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CIVIL SERVICES ACHIEVERS' POINT

A ONE STOP SOLUTION FOR UPSC/APSC/SSC & BANKING

UPSC CIVIL SERVICES EXAMINATION

PRELIMS SPECIAL

(1995 – 2018)

PREVIOUS YEAR QUESTIONS

ECONOMY

CHAPTER LISTING-

- 1. Economic Growth and Development – economic growth, economic development, happiness and human development*
- 2. Economic Planning – types of planning, planning in the Indian economy, Economic reforms*
- 3. Inflation and business cycle*
- 4. Agriculture*
- 5. Financial system in India*

Leadership through knowledge...

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1. ECONOMIC GROWTH AND DEVELOPMENT

QUESTION 1

Q1. Despite being a high saving economy, capital formation may not result in significant increase in output due to: (2018)

- a) weak administrative machinery
- b) illiteracy
- c) high population density
- d) high capital output ratio

Answer: d

EXPLANATION

What is Capital?

- It has different meaning depending upon the context in which the term is used.
- Capital can refer to financial wealth especially that used to start or maintain a business.
- Capital is also used in reference to human beings (Human Capital) - It is a measure of the skills, education, capacity and attributes of labour which influence their productive capacity and earning potential.
- Capital can also refer to one of the four factors of production (the other 3 being land, labor and organization/entrepreneurship).
- It means all those goods (which we then call capital goods) which are used for further production of more goods. For example - machines, tools, factory buildings, etc



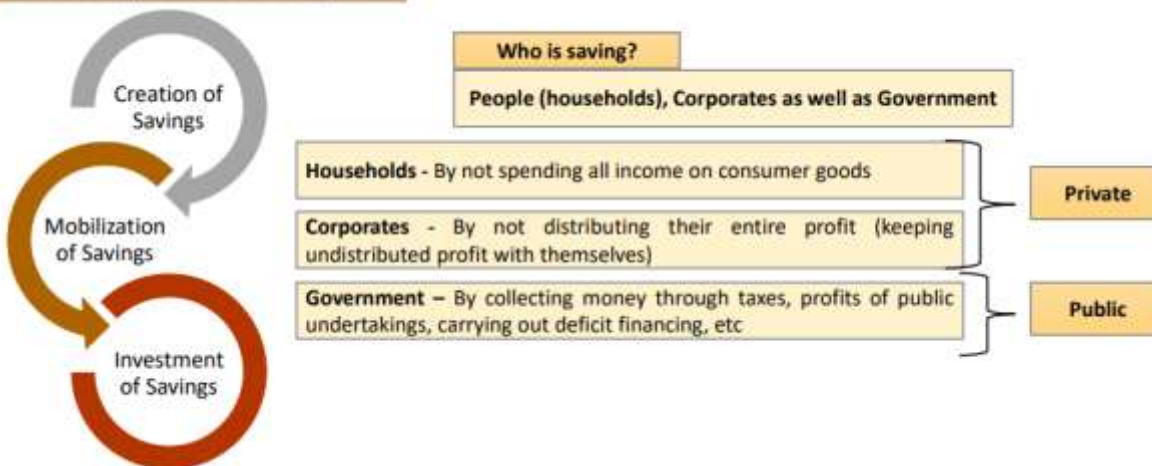
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What is Capital Formation?

- As per the 1st definition, it means creation of more financial wealth.
- As per the 2nd definition, it means making of more capital goods such as machines, tools, factories, transport equipment, materials, electricity, etc., which are all used for future production of goods.
- For this, we require 1 – Saving and 2 – Investment of that saving in creation of capital

How does Capital Formation take place?



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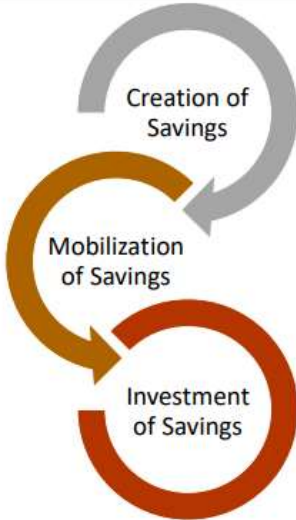
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How does Capital Formation take place?



How is mobilization of savings taking place?

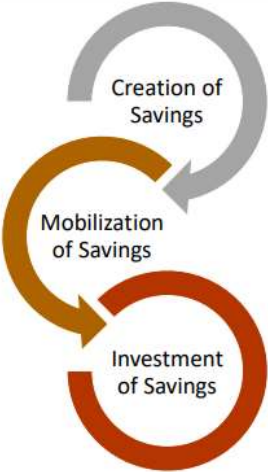
Through mechanisms which can transfer the savings from investor to investee

Households – Through banking, financial markets, government's fiscal policy, etc

Corporates – Through banking, financial markets, procedures governing the undistributed profits, etc

Government – Through Budget, financial markets, banking etc

How does Capital Formation take place?



How is investment of savings taking place?

Creation of inducement to invest. When will that happen? When there is:

- Consistent demand in the economy
- Entrepreneurs are willing to take risk
- Presence of stable economic and political climate
- Expectation of good profit (return on investment)

When least investment is required per unit of output.
= **Low Capital Output Ratio**

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QUESTION 2

Q2. The main reason for low growth rate in India, inspite of high rate of savings and capital formation is (1995)

- a) high birth rate
- b) low level of foreign investment
- c) low capital output ratio
- d) high capital output ratio

Answer: d

QUESTION 1 AND 2

Homework

- What are capital goods?
- What are consumer goods?
- What is Gross Domestic Savings?
- What is the suggested rate of capital formation for optimum rate of economic growth?

QUESTION 3

Q3. Human capital formation as a concept is better explained in terms of a process, which enables (2018)

1. individuals of a country to accumulate more capital.
2. increasing the knowledge, skill levels and capacities of the people of the country.
3. accumulation of tangible wealth.
4. accumulation of intangible wealth.



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Which of the statements given above is/are correct?

- a) 1 and 2
- b) 2 only
- c) 2 and 4
- d) 1, 3 and 4

Answer: b

QUESTION 4

Q4. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if (2018)

- a) industrial output fails to keep pace with agricultural output.
- b) agricultural output fails to keep pace with industrial output.
- c) poverty and unemployment increase.
- d) imports grow faster than exports.

Answer: c

EXPLANATION

What is the difference between economic growth and economic development?

Economic Growth

- It occurs where there is an increase in the productive potential of the economy and is best measured by the increase in a country's real level of output over a period of time, i.e. the increase in real Gross Domestic Product (real means adjusted for inflation).

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- It focuses on OUTPUT of the economy in terms of goods and services.

Economic Development

- It is a process where there is improvement in the lives of all people in the country.
- This involves not only living standards, such as greater availability of goods and services (and also the ability to purchase them) but also the promotion of attributes such as self-esteem, dignity and respect, and the enlarging of people's freedom to choose and to take control of their own lives.
- While a country may grow richer therefore, through the growth of its real output, it does not necessarily mean that it will develop.
- It focuses on the qualitative aspects of the economy (and hence individuals)

Are the following statements TRUE or FALSE?

Economic growth automatically leads to economic development- FALSE

Economic growth is a pre condition for economic development- TRUE

QUESTION 5

Q5. Which of the following gives 'Global Gender Gap Index' ranking to the countries of the world? (2017)

- a) World Economic Forum
- b) UN Human Rights Council
- c) UN Women
- d) World Health Organization

Answer: a

EXPLANATION



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- 1** The Global Gender Gap Index was first introduced by the World Economic Forum in 2006 as a framework for capturing the magnitude of gender-based disparities and tracking their progress over time.
- 2** 2018 report benchmarks 149 countries on their progress towards gender parity on a scale from 0 (disparity) to 1 (parity)
- 3** It captures gender based disparities across 4 dimensions —
 - Economic Participation and Opportunity
 - Educational Attainment
 - Health and Survival
 - Political Empowerment

QUESTION 6

Q6. Which of the following is/are the indicator/indicators used by IFPRI to compute the Global Hunger Index Report? (2016)

- 1) Undernourishment
- 2) Child stunting
- 3) Child mortality

Select the correct answer using the code given below:

- a) 1 only
- b) 2 and 3 only
- c) 1, 2 and 3
- d) 1 and 3 only

Answer: c

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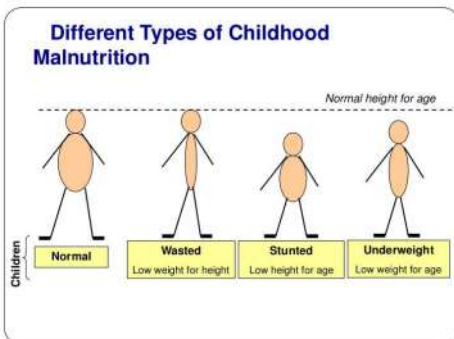
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EXPLANATION

- 1** The **Global Hunger Index (GHI)** is tool that measures and tracks hunger **globally, by region, and by country.**
- 2** Created in **2006**, the GHI was initially published by the **International Food Policy Research Institute (IFPRI)** and **Welthungerhilfe**. In **2007**, the **Irish NGO Concern Worldwide** also became a co-publisher.
- 3** In **2018**, the GHI was a joint project of **Welthungerhilfe** and **Concern Worldwide**, with IFPRI stepping aside from its involvement in the report.
- 4** The Index ranks countries on a **100-point scale**, with **0** being the best score (no hunger) and **100** being the worst. Value from:
 - 0 to 9.9 reflect **low hunger**
 - 10.0 to 19.9 reflect **moderate hunger**
 - 20.0 to 34.9 indicate **serious hunger**
 - 35.0 to 49.9 reflect **alarming hunger**
 - 50.0 or more reflect **extremely alarming hunger levels**
- 5** The GHI combines **4 component indicators**:
 - the **proportion of the undernourished** as a percentage of the population
 - the **proportion of children under the age of five suffering from wasting**
 - the **proportion of children under the age of five suffering from stunting**
 - the **mortality rate of children under the age of five**



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Homework

- What is malnutrition?

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- What is undernutrition/undernourishment?
- What is overnutrition?
- What is starvation?
- What is hidden hunger?
- What is POSHAN Abhiyan?
- What is Global Nutrition Report?

QUESTION 7

Q7. With reference to Indian economy, consider the following statements: (2015)

- 1) The rate of growth of real Gross Domestic Product has steadily increased in the last decade.
- 2) The Gross Domestic Product at market prices (in rupees) has steadily increased in the last decade.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: b

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QUESTION 8

Q8. Pradhan Mantri Jan Dhan Yojana has been launched for : (2015)

- a) providing housing loan to poor people at cheaper interest rates
- b) promoting women's Self Help Groups in backward areas
- c) promoting financial inclusion in the country
- d) providing financial help to marginalised communities

Answer: c

EXPLANATION

1 **Financial inclusion** is where individuals and businesses have access to useful and affordable financial products and services that meet their needs that are delivered in a responsible and sustainable way.

2 The key words to be noted here are:

- **Useful**
- **Affordable**
- **Meet the needs**
- **Responsible and sustainable delivery**

3 What kind of products and services are covered under financial inclusion?

- **Credit** - loans
- **Investment** – mutual funds, pension plans, etc
- **Insurance** – life and non life
- **Savings and payment (general banking)**

Are the following statements **TRUE** or **FALSE**?

Mere opening of a bank account ensures financial inclusion- **FALSE**

In India, the rate of financial inclusion is 100%- **FALSE**



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QUESTION 9

Q9. The national income of a country for a given period is equal to the (2013)

- a) total value of goods and services produced by the nationals
- b) sum of total consumption and investment expenditure
- c) sum of personal income of all individuals
- d) money value of final goods and services produced

Answer: d

EXPLANATION

What is national income?

There are various indicators/numbers that can be used to denote the National Income (N.I) of a country. These can be:

- GDP
- NDP
- GNP
- NNP

It depends on the nation which indicator it wants to designate as its National Income (N.I) i.e. the nation's "National Income Accounting" procedure.

What is GDP?

- It is a monetary value of all the final goods and services produced within the territory of a nation during a period of time, often annually.

What is NDP?



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It is GDP adjusted to account for depreciation, calculated by subtracting depreciation from the GDP.

What is GNP?

- It is the GDP of a country added with its 'income from abroad'.
- Trans-boundary activities are taken into account in case of GNP (unlike GDP)
- $GNP = GDP + \text{Net Factor Income from Abroad (NFIA)}$ i.e. $GDP + \text{Income from abroad}$ (which can be positive or negative)
- In India's case, the GNP is lower than GDP. It means that NFIA for India is negative.

What is NNP?

- $GNP - \text{Depreciation}$

QUESTION 9

Q9. The national income of a country for a given period is equal to the (2013)

- a) total value of goods and services produced by the nationals
- b) sum of total consumption and investment expenditure
- c) sum of personal income of all individuals
- d) money value of final goods and services produced

Answer: d

QUESTION 10

Q10. Economic growth in country X will necessarily have to occur if : (2013)

- a) there is technical progress in the world economy
- b) there is population growth in X

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- c) there is capital formation of X
d) the volume of trade grows in the world economy

Answer: c

EXPLANATION

Again a question on capital formation!

- See the explanations of Q 1, 2 and 3!

QUESTION 11

Q11. Consider the following specific stages of demographic transition associated with economic development: (2012)

1. Low birth-rate with low death rate
2. High birth-rate with high death rate
3. High birth-rate with low death rate

Select the correct order of the above stages using the codes given below :

- a) 1, 2, 3
- b) 2, 1, 3
- c) 2, 3, 1
- d) 3, 2, 1

Answer: c

EXPLANATION

What is Demography?

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- It is the systematic study of population
- It studies the trends and processes associated with population including:
 - ✓ Changes in population size
 - ✓ Patterns of births, deaths, and migration
 - ✓ Structure and composition of the population, such as the relative proportions of women, men and different age groups.



Important Demographic Theories-

1. Malthusian Theory of Population Growth

- Human populations tend to grow at a much faster rate than the rate at which the means of human subsistence (especially food, but also clothing and other agriculture-based products) can grow.
- Therefore humanity is condemned to live in poverty and the only way to increase prosperity is by controlling the growth of population.

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- Humanity has only a limited ability to voluntarily reduce the growth of its population (through 'preventive checks' such as postponing marriage or practicing sexual abstinence or celibacy).
- 'Positive checks' to population growth – in the form of famines and diseases – were inevitable because they were nature's way of dealing with the imbalance between food supply and increasing population.

