionary Fiscal Policy → Govt Expen > Govt Rev
2. contractionary Fiscal Policy → Govt Expen < Govt Rev



Expansionary Fiscal policy → GDP growth with inflation
→ when there is slow down in the economy and inflation is under-control

- Slowdown
2013 - 7%
2014 - 6% - But still growing



Contractionary Fiscal policy → Prices reduce
→ When inflation is very high and GDP is good or well doing.

Recession
3% Pa
1% Pa
decline for two quarters
Recession

Expansionary Fiscal Policy is popular

Fiscal Stimulus Policy → During or before Recession