2. Demographic Transition Theory

- It says that population growth is linked to overall levels of economic development and that every society follows a typical pattern of development related population growth.
- It can be used to describe and predict the future population of any area

Rural,
Agrarian



High B
High De

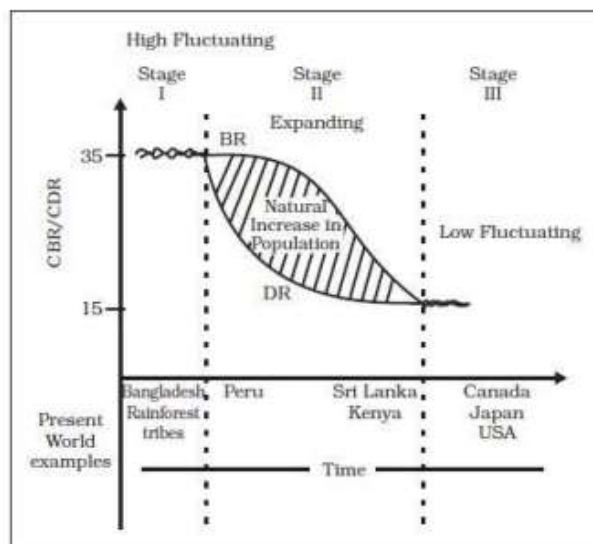


Fig. 2.5: Demographic Transition Theory

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Stage 1 – High fluctuating

- It has high fertility and high mortality because people reproduce more to compensate for the deaths due to epidemics and variable food supply.
- Population growth is slow
- Most of the people are engaged in agriculture (so large family is an asset)
- Life expectancy is low
- People are mostly illiterate and have low levels of technology

Stage 2 – Expanding

- Fertility remains high but it declines with time.
- This is accompanied by reduced mortality rate due to improvements in sanitation and health conditions.
- Because of this gap the net addition to population is high.

Stage 3 – Low fluctuating

- Both fertility and mortality decline considerably.
- Population is either stable or grows slowly.
- The population becomes urbanised, literate and has high technical know and deliberately controls the family size.

Important Terms

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- Birth rate is the number of live births per 1000 population during a given time.
- Death rate is the number of deaths per 1000 population during a given time.
- The rate of natural increase or the growth rate of population refers to the difference between the birth rate and the death rate.

What happens if rate of natural increase is zero or very small?

- The population 'stabilises', or, in other words reaches the 'replacement level'
- What is "Replacement Level"? It is the rate of growth required for new generations to replace the older ones that are dying out.

What happens if rate of natural increase is negative?

- It means that fertility levels are below the replacement rate. So the population is in fact declining over a period of time!
- Fertility rate is the number of live births per 1000 women in the child-bearing age group, usually taken to be 15 to 49 years.
- Infant Mortality Rate (IMR) is the number of deaths of babies before the age of one year per 1000 live births.
- Maternal Mortality Rate (MMR) is the annual number of female deaths per 100,000 live births from any cause related to or aggravated by pregnancy or its management (excluding accidental or incidental causes). It includes deaths during pregnancy, childbirth, or within 42 days of termination of pregnancy, irrespective of the duration and site of the pregnancy, for a specified year.
- Estimated number of years that an average person is expected to survive
- Life Expectancy is the. It is calculated on the basis of data on age-specific death rates in a given area over a period of time.
- Sex Ratio refers to the number of females per 1000 males in a given area at a specified time period.



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- The age structure of the population refers to the proportion of persons in different age groups relative to the total population.
- The Dependency Ratio is a measure comparing the portion of a population which is composed of dependents (i.e., elderly people who are too old to work, and children who are too young to work) with the portion that is in the working age group, generally defined as 15 to 64 years.
- It is equal to the population below 15 or above 64, divided by population in the 15-64 age group; the ratio is usually expressed as a percentage.

What happens if the Dependency Ratio is HIGH/ INCREASING?

- It becomes difficult for a relatively smaller proportion of working-age people to carry the burden of providing for a relatively larger proportion of dependents.

What happens if the Dependency Ratio is LOW/ REDUCING?

- It can be a source of economic growth and prosperity due to the larger proportion of workers relative to non-workers.
- This is sometimes referred to as the 'demographic dividend', or benefit flowing from the changing age structure
- This benefit is temporary because the larger pool of working age people will eventually turn into non-working old people.

QUESTION 12

Q12. To obtain full benefits of demographic dividend, what should India do? (2013)

- a) Promote skill development
- b) Introduce more social security schemes



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- c) Reduce infant mortality rate
- d) Privatize higher education

Answer: a

EXPLANATION

Important Terms

- The Dependency Ratio is a measure comparing the portion of a population which is composed of dependents (i.e., elderly people who are too old to work, and children who are too young to work) with the portion that is in the working age group, generally defined as 15 to 64 years.
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QUESTION 13

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Q13. Consider the following statements: (2009)



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1. Infant mortality rate takes into account the death of infants within a month after birth.
2. Infant mortality rate is the number of infant deaths in a particular year per 100 live births during that year.

Select the correct answer using the codes given below:

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 or 2

Answer: d

EXPLANATION

Important Terms

- Fertility rate is the number of live births per 1000 women in the child-bearing age group, usually taken to be 15 to 49 years.
- Infant Mortality Rate (IMR) is the number of deaths of babies before the age of one year per 1000 live births.
- Maternal Mortality Rate (MMR) is the annual number of female deaths per 100,000 live births from any cause related to or aggravated by pregnancy or its management (excluding accidental or incidental causes). It includes deaths during pregnancy, childbirth, or within 42 days of termination of pregnancy, irrespective of the duration and site of the pregnancy, for a specified year.
- Estimated number of years that an average person is expected to survive
- Life Expectancy is the. It is calculated on the basis of data on age-specific death rates in a given area over a period of time.



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- Sex Ratio refers to the number of females per 1000 males in a given area at a specified time period.
- The age structure of the population refers to the proportion of persons in different age groups relative to the total population.

Homework

- What is CRUDE Birth Rate?
- What is CRUDE Death Rate?
- What is the significance of the word 'CRUDE' in the above definitions?
- What is PERINATAL, NEONATAL and POST NEONATAL mortality?

Are the following statements TRUE or FALSE?

Historically, all over the world it has been found that there are slightly more females than males in most countries. – TRUE

Naturally, slightly more male babies are born than female ones; nature seems to produce roughly 943 to 952 female babies for every 1000 males. – TRUE

QUESTION 11, 12, 13

EXPLANATION

• If despite the fact that naturally, more male babies are born than female ones, the sex ratio is somewhat in favour of females, this seems to be due to 2 reasons.

- ✓ First, girl babies appear to have an advantage over boy babies in terms of resistance to disease in infancy.
- ✓ At the other end of the life cycle, women have tended to outlive men in most societies, so that there are older women than men.

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The combination of these two factors leads to a sex ratio of roughly 1050 females per 1000 males in most contexts.

- However, it has been found that the sex ratio has been declining in some countries like China, South Korea and specially India.
- This phenomenon has been linked to prevailing social norms that tend to value males much more than females, which leads to 'son preference' and the relative neglect of girl babies.

QUESTION 14

Q14. The Multi-dimensional Poverty Index developed by Oxford Poverty and Human Development Initiative with UNDP support covers which of the following? (2012)

1. Deprivation of education, health, assets and services at household level
2. Purchasing power parity at national level
3. Extent of budget deficit and GDP growth rate at national level

Select the correct answer using the codes given below:

- a) 1 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Answer: a

EXPLANATION

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What is POVERTY?

- Most countries of the world define poverty as a lack of money.



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- It is not having enough money to meet basic needs including food, clothing and shelter.

Is POVERTY just lack of money? Or is it MULTIDIMENSIONAL?

The World Bank Organization describes poverty in this way:

"Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time.

Poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation people want to escape. So poverty is a call to action -- for the poor and the wealthy alike -- a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities."

Multidimensional
Poverty

What is MPI – Multidimensional Poverty Index?

- The MPI looks beyond income and identifies how people are being left behind across three key dimensions: health, education and standard of living, comprising 10 indicators.
- It replaced the Human Poverty Index of the UN in 2010
- People who experience deprivation in at least one third of these weighted indicators fall into the category of multidimensional poor.

Dimensions of Poverty	Indicator	Deprived if living in the household where...	Weight
Health	Nutrition	An adult under 70 years of age or a child is undernourished.	1/6
	Child mortality	Any child has died in the family in the five-year period preceding the survey.	1/6
Education	Years of schooling	No household member aged 10 years or older has completed six years of schooling.	1/6
	School attendance	Any school-aged child is not attending school up to the age at which he/she would complete class 8.	1/6
Standard of living	Cooking Fuel	The household cooks with dung, wood, charcoal or coal.	1/18
	Sanitation	The household's sanitation facility is not improved (according to SDG guidelines) or it is improved but shared with other households.	1/18
	Drinking Water	The household does not have access to improved drinking water (according to SDG guidelines) or safe drinking water is at least a 30-minute walk from home, round trip.	1/18
	Electricity	The household has no electricity.	1/18
	Housing	Housing materials for at least one of roof, walls and floor are inadequate: the floor is of natural materials and/or the roof and/or walls are of natural or rudimentary materials.	1/18
	Assets	The household does not own more than one of these assets: radio, TV, telephone, computer, animal cart, bicycle, motorbike or refrigerator, and does not own a car or truck.	1/18



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QUESTION 15

Q15. Human Poverty Index was introduced in the Human Development Report of the year: (1998)

- a) 1994
- b) 1995
- c) 1996
- d) 1997

Answer: d

EXPLANATION

What is MPI – Multidimensional Poverty Index?

- The MPI looks beyond income and identifies how people are being left behind across three key dimensions: health, education and standard of living, comprising 10 indicators.
- It replaced the Human Poverty Index of the UN in 2010
- People who experience deprivation in at least one third of these weighted indicators fall into the category of multidimensional poor.

QUESTION 16

Q16. Human Development Index comprises literacy rates, life expectancy at birth and (1997)

- a) Gross National Product per head in the US dollars
- b) Gross Domestic Product per head at real purchasing power
- c) Gross National Product in US dollars
- d) National Income per head in US dollars

Answer: d

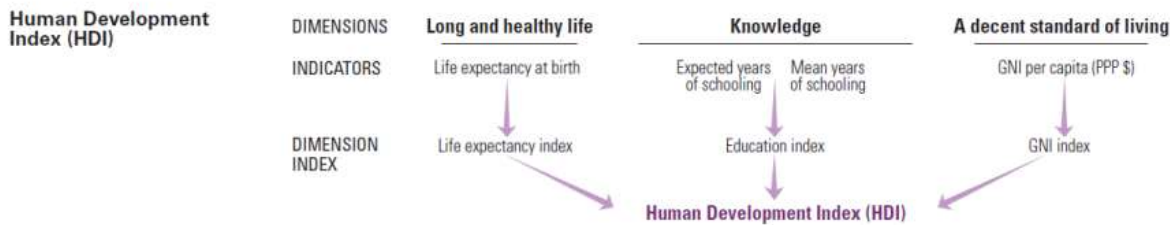
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EXPLANATION

What is HDI – Human Development Index?

- It was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone.



- The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean (and not arithmetic mean).

QUESTION 17

Q. Which of the following can aid in furthering the Government's objective of inclusive growth? (2011)

1. Promoting Self-Help Groups
2. Promoting Micro Small and Medium Enterprises
3. Implementing the Right to Education Act

Select the correct answer using the codes given below:

- a) 1 only
- b) 1 and 2 only
- c) 2 and 3 only
- d) 1, 2 and 3



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Answer: d

QUESTION 18

Q18. With reference to India, consider the following: (2010)

1. Nationalization of Banks
2. Formation of Regional Rural Banks
3. Adoption of villages by Bank Branches

Which of the above can be considered as steps taken to achieve the “financial inclusion” in India?

- a) 1 and 2 only
- b) 2 and 3 only
- c) 3 only
- d) 1, 2 and 3

Answer: d

EXPLANATION

1. Financial inclusion is where individuals and businesses have access to useful and affordable financial products and services that meet their needs that are delivered in a responsible and sustainable way.

2. The key words to be noted here are:

- Useful
- Affordable
- Meet the needs
- Responsible and sustainable delivery



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3. What kind of products and services are covered under financial inclusion?

- Credit - loans
- Investment – mutual funds, pension plans, etc
- Insurance – life and non life
- Savings and payment (general banking)

QUESTION 19

Q19. In the context of Indian economy, consider the following statements (2011)

1. The growth rate of GDP has steadily increased in the last five years.
2. The growth rate in per capita income has steadily increased in the last five years.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: b

QUESTION 20

Q20. With reference to Indian economy, consider the following statements: (2010)

1. The Gross Domestic Product (GDP) has increased by four times in the last 10 years.
2. The percentage share of Public Sector in GDP has declined in the last 10 years.

Which of the statements given above is/are correct?

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- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: b

QUESTION 19, 20

Questions are asked on TRENDS

- Keep a track of the trend of important parameters like GDP, Inflation, Current Account Deficit, Fiscal Deficit, Foreign Exchange Reserves, NPAs in PSBs, etc.

QUESTION 21

Q21. The most appropriate measure of economic growth of a country is its: (2001)

- a) Gross Domestic Product
- b) Net Domestic Product
- c) Net National Product
- d) Per Capita Real Income

Answer: d

EXPLANATION

How is economic growth measured? -> By calculating the change in level of output -> how?

Leadership through knowledge...

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There are various indicators/numbers that can be used to measure the level of output of an economy.

These can be:

- GDP
- NDP
- GNP
- NNP

All of these are indicators of national income

BU, it depends on the nation's "National Income Accounting" procedure that which indicator it wants to designate as its National Income (N.I)

GDP	GNP
<ul style="list-style-type: none">• GDP shows how much is produced within the boundaries of the country by both the citizens and the foreigners.• GDP focuses on where the output is produced rather than who produced it, it is a geographical concept.• GDP measures all the domestic production, disregarding the producing entities' nationalities.• In the case of India, whatever is produced within the boundaries of India will be taken into account while calculating GDP. For e.g. the final value of cars produced by the Korean-owned Hyundai car factory will also be added, irrespective of the nationality of the owner.	<ul style="list-style-type: none">• GNP is a measure of the value of output produced by the "nationals" of a country- both within the geographical boundaries and outside.• GNP focuses on who produces the output rather than where it is produced.• It is a concept where the nationality comes into play, irrespective of the geographical location.

Are the following statements TRUE or FALSE?

For an open economy, with great levels of foreign investment (FDI) and lesser levels of outbound FDI, its GDP is likely to be larger than GNP. – TRUE

For a closed economy where nobody leaves its shores, nobody invests abroad, nobody comes in and nobody invests in the country, its GDP will be equal to GNP. – TRUE

National Income can be calculated at Factor Cost and Market Price

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• Factor costs are the actual production costs at which goods and services are produced by firms and industries in an economy.

• They are the cost of all factors of production such as land, labor, capital, energy, raw materials like steel, etc that are used to produce a given quantity of output in an economy.



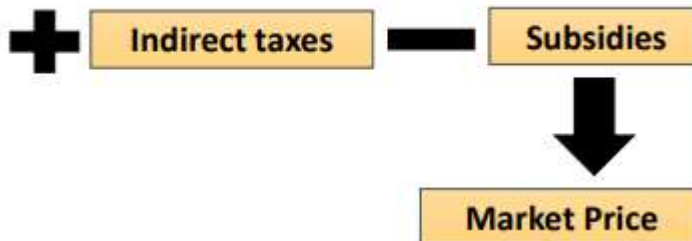
Factory Gate

National Income can be calculated at Factor Cost and Market Price

• Market Price is the actual transacted price and thus includes the indirect taxes (Product Taxes) which a government levies and the subsidies (Product Subsidies) which the government gives on the products.



Factory Gate



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Concept Check:

Let us take a very hypothetical example.

Suppose, the cost of making a product is Rs.1000. The indirect tax levied on it by the government is 10%. Let us suppose the government grants a subsidy of Rs.150 on the product. Now, what is its Factor cost and Market Price (in Rs)?

- a) 1000, 950
- b) 950, 1000
- c) 1100, 950
- d) 850, 950

Answer: a) 1000, 950

Thus in two ways, if we explain, it is:

- ✓ Market Price=Factor Cost + Indirect Taxes – Subsidies
- ✓ Here, the cost of making the product is Rs.1000, this is our factor cost. 10% tax is levied which is Rs.100 (10% of 1000). The value of subsidy granted is Rs.150. So, the market price is going to be $1000+100-150 = 950$.
- ✓ Similarly, we can find the value of factor cost:

Factor Cost = Market Price – Indirect Taxes + Subsidies

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Assuming 2016-17 as base year

Item	Quantity 2016-17	Price (Rs) 2016-17	Quantity 2017-18	Price (Rs) 2017-18
Bread	1	10	1	15
Shirt	2	20	2	25

- GDP (2016-17) at constant prices = $1 \times 10 + 2 \times 20 = \text{Rs } 50$
- GDP (2017-18) at current prices = $1 \times 15 + 2 \times 25 = \text{Rs } 65$
- GDP (2017-18) at constant prices = $1 \times 10 + 2 \times 20 = \text{Rs } 50$

Item	Quantity 2016-17	Price (Rs) 2016-17	Quantity 2017-18	Price (Rs) 2017-18
Bread	1	10	2	10
Shirt	2	20	4	20

- GDP (2016-17) at constant prices = $1 \times 10 + 2 \times 20 = \text{Rs } 50$
- GDP (2017-18) at current prices = $2 \times 10 + 4 \times 20 = \text{Rs } 100$
- GDP (2017-18) at constant prices = $2 \times 10 + 4 \times 20 = \text{Rs } 100$

National Income can be calculated at Constant Prices and Current Prices

- Nominal GDP refers to the current year production of final goods and services valued at current year prices.
- If this measure is adjusted for inflation/deflation (as the case may be) i.e. GDP is calculated at constant prices; it is expressed in real terms (real GDP).

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- GDP (2017-18) at current prices = $2 \times 10 + 4 \times 20 = \text{Rs } 100$
- GDP (2017-18) at constant prices = $2 \times 10 + 4 \times 20 = \text{Rs } 100$

What is Base Year?

- It is a specific year against which a quantity is measured (in this case, the quantity is economic output)
- It is allocated a value of 100 in an index.
- The estimates at the prevailing prices of the current year are termed as "at current prices", while those prepared at base year prices are termed "at constant prices"

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• The base year is changed periodically to take into account the structural changes which take place in the economy.

Characteristics of a good base year

- It should be a normal year without large fluctuations in production, trade and prices of commodities in general.
- Reliable price data should be available for it.
- It should be as recent as possible.
- For example, if we take a year which had a severe drought, in that year the agriculture produce would have been very less and thus the prices would have been very high. So, taking this year as a base year would not be appropriate as this year was a one-off case because of the occurrence of drought.



Can the height of Khali wrestler and Tyrion Lannister be considered as base height to measure the height of an individual?

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QUESTION 22

Q. The growth rate of per capita income at current prices is higher than that of per capita income at constant prices, because the latter takes into account the rate of: (2000)

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- a) growth of population
- b) increase in price level
- c) growth of money supply
- d) increase in the wage rate

Answer: b

QUESTION 23

Q. In an open economy, the national income (Y) of the economy is:

(C, I, G, X, M stand for Consumption, Investment, Govt. Expenditure, total exports and total imports respectively): (2000)

- a) $Y = C + I + G + X$
- b) $Y = I + G - X + M$
- c) $Y = C + I + G + (X - M)$
- d) $Y = C - G + I + (X - M)$

Answer: c

EXPLANATION

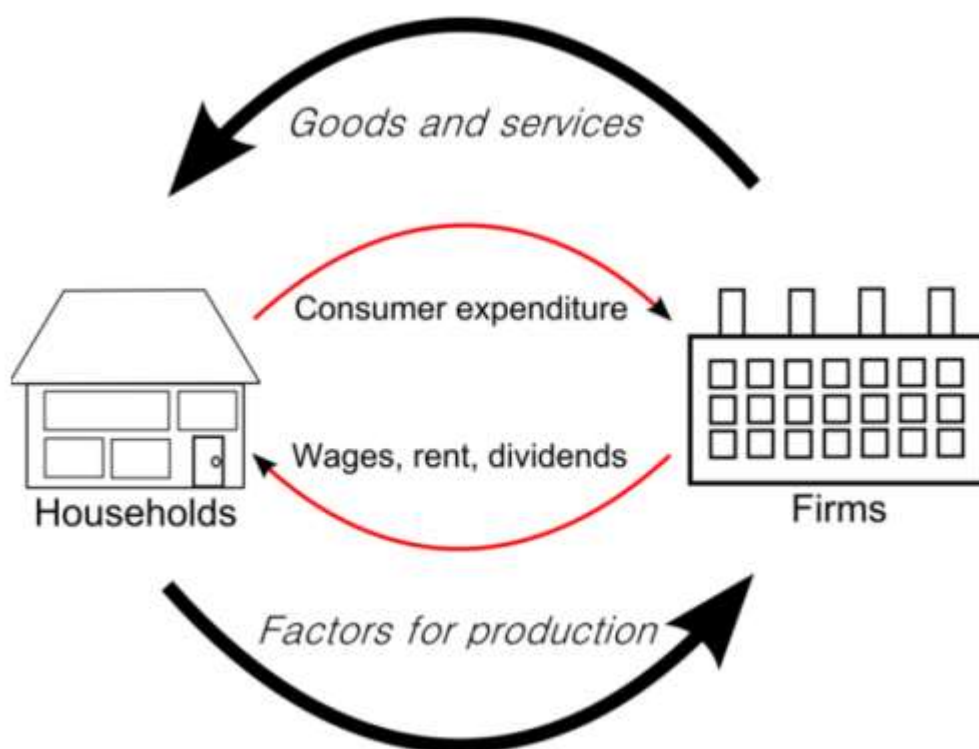
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- The expenditure approach attempts to calculate GDP by evaluating the sum of all final good and services purchased in an economy.

- $Y = C + I + G + (X - M)$ is the standard equational (expenditure) representation of GDP.

- "C" (consumption) consists of private expenditures /household consumption expenditure) in the economy.

- "I" (investment) includes, for instance, business investment in equipment, spending by households on new houses, etc

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- "G" (government spending) is the sum of government expenditures on final goods and services. It includes salaries of public servants, purchase of weapons for the military, etc



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- “X” (exports) represent gross exports. GDP captures the amount a country produces, including goods and services produced for other nations’ consumption, therefore exports are added.
- “M” (imports) represents gross imports. Imports are subtracted since imported goods will be included in the terms “G”, “I”, or “C”, and must be deducted to avoid counting foreign supply as domestic.

BONUS QUESTION 24

Q. National Income of India is now measured by?

- a) Net National Product at market price
- b) Net National Product at factor cost
- c) Gross Domestic Product at market price
- d) Net Domestic Product at factor cost

Answer: c

EXPLANATION

National Income Accounting in India

- It is calculated by the CSO (The Central Statistics Office) which comes under the Ministry of Statistics and Programme Implementation (MOSPI).
- India's GDP is calculated quarterly and annually. The reports are released at a two months gap. For example, the estimate for the December ended quarter would be released at the end of February.

National Income Accounting Changes in India *through knowledge...*

- In January 2015, the CSO brought many changes to the way it calculated the GDP.
- GDP of the country was now to be estimated in terms of Market Price.



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- Gross Value Added (GA) from different sectors was to be calculated at basic prices.
- Estimation of GVA at basic prices is a step to measure the GDP at market prices, hence the above 2 are interrelated.
- Base year was revised from 2004-05 to 2011-12.

QUESTION 25

Q. Given below are two statements, one labelled as Assertion (A) and the other labelled as

Reason (R): (1996)

Assertion (A): Though India's national income has gone up several fold since 1947, there has been no marked improvement in the per capita income level.

Reason (R): Sizeable proportion of the population of India is still living below the poverty line.

In the context of the above two statements, which one of the following is correct?

- Both A and R are true and R is the correct explanation of A
- Both A and R are true but R is not a correct explanation of A
- A is true but R is false
- A is false but R is true

Answer: b

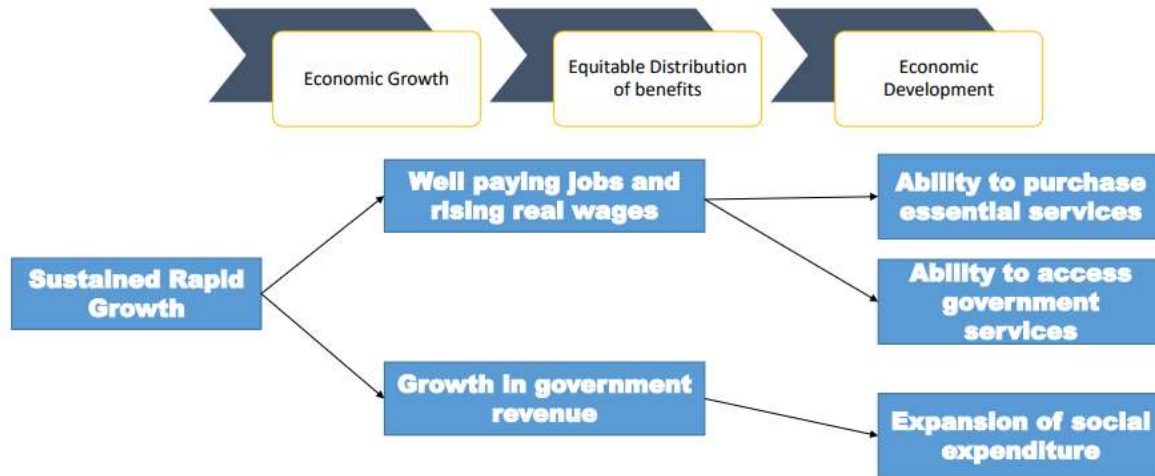
Are the following statements TRUE or FALSE?

Increase in national income means an increase in per capita income – FALSE

Increase in national income means economic development of the nation – FALSE

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QUESTION 26

Q. Life expectancy is the highest in the world in? (2003)

- a) Canada
- b) Germany
- c) Japan
- d) Norway

Answer: c

QUESTION 27

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Q. Persons below the poverty line in India are classified as such based whether: (1999)

- a) they are entitled to a minimum prescribed food basket

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- b) they get work for a prescribed minimum number of days in a year
- c) they belong to agricultural labour household and the scheduled caste/tribe social group
- d) their daily wages fall below the prescribed minimum wages

Answer: a

EXPLANATION

How to count the poor?

- The conventional approach to measuring poverty is to specify a minimum expenditure (or income) required to purchase a basket of goods and services necessary to satisfy basic human needs.
- This minimum expenditure is called the poverty line.
- The basket of goods and services necessary to satisfy basic human needs is the poverty line basket or PLB.
- The proportion of population below the poverty line is called the poverty ratio or headcount ratio (HCR).

Counting the poor in India

Y.K Alagh Committee (1979)

- Decided poverty in terms of how much people eat
- < 2100 calories (urban areas) and < 2400 calories (rural areas)
- These calories intake require money = consumption expenditure (measured by NSSO surveys)



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- Consumer expenditure of Rs.49.09 per capita per month was associated with a calorie intake of 2400 per capita per day in rural areas and Rs.56.64 per capita per month with a calorie intake of 2100 per day in urban areas. This 'Monthly Per Capita Expenditure' was termed as poverty line.
- This was the first poverty line as defined in India

Area	Calories	Minimum consumption expenditure (Rs per capita per month) (1973-74 prices)
Rural	2400	49.1
Urban	2100	56.7

Lakdawala Committee (1993)

- Anyone who is able to afford 2400 and 2100 calories worth of consumption in rural and urban areas respectively in addition to clothing and shelter is not poor.
- These calorie consumptions were derived from YK Alagh committee only.

What new did it recommend?

- State specific poverty lines should be constructed, and these should be updated using the Consumer Price Index of Industrial Workers (CPI-IW) in urban areas and Consumer Price Index of Agricultural Labour (CPI-AL) in rural areas.
- It included health and education (these were excluded in Y.K Alagh methodology because they were expected to be provided by the states).

Suresh Tendulkar Committee (2005)

- It recommended making the poverty basket broad based by considering monthly spending on health, education, electricity, transport, etc
- Cost of living (and not calories only) should be the basis for identifying poverty.

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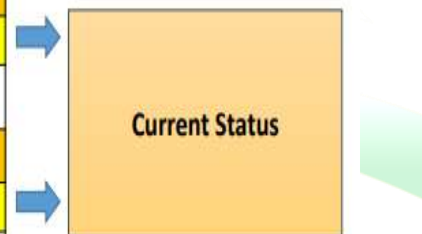
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- A uniform poverty line basket should be used for rural and urban regions.
- It stipulated a benchmark daily per capita expenditure of Rs. 27 and Rs. 33 in rural and urban areas, respectively, and arrived at a cut-off of about 22% of the population below poverty line.

Rangarajan Committee (2014)

- It recommended separate consumption baskets for rural and urban areas which include food items that ensure recommended calorie, protein & fat intake and non-food items like clothing, education, health, housing and transport.
- It again de-linked the rural and urban poverty lines.

Committees	Tendulkar	Rangarajan
Set up by	Planning Commission	Planning Commission
Set up in	2005	2012
Submitted report	2009	2014
Poverty estimation method	Per capita Expenditure monthly	Monthly Expenditure of family of five
Urban Poverty Line Per Day Per Person	33	47
Urban Poverty Line Per Month Per Person	1000	1407
Urban Poverty Line Per Month, Family of Five Members	5000	7035
Rural Poverty Line Per Day Per Person	27	32
Rural Poverty Line (Rs) Per month Per Person	816	972
Rural poverty line (Rs) Per month Family of five members	4080	4860
BPL (Below Poverty Line) in crore	27 crore	37 crore
Calorie Expenditure	Only calorific value in expenditure	Calorie + Protein + Fat
Calories in rural areas	2400	2155
Calories in urban areas	2100	2090
Main Focus areas	Only counts expenditure on food, health, education, clothing	<ol style="list-style-type: none"> 1. Food 2. Non – food items such as education 3. Healthcare 4. Clothing 5. Transport 6. Rent 7. Non-food items that meet nutritional requirements.



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Arvind Panagariya Task Force (2016)

To define the poverty line, The NDA Government had constituted a 14-member task force under NITI Aayog's vice-chairman Arvind Panagariya to come out with recommendations for a realistic poverty line.

What is social exclusion?

- According to this concept, poverty must be seen in terms of the poor having to live only in a poor surrounding with other poor people, excluded from enjoying social equality of better-off people in better surroundings.
- It can be both a cause as well as a consequence of poverty in the usual sense.
- Broadly, it is a process through which individuals or groups are excluded from facilities, benefits and opportunities that others (their "betters") enjoy.
- Example - working of the caste system in India in which people belonging to certain castes are excluded from equal opportunities. Social exclusion thus may lead to, but can cause more damage than, having a very low income.

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2. ECONOMIC PLANNING - types of planning, planning in the Indian economy, economic reforms

QUESTION

What is **PLANNING** (in its general sense?)

- The art of achieving well defined goals by the optimum use of the available resources

The definition of economic planning has evolved from PRACTICE!

- Idea of planning first emerged in its applied form and after studying and surveying the experiences of different countries which followed it, experts started theorizing about planning.

What is **ECONOMIC PLANNING**?

- It is the making of major economic decisions – what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole. (H.D Dickinson)
- The acceptance of a clearly defined system of objectives in terms of which to frame overall policies. It also involves the formation of a strategy for promoting the realization of ends defined. (Planning Commission)

Process of Economic Planning



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Process of Planning

What is my Goal?

- To become an IAS Officer in 2 years (time bound definite target)

Who has set this goal?

- Me (I have the authority to make this decision)

How has the goal been set?

- By consultation with my parents (advisory role of parents)
- By consultation with my friends (advisory role of friends)

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- By weighing the pros and cons of becoming an IAS officer

What are the resources required?

- Time
- Study material
- Money
- Etc.

Are all the above resources available with me?

- Yes – let me start my preparation and use the resources judiciously and sustainably.
- No – I do not have the money required for coaching – How can I augment my deficient resource? (Maybe borrow from my friend?)

Types of Planning

1. Based on levels-

Regional level or National level

- It was at the regional level that planning was used as a part of the development policy by any country for the first time.
- It was the USA which started the first regional planning after the Tennessee Valley Authority (TVA) was set up in 1916 for large scale rehabilitation (flood control, soil conservation, etc) in south eastern USA covering parts of 7 states.
- The Soviet Union was the first nation to start national planning by going for its 1st Five Year Plan for the period 1928-33 (Joseph Stalin and the Bolshevik Revolution)

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• **Gosplan** was the name of the State Planning Committee responsible for central economic planning in USSR.

2 types of national planning-

Imperative planning and Indicative Planning

Imperative planning

- The planning process followed by the state economies (i.e. socialist or communist)
- Also called directive or target planning

2 variants of Imperative Planning-

- In the Socialist system, all economic decisions were centralized in the hands of the State with collective ownership of resources (except labour)
- In the Communist system (i.e. China of the past), all resources were to be owned and utilized by the State (including labour). Such economies (i.e. those practicing imperative planning) are called Command Economies and Centrally Planned Economies.

Features of Imperative Planning-

- Numerical targets of growth and development are set by the plan
- State controls the ownership rights
- There is almost nil (zero) role for market – all economic decisions taken by the state/government (centralized)
- No private participation in the economy, only the state plays the economic role. . . .



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- China adopted the open door policy (to move towards market socialism) and the former Soviet Union (under Mikhail Gorbachev) began a process of political and economic reforms called **prestroika** (restructuring) and glasnost (openness) in 1985.

- Now, the whole world of the state economies has moved towards market economy, no country as of today follows imperative planning (in its pure sense).

Indicative planning

- Once the idea of planning caught the attention of the democratic world and they started national planning, the nature of their planning was different from the command economies.

- Such planning has been termed as Indicative Planning.

- Monnet Plan (of France) is considered synonymous with indicative planning.

Features of Indicative planning

- Followed by the mixed economies (unlike command economies which followed imperative planning)

- It works through the market system rather than replacing it (as done by imperative planning)

- Apart from setting numerical targets (like imperative planning), it also sets economic policies of indicative nature to realise the plan targets

- The indicative economic policies encourage or discourage the private sector in its process of economic decision making.

2. Based on the scope of planning-

Comprehensive or Partial

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- A comprehensive plan sets targets to cover all major aspects of the economy while a partial plan may go for setting targets for a part of the economy (agriculture, industry, public sector, etc).



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3. Based on domains-

- Economic planning, Social planning, Land use planning, Policy planning, Environmental planning, Rural planning, Urban planning, Strategic Planning, etc.

- Here we can see that the concept of planning narrows or becomes more specific when we apply it to a particular domain.

4. Based on the participation-

Centralized or Decentralized

- Planning from the top is known as centralised planning or macro-level planning.
- Decentralised planning - the process of planning where some of planning functions and responsibilities of decision-making are delegated from the centre to the lower levels of administration.
- Also called grass-root level planning or planning from below.

5. Based on the nature of planning-

Formal or Informal

- Planning is formal when it is reduced to writing. When the numbers of actions are large it is good to have a formal plan since it will help adequate control. The term formal means official and recognized.
- An informal plan is one, which is not in writing, but it is conceived in the mind of the manager. Informal planning will be effective when the number of actions are less and actions have to be taken in short period.

6. Based on the duration of planning-

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Short-Term or Long Term

- Short-term planning is generally considered as tactical planning.
- Short-term plans are concerned with immediate future and it takes into account the available resources only.
- Long-term planning is generally considered strategic planning. It usually involves a number of years.
- It takes into account all the probable resources: near-term and long-term.

7. Based on societal emphasis-

Systems planning and Normative planning

- Systems planning gives less emphasis upon the social and institutional dimensions (like caste, creed, gender, religion, region, etc.)
- Normative planning gives due importance to the socio institutional factors.
- Economic Survey 2010-11 noted –

“Until a programme/scheme run by the governments are not able to connect with the customs, traditions and ethos of the population, their acceptability will not be of the desired level among the target population”

- With the coming of NITI Aayog, the normative character of Indian planning has been strengthened. How?

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Planning in India

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Pre Independence

- ✓ Soviet Union – adopted National Planning in 1928 (first Five Year Plan launched)
- ✓ India – nationalist leaders with socialist orientation - highly influenced by the idea of economic planning
- ✓ Visvesvaraya plan (outlined in the book “Planned Economy of India” published in 1934)– 1st blueprint of Indian planning – emphasis on industrialization, shift of labour from agriculture to industries and doubling the national income in 1 decade
- ✓ FICCI proposal (1934) – called for setting up a high powered ‘National Planning Committee to coordinate the whole process of planning – said that the days of undiluted laissez faire were gone forever (Great Depression had started from 1929, New Deal had started in USA under President Roosevelt and Soviet Russia had shown progress under national planning since 1928)
- ✓ Bombay Plan (1944-45) – rapid industrialization with emphasis on capital goods and basic industries and simultaneous development of essential consumer goods industries, agrarian restructuring, promoting medium, small scale and cottage industries, state to play an active role in economy, etc
- ✓ Gandhian Plan (1944) - laid more emphasis on agriculture, promotion of cottage and village level industries leading to decentralized economic structure for India.
- ✓ People’s Plan (1945) – based on Marxist socialism, advocated the need to provide the people with basic necessities of life (socialist leaning in Indian planning contributed to this plan)
- ✓ Sarvodaya Plan (1950) – emphasis on agriculture, agri based small and cottage industries, self reliance and almost no dependence on foreign capital and technology, land reforms, self dependent villages and decentralized participatory form of planning.

Post Independence

✓ Planning Commission

- Set up in March 1950 – to carry out planning for the whole economy at the national level
- Extra constitutional and non statutory body
- Advisory body to the Government of India

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- Autonomous body entitled to have its own views on important issues and place them before the government
- Linked with the Union cabinet at the secretariat level
- Technical body with experts and professionals
- Executive powers (Prime Minister – Chairman)
 - ✓ **National Development Council (NDC)**
- Set up in 1952
- Non statutory and non constitutional body
- Initially comprised of PM (de facto chairman), CMs of all states and members of Planning commission
- 1967 onwards – composition changed (based on recommendation of ARC) – now it has PM (chairman), all union cabinet ministers, CM's of all states and administrators of UTs (Delhi represented by Lt Governor and the Chief executive councillor) and members of planning commission. Other union ministers and state ministers could be invited.
 - ✓ **NITI Aayog**
- Set up in 2015 by replacing the Planning Commission (more about it later)

Functions of NDC

- ✓ To consider the proposals formulated for Plans at all important stages and accept them
- ✓ To review the working of the Plans from time to time
- ✓ To consider the important questions of social and economic policy affecting national development
- ✓ To recommend measures for the achievement of the aims and targets set out in the national plan



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- ✓ Functions of NDC
- ✓ Planning in India

Plans were formulated by the Planning Commission and approved the National Development Council before they were presented to the Parliament and the state legislatures. In this way plans formulated by the planning commission received a national character.

QUESTION 1

Q. Five Year Plan in India is finally approved by: (2002)

- a) Union Cabinet
- b) President on the advice of Prime Minister
- c) Planning Commission
- d) National Development Council

Answer: d

QUESTION 2

Q. Who among the following constitute the National Development Council? (2013)

1. The Prime Minister
2. The Chairman, Finance Commission
3. Ministers of the Union Cabinet
4. Chief Ministers of the States

Select the correct answer using the codes given below.

- a) 1, 2 and 3 only

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b) 1, 3 and 4 only

c) 2 and 4 only

d) 1, 2, 3 and 4

Answer: b

QUESTION 3

Q. India is regarded as a country with “Demographic Dividend”. This is due to (2011)

a) Its high population in the age group below 15 years.

b) Its high population in the age group of 15–64 years.

c) Its high population in the age group above 65 years.

d) Its high total population.

Answer: b

QUESTION 4

Q. The Government of India has established NITI Aayog to replace the (2015)

a) Human Rights Commission

b) Finance Commission

c) Law Commission

d) Planning Commission *Leadership through knowledge...*

Answer – d



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QUESTION 5

Q. In the context of India's Five Year Plans, a shift in the pattern of industrialization, with lower emphasis on heavy industries and more on infrastructure begins in : (2010)

- a) Fourth plan
- b) Sixth plan
- c) Eighth plan
- d) Tenth plan

Answer: b

QUESTION 6

Q. Consider the following statements regarding Indian Planning: (2009)

1. The Second Five-Year Plan emphasized on the establishment of heavy industries.
2. The Third Five-Year Plan introduced the concept of import substitution as a strategy for industrialization.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: b



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QUESTION 7

Q. During which Five Year Plan was the Emergency clamped, new elections took place and the Janata Party was elected? (2009)

- a) Third
- b) Fourth
- c) Fifth
- d) Sixth

Answer: c

QUESTION 8

Q. Which one of the following Five Year Plans recognised human development as the core of all development efforts? (1995)

- a) The Third Five Year Plan
- b) The Fifth Five Year Plan
- c) The Sixth Five Year Plan
- d) The Eighth Five Year Plan

Answer: d

QUESTION 9

Q. Inclusive growth as enunciated in the Eleventh Five Year Plan does not include which one of the following: (2010)

- a) Reduction of poverty

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- b) Extension of employment opportunities
- c) Strengthening of capital market
- d) Reduction of gender inequality

Answer: c

QUESTION 10

Q. The main objective of the 12th Five-Year Plan is (2014)

- a) inclusive growth and poverty reduction
- b) inclusive and sustainable growth
- c) sustainable and inclusive growth to reduce unemployment
- d) faster, sustainable and more inclusive growth

Answer : d

EXPLANATION

A large, semi-transparent watermark of the CSAP logo is centered in the background of the page. It features the same sunburst and 'CSAP' text as the main logo, but in a lighter, yellowish-green color. Below the watermark, the text 'CIVIL SERVICES ACHIEVER'S POINT' and the tagline 'Leadership through knowledge...' are displayed in a light yellow color.

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Outline of 5 Year Plans in India

<p>First Plan (1951 - 56)</p> <p>Target Growth : 2.1 %</p> <p>Actual Growth 3.6 %</p>	<p>It was based on Harrod-Domar Model.</p>
	<p>Influx of refugees, severe food shortage & mounting inflation confronted the country at the onset of the first five year Plan.</p>
	<p>The Plan Focussed on agriculture, price stability, power and transport</p>
	<p>It was a successful plan primarily because of good harvests in the last two years of the plan. Objectives of rehabilitation of refugees, food self sufficiency & control of prices were more or less achieved.</p>
<p>Second Plan (1956 - 61)</p> <p>Target Growth: 4.5% Actual Growth: 4.3%</p>	<p>Simple aggregative Harrod Domar Growth Model was again used for overall projections and the strategy of resource allocation to broad sectors as agriculture & Industry was based on two & four sector Model prepared by Prof. P C Mahalanobis. (Plan is also called Mahalanobis Plan).</p>
	<p>Second plan was conceived in an atmosphere of economic stability . It was felt agriculture could be accorded lower priority.</p>
	<p>The Plan Focussed on rapid industrialization- heavy & basic industries . Advocated huge imports through foreign loans.</p>
	<p>The Industrial Policy 1956 was based on establishment of a socialistic pattern of society as the goal of economic policy.</p>
	<p>Acute shortage of forex led to pruning of development targets , price rise was also seen (about 30%) vis a vis decline in the earlier Plan & the 2nd FYP was only moderately successful.</p>

<p>Third Plan (1961 - 66)</p> <p> Target Growth: 5.6%</p> <p>Actual Growth: 2.8%</p>
<p>Three Annual Plans (1966- 69)</p> <p>euphemistically described as Plan holiday.</p>

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<p>Fourth Plan (1969 - 74) Target Growth: 5.7% Actual Growth: 3.3%</p>	<p>Refusal of supply of essential equipments and raw materials from the allies during Indo Pak war resulted in twin objectives of "growth with stability" and "progressive achievement of self reliance" for the Fourth Plan.</p> <p>Main emphasis was on growth rate of agriculture to enable other sectors to move forward . First two years of the plan saw record production. The last three years did not measure up due to poor monsoon. Implementation of Family Planning Programmes were amongst major targets of the Plan.</p> <p>Influx of Bangladeshi refugees before and after 1971 Indo-Pak war was an important issue along with price situation deteriorating to crisis proportions and the plan is considered as big failure.</p>
<p>Fifth Plan (1974-79) Target Growth: 4.4% Actual Growth: 4.8%</p>	<p>The final Draft of fifth plan was prepared and launched by D.P. Dhar in the backdrop of economic crisis arising out of run-away inflation fuelled by hike in oil prices and failure of the Govt. takeover of the wholesale trade in wheat.</p> <p>It proposed to achieve two main objectives: 'removal of poverty (Garibi Hatao)' and 'attainment of self reliance'</p> <p>Promotion of high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments</p> <p>Due to high inflation, cost calculations for the Plan proved to be completely wrong and the original public sector outlay had to be revised upwards. After promulgation of emergency in 1975, the emphasis shifted to the implementation of Prime Ministers 20 Point Programme. FYP was relegated to the background and when Janta Party came to power in 1978, the Plan was terminated.</p>

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Rolling Plan (1978 - 80)	There were 2 Sixth Plans. Janta Govt. put forward a plan for 1978-1983 emphasising on employment , in contrast to Nehru Model which the Govt criticised for concentration of power, widening inequality & for mounting poverty . However, the government lasted for only 2 years. Congress Govt. returned to power in 1980 and launched a different plan aimed at directly attacking on the problem of poverty by creating conditions of an expanding economy.
Sixth Plan (1980 - 85) Target Growth: 5.2% Actual Growth: 5.7%	The Plan focussed on Increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment through schemes for transferring skills(TRYSEM) and seets(IRDP) and providing slack season employment (NREP), controlling population explosion etc. Broadly , the sixth Plan could be taken as a success as most of the target were realised even though during the last year (1984-85) many parts of the country faced severe famine conditions and agricultural output was less than the record output of previous year.
Seventh Plan (1985 - 90) Target Growth: 5.0% Actual Growth: 6.0%	The Plan aimed at accelerating food grain production, increasing employment opportunities & raising productivity with focus on ' food, work & productivity '. The plan was very successful as the economy recorded 6% growth rate against the targeted 5% with the decade of 80's <u>struggling out of the 'Hindu Rate of Growth'</u> .

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Eighth Plan	The eighth plan was postponed by two years because of political uncertainty at the Centre
(1992 - 97)	<u>Worsening Balance of Payment</u> position, rising debt burden , widening budget deficits, recession in industry and inflation were the key issues during the launch of the plan.
Target Growth 5.6 %	The plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6% through <u>introduction of fiscal & economic reforms including liberalisation</u> under the Prime Minister ship of Shri P V Narasimha Rao.
Actual Growth 6.8%	
	Some of the main economic outcomes during eighth plan period were rapid economic growth (highest annual growth rate so far – 6.8 %), high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit. High growth rate was achieved even though the share of public sector in total investment had declined considerably to about 34 %.
Ninth Plan (1997- 2002)	The Plan prepared under United Front Government focussed on <u>"Growth With Social Justice & Equality"</u> Ninth Plan aimed to depend predominantly on the private sector – Indian as well as foreign (FDI) & State was envisaged to increasingly play the role of facilitator & increasingly involve itself with social sector viz education , health etc and infrastructure where private sector participation was likely to be limited. It assigned priority to agriculture & rural development with a view to generate adequate productive employment and eradicate poverty
Target Growth: 6.5% Actual Growth: 5.4%	

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<p>Tenth Plan (2002 - 2007)</p> <p>Target Growth 8 %</p> <p>Actual Growth 7.6 %</p>	<p>Recognising that economic growth cant be the only objective of national plan, Tenth Plan had set '<u>monitorable targets</u>' for few key indicators (11) of development besides 8 % growth target. The targets included reduction in gender gaps in literacy and wage rate, reduction in Infant & maternal mortality rates, improvement in literacy, access to potable drinking water cleaning of major polluted rivers, etc. Governance was considered as factor of development & agriculture was declared as prime moving force of the economy. States role in planning was to be increased with greater involvement of Panchayati Raj Institutions. State wise break up of targets for growth and social development sought to achieve balanced development of all states.</p>
<p>Eleventh Plan (2007 - 2012)</p> <p>Target Growth 9 %</p> <p>Actual Growth 8%</p>	<p>Eleventh Plan was aimed "<u>Towards Faster & More Inclusive Growth</u>" after UPA rode back to power on the plank of helping Aam Aadmi (common man).</p> <p>India had emerged as one of the fastest growing economy by the end of the Tenth Plan. The savings and investment rates had increased , industrial sector had responded well to face competition in the global economy and foreign investors were keen to invest in India. But the growth was not perceived as sufficiently inclusive for many groups , specially SCs , STs & minorities as borne out by data on several dimensions like poverty, malnutrition, mortality, current daily employment etc .</p>

Types of Planning

Based on levels-

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Regional level or National level planning

National Level Planning

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- There are 2 types of national planning – imperative and indicative.
- Imperative planning is the planning process followed by the state economies (i.e. socialist or communist)
- Also called directive or target planning
- Once the idea of planning caught the attention of the democratic world (including India) and they started national planning, the nature of their planning was different from the command economies.
- Such planning has been termed as Indicative Planning.
- Followed by the mixed economies (unlike command economies which followed imperative planning)
- It works through the market system rather than replacing it (as done by imperative planning)
- Apart from setting numerical targets (like imperative planning), it also sets economic policies of indicative nature to realise the plan targets
- The indicative economic policies encourage or discourage the private sector in its process of economic decision making.

India, after independence, started National Planning of indicative type with the formation of the Planning Commission and the National Development Council (NDC).

Indian Planning

A brief summary of events till 1947-1991

- India followed the mixed economy framework by combining the advantages of the capitalist economic system with those of the socialist economic system.

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- India set up the Planning Commission in March 1950 to carry out national level planning.



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• NDC was set up in 1952 to ensure cooperative federalism (as the plans had to be implemented at the state level, therefore there was a need for the states to be on board so that the plan could be effectively implemented)

The goals of the Indian five year plans were:

- Growth (increase in the country's capacity to produce the output of goods and services within the country)
- Modernisation (To increase the production of goods and services the producers have to adopt new technology)

(Modernisation also includes changes in social outlook such as the recognition that women should have the same rights as men)

- Self-reliance (The first 7 Five Year Plans (till 1990) gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself)
- Equity (It is important to ensure that the benefits of economic prosperity reach the poor sections as well instead of being enjoyed only by the rich)

QUESTION 1

Q. Which one of the following is correct regarding stabilization and structural adjustment as two components of the new economic policy adopted in India? (1996)

- a) Stabilization is a gradual, multi-step process while structural adjustment is a quick adaptation process
- b) Structural adjustment is a gradual multi-step process, while stabilization is a quick adaptation process
- c) Stabilization and structural adjustment are very similar and complimentary policies. It is difficult to separate one from the other
- d) Stabilization mainly deals with a set of policies which are to be implemented by the Central government while structural adjacent is to be set it motion by the State governments.

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Answer: b

EXPLANATION

Events leading to the BOP crisis of 1991

- ✓ Even though the revenues were very low, the government had to overshoot its revenue to meet challenges like unemployment, poverty and population explosion (this spending did not generate additional revenue)
- ✓ Government was also not able to generate sufficiently from internal sources such as taxation
- ✓ The income from PSUs was also not very high to meet the growing expenditure
- ✓ At times, our foreign exchange, borrowed from other countries and international financial institutions, was spent on meeting consumption needs.
- ✓ Sufficient attention was not given to boost exports to pay for the growing imports
- ✓ Prices of many essential goods rose sharply.
- ✓ Imports grew at a very high rate without matching growth of exports. (foreign exchange reserves declined to a level that was not adequate to finance imports for more than two week)
- ✓ There was also not sufficient foreign exchange to pay the interest to international lenders. Also no country or international funder was willing to lend to India.
- ✓ India approached the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and the International Monetary Fund (IMF), and received \$7 billion as loan to manage the crisis.
- ✓ For availing the loan, these international agencies expected India to liberalise and open up the economy by removing restrictions on the private sector, reduce the role of the government in many areas and remove trade restrictions between India and other countries.

Then came the New Economic Policy of 1991 leading to LPG reforms (Liberalisation, Privatisation and Globalisation)

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After the BOP crisis of 1991

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- ✓ India agreed to the conditionalities of World Bank and IMF and announced the New Economic Policy (NEP).
- ✓ This set of policies can broadly be classified into 2 groups: the stabilization measures and the structural reform measures.
- ✓ Stabilization measures are short term measures, intended to correct some of the weaknesses that have developed in the balance of payments and to bring inflation under control.
- ✓ Structural reform policies are long-term measures, aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of the Indian economy.
- ✓ The government initiated a variety of policies which fall under three heads viz, liberalization, privatization and globalization.

QUESTION 2

Q. Economic liberalisation in India started with: (2000)

- a) substantial changes in industrial licensing policy
- b) the convertibility of Indian rupee
- c) doing away with procedural formalities for foreign direct investment
- d) significant reduction in tax rates

Answer: a

LIBERALISATION

Deregulation of Industrial Sector:

What was the case before?

- ✓ Industrial licensing (under which every entrepreneur had to get permission from government officials to start a firm, close a firm or decide the amount of goods that could be produced)
- ✓ Private sector was not allowed in many industries

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- ✓ Some goods could be produced only in small-scale industries
- ✓ There were controls on price fixation and distribution of selected industrial products.

Deregulation of Industrial Sector

What changed after 1991?

- ✓ Industrial licensing was abolished for almost all except a few product categories
- ✓ Many goods produced by small-scale industries were de-reserved.
- ✓ In many industries, the market has been allowed to determine the prices.

Financial Sector Reforms

What was the case before?

- ✓ RBI strictly controlled almost all the banking matters – norms for branch opening, expansion, amount of money to be kept by bank, amount of lending, etc.

What changed after 1991?

- ✓ Role of RBI was changed from regulator to facilitator of financial sector
- ✓ Private banks were allowed to be set up. (Foreign investment limit in banks was raised to around 50 per cent)
- ✓ Foreign Institutional Investors (FII), such as merchant bankers, mutual funds and pension funds, were now allowed to invest in Indian financial markets.

Tax Reforms

What was the case before?



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- ✓ The rate of corporation tax was very high
- ✓ The rate of income tax was very high
- ✓ The system was complex and compliance was low

What changed after 1991?

- ✓ Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion
- ✓ In order to encourage better compliance on the part of taxpayers many procedures were simplified and the rates also substantially lowered

Foreign Exchange Reforms

What changed after 1991?

- ✓ In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies.
- ✓ It also set the tone to free the determination of rupee value in the foreign exchange market from government control

Trade and Investment Policy Reforms

What was the case before?

- ✓ India was following a regime of quantitative restrictions on imports. There was a tight control over imports and import tariffs were very high.

What changed after 1991?

- ✓ The trade policy reforms aimed at dismantling of quantitative restrictions on imports and exports, reduction of tariff rates and removal of licensing procedures for imports.
- ✓ Import licensing was abolished except in case of hazardous and environmentally sensitive industries.

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PRIVATISATION

It implies shedding of the ownership or management of a government owned enterprise

Government companies are converted into private companies in two ways:

- 1) By withdrawal of the government from ownership and management of public sector companies
 - 2) By outright sale of public sector companies
- Privatisation of the public sector enterprises by selling off part of the equity of PSEs to the public is known as disinvestment
 - The government envisaged that privatisation could provide strong impetus to the inflow of FDI
 - It was also envisaged that private capital and managerial capabilities could be effectively utilised to improve the performance of the PSUs
 - The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions. (For instance, some PSUs have been granted special status as Maharatnas, Navratnas and Miniratnas).

GLOBALISATION

- It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.
- Globalisation attempts to establish links in such a way that the happenings in India can be influenced by events happening miles away.

QUESTION 3

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Q. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R).
(1996)



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Assertion (A): An important policy instrument of economic liberalization is reduction in import duties on capital goods.

Reason (R): Reduction in import duties would help the local entrepreneurs to improve technology to face the global markets.

With context to the above two statements, which one of the following is correct?

- a) Both A and R is true and R is the correct explanation
- b) Both A and R is true R is not a correct explanation
- c) A is true but R is false
- d) A is false but R is true

Answer: a

QUESTION 4

Q. Which of the following has/have occurred in India after its liberalization of economic policies in 1991? (2017)

1. Share of agriculture in GDP increased enormously.
2. Share of India's exports in world trade increased.
3. FDI inflows increased.
4. India's foreign exchange reserves increased enormously.

Select the correct answer using the codes given below.

- a) 1 and 4 only
- b) 2, 3 and 4 only

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c) 2 and 3 only

d) 1, 2, 3 and 4

Answer: b

QUESTION 5

Q. Since 1980, the share of the tertiary sector in the total GDP of India has: (1999)

a) shown an increasing trend

b) shown a decreasing trend

c) remained constant

d) been fluctuating

Answer: a

QUESTION 6

Q. One of the reasons for India's occupational structure remaining more or less the same over the years has been that: (1995)

a) investment pattern has been directed towards capital intensive industries

b) productivity in agriculture has been high enough to induce people to stay with agricultural

c) ceiling on land holdings have enabled more people to own land and hence their preference to stay with agriculture

d) people are largely unaware of the significance of transition from agriculture to industry for economic development

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Answer: a

3. INFLATION AND BUSINESS CYCLE

What is INFLATION?

- ✓ Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.

INFLATION and Purchasing power of money

- ✓ When the general price level rises (inflation occurs), each unit of currency buys fewer goods and services; consequently, inflation reflects a reduction in the purchasing power per unit of money.



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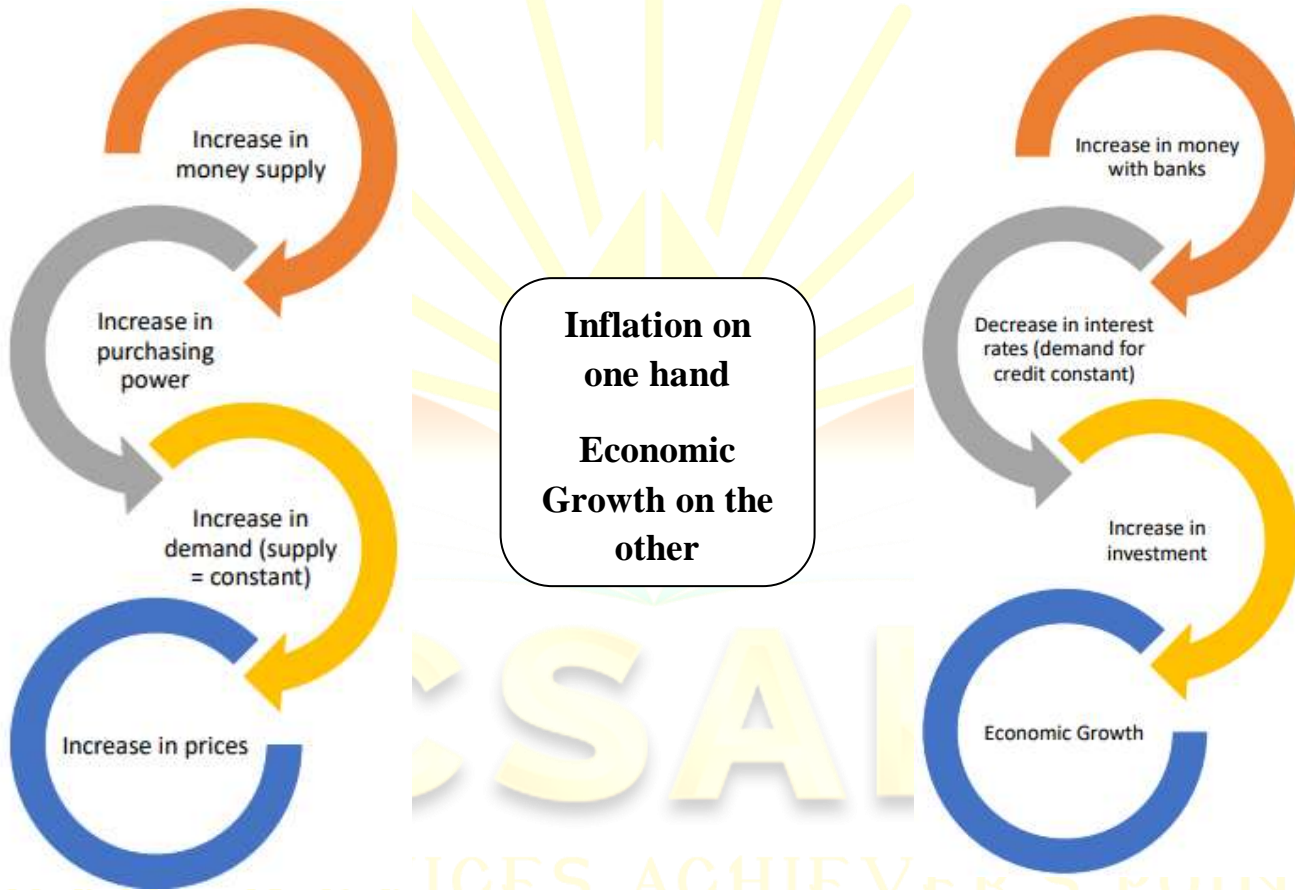


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Relation between money supply and prices



Relation between money supply and prices through knowledge...

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QUESTION 1

Q. Supply of money remaining the same when there is an increase in demand for money, there will be: (2013)

a) a fall in the level of prices

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- b) an increase in the rate of interest
- c) a decrease in the rate of interest
- d) an increase in the level of income and employment

Answer: b

QUESTION 2

Q. Consider the following statements: (2013)

1. Inflation benefits the debtors.
2. Inflation benefits the bondholders.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: a

QUESTION 3

Q. A rise in general level of prices may be caused by: (2013)

1. an increase in the money supply

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2. a decrease in the aggregate level of output

3. an increase in the effective demand

Select the correct answer using the codes given below:

- a) 1 only
- b) 1 and 2 only
- c) 2 and 3 only
- d) 1, 2 and 3

Answer: d

QUESTION 4

Q. Which one of the following is likely to be the most inflationary in its effect? (2013)

- a) Repayment of public debt
- b) Borrowing from the public to finance a budget deficit
- c) Borrowing from banks to finance a budget deficit
- d) Creating new money to finance a budget deficit

Answer: d

QUESTION 5

Q. Economic growth is usually coupled with: (2011)

- a) Deflation

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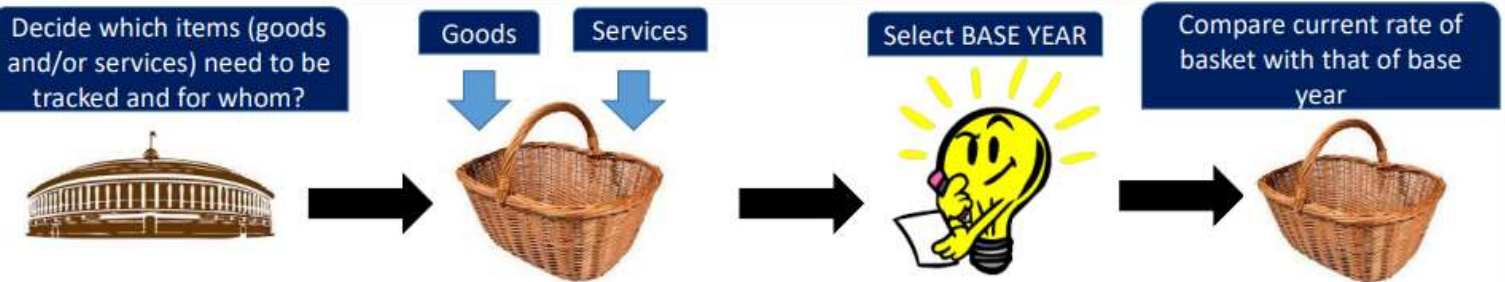
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- b) Inflation
- c) Stagflation
- d) Hyperinflation

Answer: b

How is INFLATION measured?

- ✓ Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.
- ✓ How is this quantitative measure obtained?



Based on the above, various indices are used:

- ✓ WPI (Wholesale Price Index)
- ✓ CPI (Consumer Price Index) (has 2 variants – CPI – Rural and CPI – Urban)
- ✓ GDP Deflator (GDP at current prices divided by GDP at constant prices i.e. Nominal GDP divided by Real GDP)

Wholesale Price Index (WPI)

- ✓ Compiled by Office of Economic Adviser, Department of Industrial Policy and Promotion under Ministry of Commerce and Industry.
- ✓ Base year is 2011-12 (earlier it was 2004-05)

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- ✓ Does not include services

Consumer Price Index (WPI)

- ✓ Compiled by CSO under Ministry of Statistics and Programme Implementation (MoSPI).
- ✓ Base year is 2011-12 (same as WPI)
- ✓ Include services as well.

GDP Deflator

- ✓ GDP at current prices divided by GDP at constant prices i.e. Nominal GDP divided by Real GDP

Wholesale Price Index (WPI) – New Series

- ✓ The working group for WPI revision was chaired by Dr. Saumitra Chaudhuri, member, Planning Commission.

What changes have been made?

- ✓ Base year changed from 2004-05 to 2011-12 (2012)
- ✓ Changes made in the basket of commodities (increased from 676 to 697) (199 new items added, 146 old items removed)
- ✓ New weights assigned to the commodities
- ✓ Prices used for compilation do not include indirect taxes in order to remove impact of fiscal policy.
- ✓ A new “WPI Food Index” will be compiled to capture the rate of inflation in food items.

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Major Group	Weights		No. of Items	
	2004-05	2011-12	2004-05	2011-12
ALL COMMODITIES	100.00	100.00	676	697
PRIMARY ARTICLES	20.12	22.62	102	117
FUEL & POWER	14.91	13.15	19	16
MANUFACTURED PRODUCTS	64.97	64.23	555	564

WPI Food Index

By combining the “Food Articles” under “Primary Articles” and “Food Products” under “Manufactured Products”. Together with the Consumer Food Price Index released by Central Statistics Office, this would help monitor the price situation of food items better.

Consumer Price Index (CPI) – New Series

- ✓ The new CPI has basket divided into 6 categories:
 - Food and beverages (cereals, meat, fish, etc)
 - Pan, tobacco and intoxicants
 - Clothing and footwear (readymade garments, knitted garments, etc)
 - Housing (house rent, etc)
 - Fuel and light (electricity, liquid fuel, gas fuel etc)
 - Miscellaneous (health, transport, education, etc).

- ✓ The weightings differ for the rural and urban baskets.

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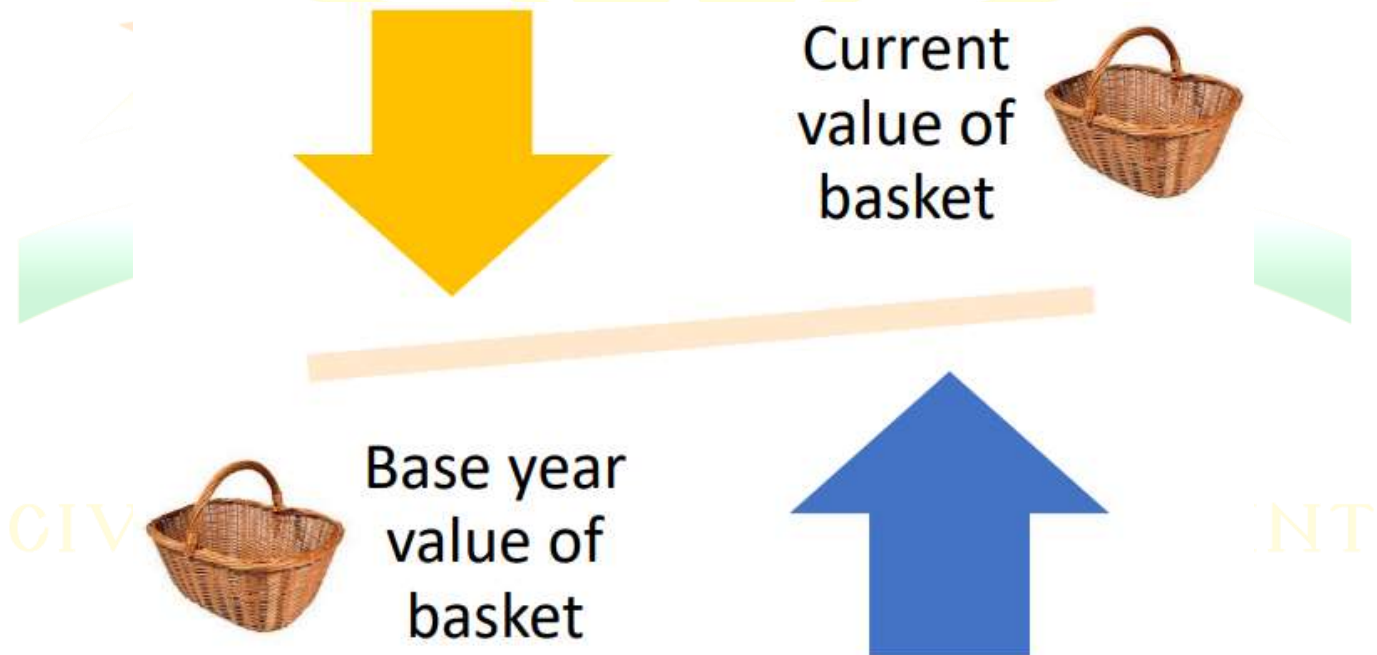
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Description	Rural	Urban	Combined
Food and beverages	54.18	36.29	45.86
Pan, tobacco and intoxicants	3.26	1.36	2.38
Clothing and footwear	7.36	5.57	6.53
Housing	--	21.67	10.07
Fuel and light	7.94	5.58	6.84
Miscellaneous	27.26	29.53	28.32
All Groups	100.00	100.00	100.00

Inflation is said to have occurred if –

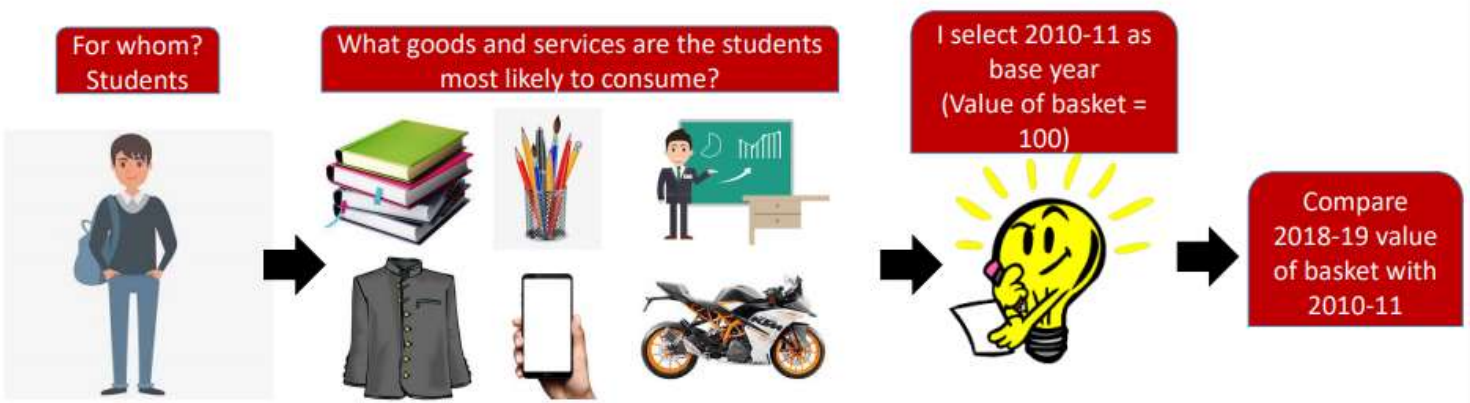
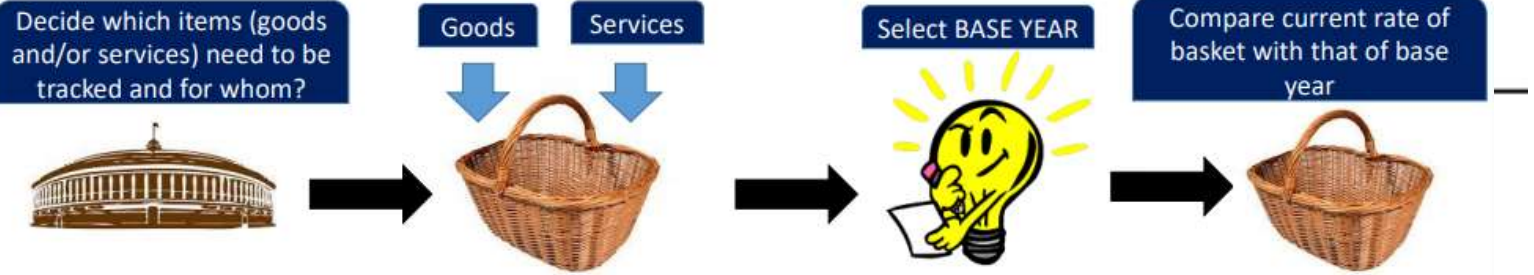


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QUESTION 6

Q. Which of the following brings out the 'Consumer Price Index Number for Industrial Workers'? (2015)

- a) The Reserve Bank of India
- b) The Department of Economic Affairs
- c) The Labour Bureau
- d) The Department of Personnel and Training

Answer: c

Consumer Price Index (CPI) – New Series

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- ✓ In India, segment specific CPIs, namely CPI (IW), CPI (AL), CPI (RL), CPI (UNME) were compiled catering to the need of specific population group.



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CPI (IW) - Consumer Price Index for Industrial Workers

CPI (AL) - Consumer Price Index for Agricultural Labourers

CPI (RL) - Consumer Price Index for Rural Labourers

CPI (UNME) - Consumer Price Index for Urban Non-Manual Employees

Labor Bureau

CSO

QUESTION 7

Q. With reference to inflation in India, which of the following statements is correct? (2015)

- a) Controlling the inflation in India is the responsibility of the Government of India only
- b) The Reserve Bank of India has no role in controlling the inflation

c) Decreased money circulation helps in controlling the inflation

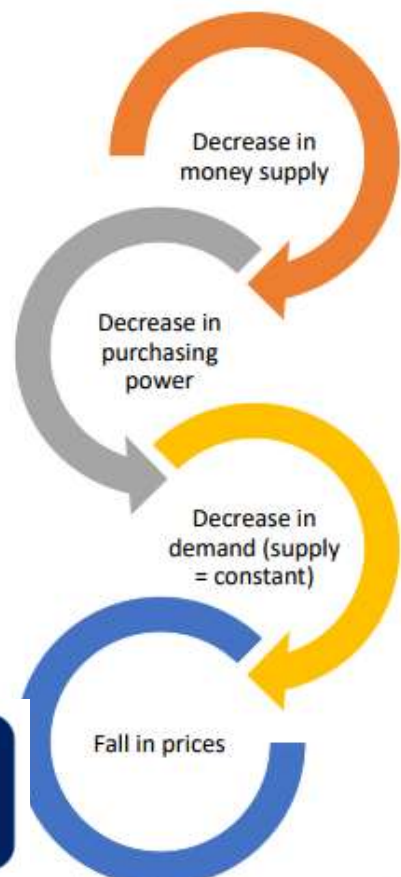
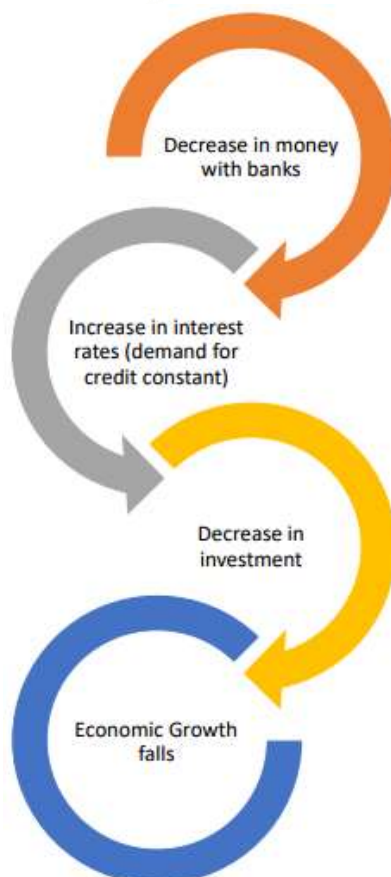
d) Increased money circulation helps in controlling the inflation

Answer: c

Relation between money supply and

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**Price fall (Disinflation/Deflation)
on one hand
Economic Stagnation on the
other**



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QUESTION 8

Q. A rapid increase in the rate of inflation is sometimes attributed to the “base effect”? (2011)

- a) It is the impact of drastic deficiency in supply due to failure of crops
- b) It is the impact of the surge in demand due to rapid economic growth
- c) It is the impact of the price levels of previous year on the calculation of inflation rate
- d) None of the statements (a), (b) and (c) given above is correct in this context

Answer: c

QUESTION 9

Q. India has experienced persistent and high food inflation in the recent past. What could be the reasons? (2011)

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1. Due to a gradual switchover to the cultivation of commercial crops, the area under the cultivation of food grains has steadily decreased in the last five years by about 30%.

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2. As a consequence of increasing incomes, the consumption patterns of the people have undergone a significant change.

3. The food supply chain has structural constraints

Which of the statements given above are correct?

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Answer: b

QUESTION 10

Q. Which one of the following statements is an appropriate description of deflation? (2010)

- a) It is a sudden fall in the value of a currency against other currencies
- b) It is a persistent recession in both the financial and real sectors of economy
- c) It is a persistent fall in the general price level of goods and services
- d) It is a fall in the rate of inflation over a period of time

Answer: c

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Deflation and Disinflation

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- ✓ In disinflation, prices do not fall, the rate of increase of prices comes down
- ✓ Disinflation is considered a positive sign and capital markets, especially the bond markets, tend to react positively to this trend
- ✓ Deflation is when prices actually fall. Such a situation does seem favourable but in reality it's not a position that any economy would like to be in.
- ✓ Deflation usually moves hand in hand with economic slowdown, lower productivity and loss of jobs.
- ✓ Just like how inflation decreases the value of money, deflation increases its value. This incentivizes people to save money to buy later when goods are cheaper, which, in turn, leads to further slowing of economic growth.

QUESTION 11

Q. With reference to India, consider the following statements: (2010)

1. The Wholesale Price Index (WPI) in India is available on a monthly basis only.
2. As compared to Consumer Price Index for Industrial Workers (CPIIW), the WPI gives less weight to food articles.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: b

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IF ASKED NOW

Q. With reference to India, consider the following statements: (2010)

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2. As compared to Consumer Price Index for Industrial Workers (CPIIW), the WPI gives less weight to food articles.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: c

QUESTION 12

Q. In India, inflation is measured by the: (1997)

- a) Wholesale Price Index number
- b) Consumers Price Index for urban non-manual workers
- c) Consumers Price Index for agricultural workers
- d) National Income Deflation

Answer: a

IF ASKED NOW

Leadership through knowledge...

Q. In India, the key measure of inflation is?

- a) Consumer Price Index number



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A ONE STOP SOLUTION FOR UPSC/APSC/SSC & BANKING

- b) Consumers Price Index for urban non-manual workers
- c) Consumers Price Index for agricultural workers
- d) National Income Deflation

Answer: a

QUESTION 12

Measure of Inflation in India

- ✓ WPI was the main index for measurement of inflation in India till April 2014 when RBI adopted new Consumer Price Index (CPI) (combined) as the key measure of inflation.

Headline and Core inflation

- ✓ The headline inflation measure demonstrates overall inflation in the economy.
- ✓ Core inflation measure removes the prices of highly volatile food and fuel components to distinguish the inflation signal from transitory noise.
- ✓ So we can have headline WPI and core WPI and similarly headline CPI and core CPI.

QUESTION 13

Q. In the context of Indian economy, consider the following pairs: (2010)

Term	Most Appropriate description
------	------------------------------

1. Melt down	fall in stock prices
--------------	----------------------

2. Recession	fall in growth rate
--------------	---------------------

3. Slow down	fall in GDP
--------------	-------------

Which of the pairs given above is/are correctly matched?



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- a) 1 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Answer: a

QUESTION 13

Important Terms

Business cycle / Economics cycle

- ✓ In the US, economists define a recession as two consecutive quarters of decline in the GDP.
- ✓ Depression usually means an economic downturn that is longer lasting and more severe than the more frequently occurring recessions.
- ✓ A depression is said to begin when GDP declines more than 10% from the most recent economic peak.
- ✓ In general, periods of economic depression are accompanied with substantially reduced GDP, severely high rates of unemployment, foreclosures, business closures, as well as significantly reduced wholesale and retail sales activity.
- ✓ Slowdown is when the economy is still growing but the growth rate of economy falls.
- ✓ A stock market crash or meltdown is a sudden dramatic decline of stock prices across a significant cross-section of a stock market.

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QUESTION 14

Q. Match List I with List II and select the correct answer using the codes given below the lists: (2000)

Codes:

List I	List II
A. Boom	1. Business activity at high level with increasing income, output and employment at macro level.
B. Recession	2. Gradual fall of income, output and employment with business activity in a low gear.
C. Depression	3. Unprecedented level of under employment, and unemployment, drastic fall in income output and employment.
D. Recovery	4. Steady rise in the general level of prices, income, output and employment.

a)
A-1;
B-2;
C-3;
D-4

b) A-1; B-2; C- 4; D-3

c) A-2; B-1; C- 4; D-3

d) A-2; B-1; C-3; D-4

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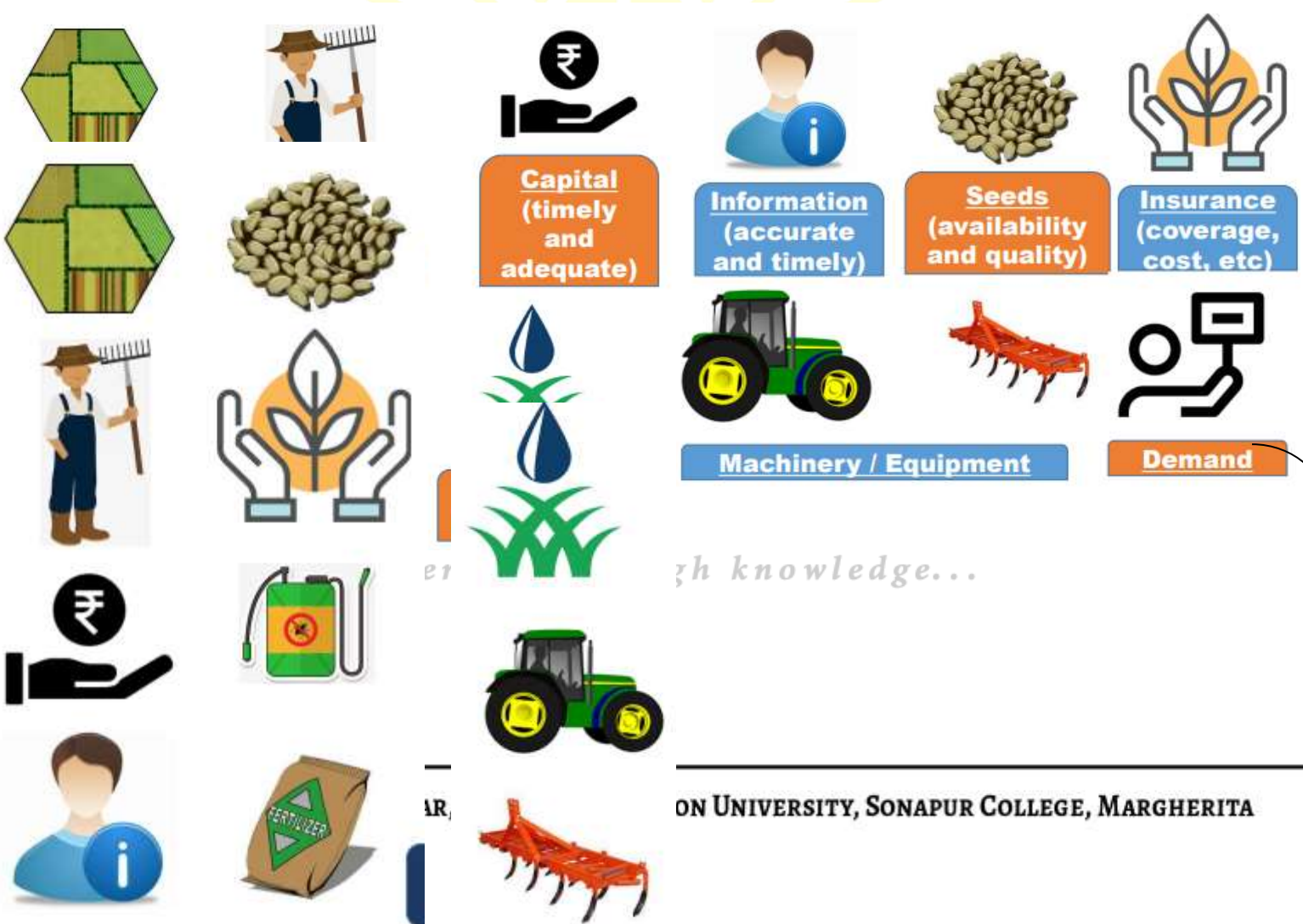
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Answer: a

4. AGRICULTURE

INPUTS FOR THE FARMER



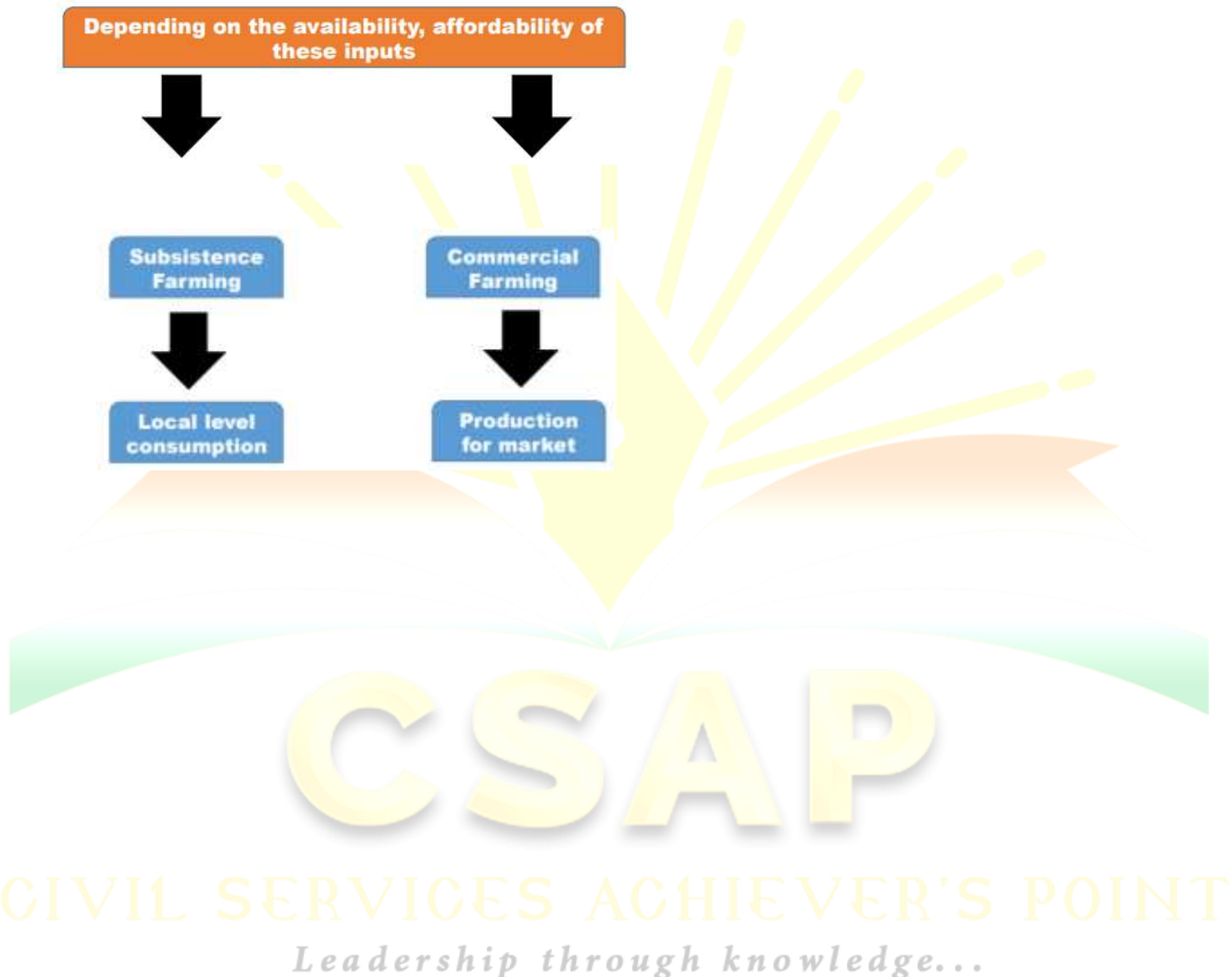
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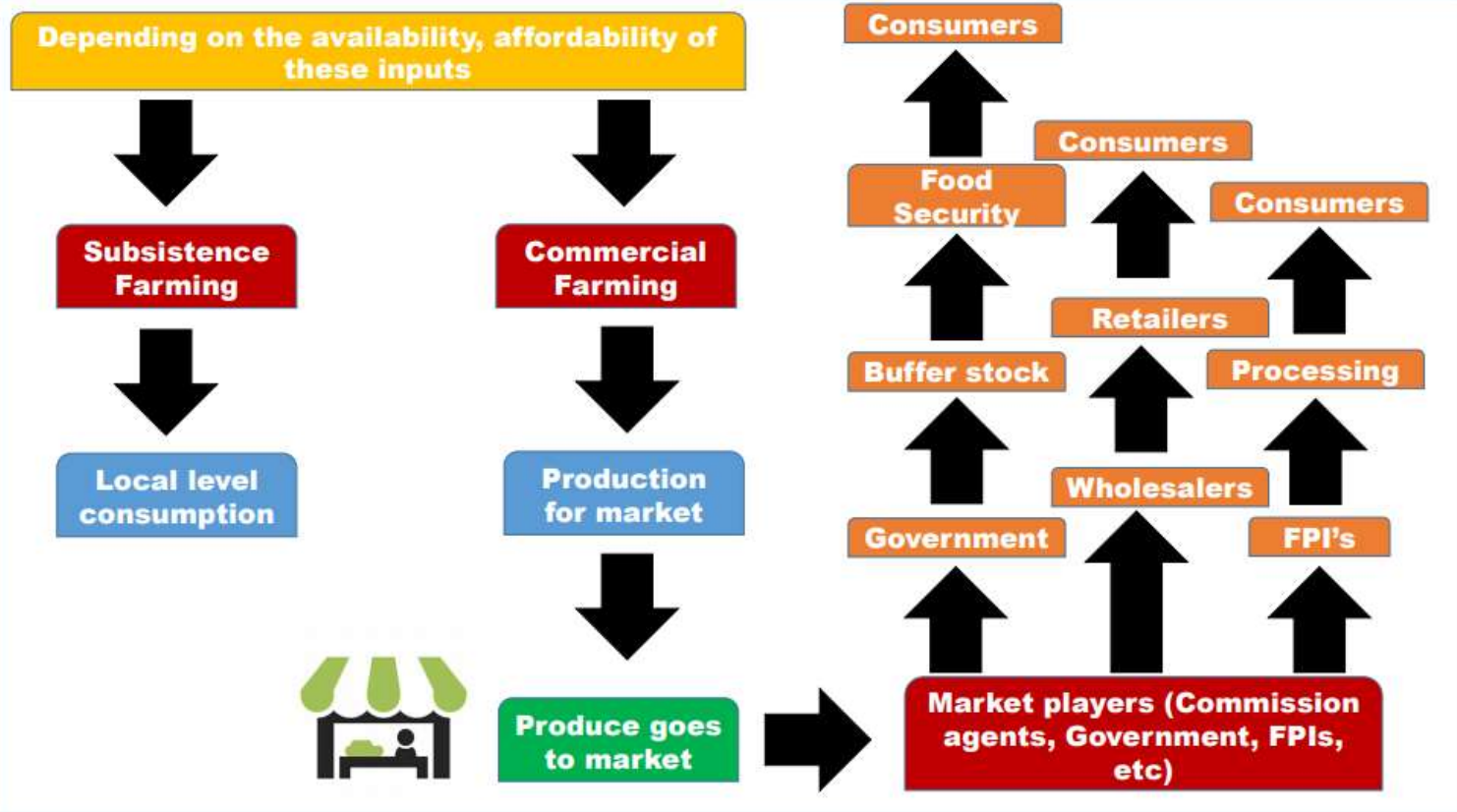
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CIVIL SERVICES ACHIEVER'S POINT



MINIMUM SUPPORT PRICE

1. Minimum Support Price (MSP) is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices (during bumper production years)
2. It is announced by the Government of India at the beginning of the sowing season
3. This announcement is based on the basis of the recommendations of the CACP (Commission for Agricultural Costs and Prices) after these recommendations have been approved by CCEA (Cabinet Committee on Economic Affairs).
4. The major objectives are to support the farmers from distress sales and to procure food grains for public distribution

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5. Announcement of MSP by the government does impact the market prices to some extent, but influencing the market price of the crops is not the goal of MSP Policy of the government.

6. CACP takes into account various factors for calculating MSP.

7. These include cost of production, demand and supply; inter crop price parity, views of the state governments, effect on cost of living, international price situation, etc.



DIFFERENT PRICES

1. Procurement Price – Price at which the government agencies like FCI (Food Corporation of India) procures food grains for its food security operations.

2. Economic Cost – After procurement, agencies like FCI have to make certain extra expenditures for storage, transportation etc. These additional charges added upon the procurement price become the economic cost.

3. Issue Price/ Central Issue Price– The price at which the government makes the foodgrains available to the states.

Leadership through knowledge...

4. Fair and Remunerative Prices (FRP) – It is the minimum price that sugar mills have to pay to sugarcane farmers.



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COMPARING THE PRICES

1 A) Market Price > MSP B) Market Price < MSP C) Market Price = MSP

2 A) Procurement Price > MSP B) Procurement Price = MSP

3 Economic Cost > Procurement Price

4 Economic Cost – Issue Price = Food Subsidy borne by the government

LIMITATIONS OF MSP

1 MSP is announced for a **limited number of crops** – not all

2 Mere announcement of MSP **does not mean assured procurement**

3 Calculation of MSP **does not take into account the huge inter state as well as inter region variations in production costs** at the level of the farmers

4 Higher MSP **can also lead to inflationary pressures**

5 MSP regime is also blamed for the **skewed cropping pattern** of the nation



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RECENT DEVELOPMENTS

QUESTION 1

Q. Consider the following statements: (2009)

1. The Commission for Agricultural Costs and Prices recommends the Minimum Support Prices for 32 crops.
2. The Union Ministry of Consumer Affairs, Food and Public Distribution has launched the National Food Security Mission.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only

1 According to **Swaminathan Report: National Commission on Farmers** – MSP should be at least 50% more than the weighted average cost of production.

2 As per the Budget 2018-19, MSP for unannounced kharif crops would be 1.5 times of the cost of production.

- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: d

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EXPLANATION

- 1** National Food Security Mission (NFSM) is a **Centrally Sponsored Scheme** launched in **2007** based on the recommendations of the agriculture sub- committee of National Development Council (NDC)
- 2** The initial aim was to increase the production of rice by **10 million tons**, wheat by **8 million tons** and pulses by **2 million tons** by the end of the Eleventh Plan (2011-12).
- 3** The scheme was continued during the twelfth five year plan (2012-17) with a **target of 25 million MT** of increased food grain production (**10 million tons** of rice, **8 million tons** of wheat, **4 million tons** of pulses and **3 million tons** of coarse cereals)
- 4** Subsequently, **coarse cereals** and **commercial crops** were included under the purview of NFSM. **National Mission for Oil seeds and Oil Palm** was also merged under revamped NFSM from the year 2018-19. NFSM now has **6 components** – Rice, Wheat, Pulses, Coarse Cereals, Commercial Crops, Oilseeds
- 5** NFSM is now a part of the umbrella scheme – “Green Revolution – Krishonnati Yojana”



NFSM - Strategies

Key **thrust areas** of the scheme are as follows:

- ✓ **Sustainable increase in the production of targeted crops** through **area expansion and productivity enhancement**
- ✓ **Restoration of soil fertility and productivity** at the individual farm level and
- ✓ **Rise in farm level net income**

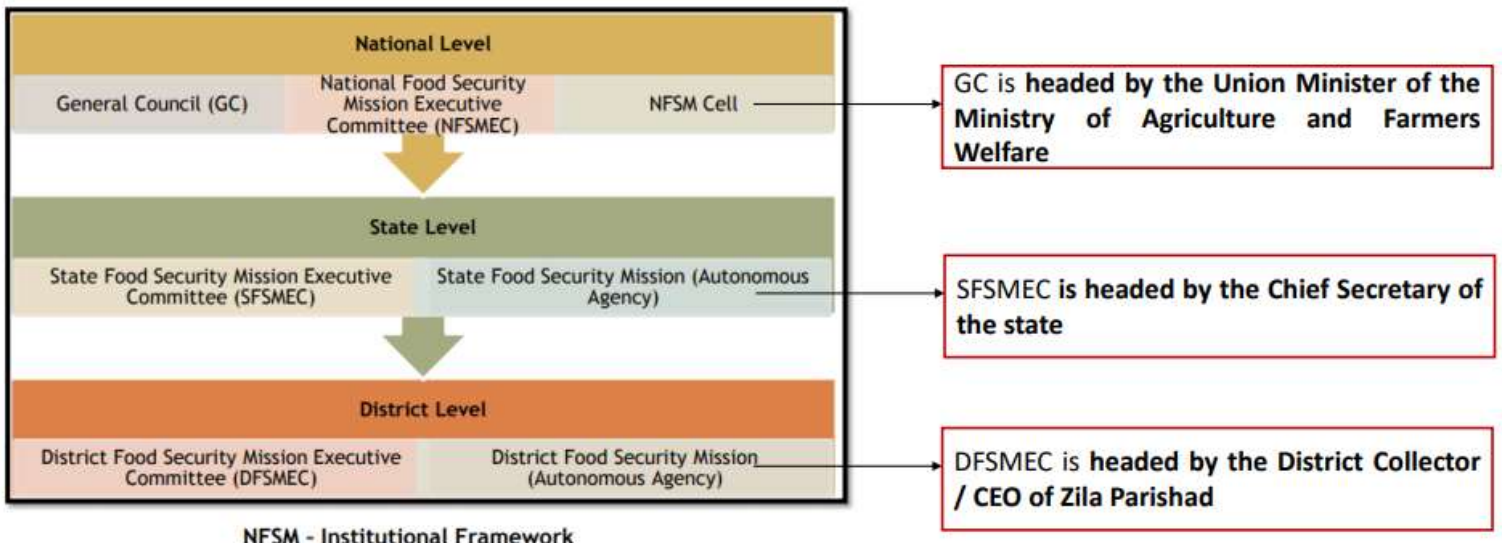
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QUESTION 2

Q. Consider the following: (2018)

1. Areca nut
2. Barley
3. Coffee

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4. Finger millet

5. Groundnut

6. Sesamum

7. Turmeric

The Cabinet Committee on Economic Affairs has announced the Minimum Support Price for which of the above?

a) 1, 2, 3 and 7 only

b) 2, 4, 5 and 6 only

c) 1,3,4,5 and 6 only

d) 1, 2, 3, 4, 5, 6 and 7

Answer: b

EXPLANATION

Commodity	
Paddy Common #	
Paddy (F)/Grade'A'	
Jowar-Hybrid	oil
Jowar-Maldandi	seed
Bajra	seed
Ragi	seed
Maize	oil (Masur)
Tur (Arhar)	seed/ mustard
Moong	seed
Urad	seed
Groundnut	SEMI COMMERCIAL CRO
Sunflower Seed	seed (TD5)
Soyabean Black	seed
Soyabean Yellow	seed (Milling)
Sesamum	seed (Ball)
Nigerseed	
Medium Staple Cotton ^	
Long Staple Cotton ^^	

As you can see, MSP is announced for cereals, pulses as well as commercial crops like jute, sugarcane, etc

*MSP is not announced for any fruit. Neither is it announced for tea/coffee

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QUESTION 3

Q. The prices at which the government purchases food grains for maintaining the public distribution system and for building up buffer-stock is known as: (2001)

- a) minimum support prices
- b) procurement prices
- c) issue prices
- d) ceiling prices

Answer: b

QUESTION 4

Q. Consider the following statements: (2010)

1. The Union Government fixes the Statutory Minimum Price of sugarcane for each sugar season
2. Sugar and sugarcane are essential commodities under the Essential Commodities Act.

Which of the statements given above is/are correct?

- a) 1 only

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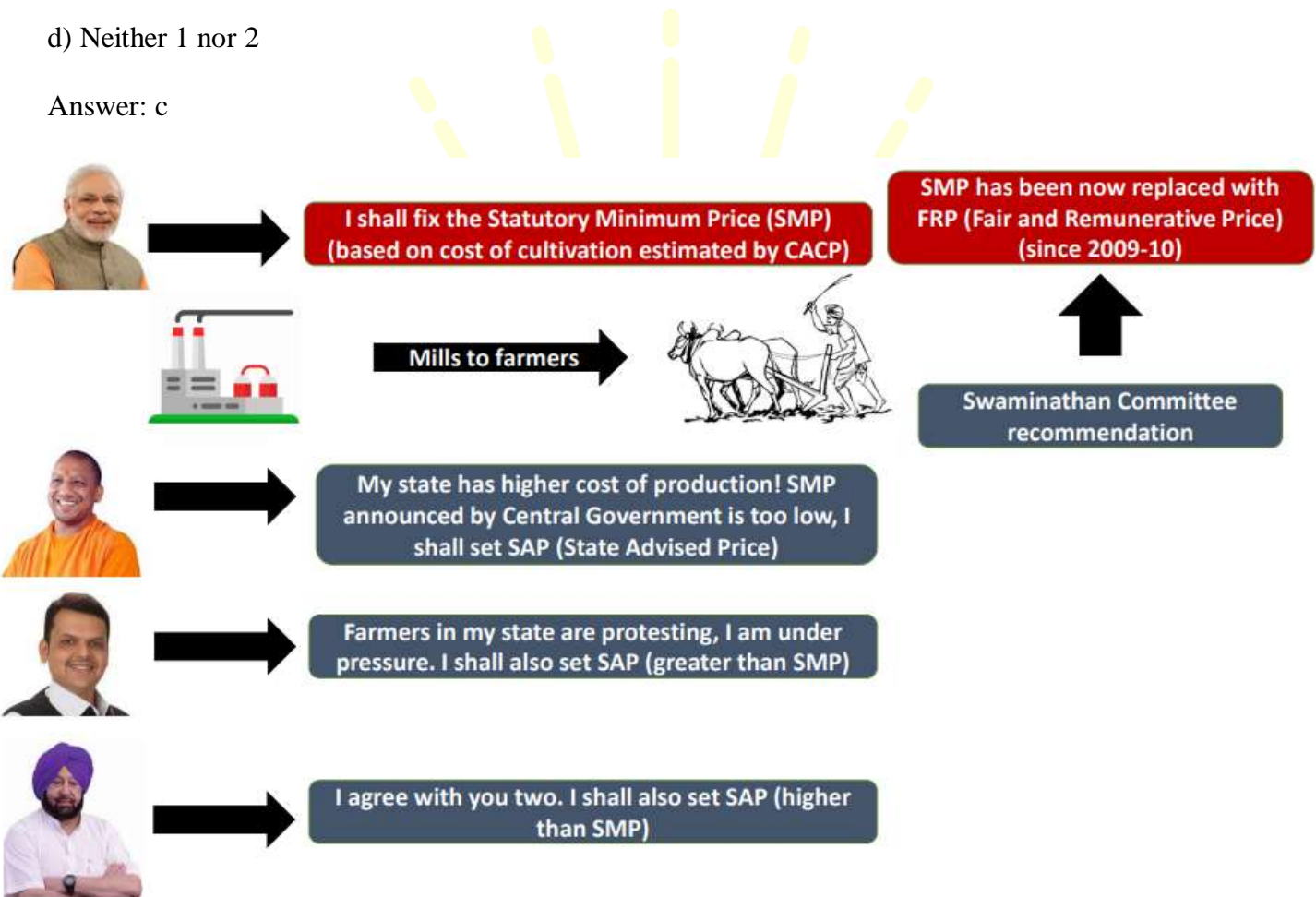
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b) 2 only

c) Both 1 and 2

d) Neither 1 nor 2

Answer: c



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EXPLANATION

- 1** The Statutory Minimum Price (SMP) used to be announced by the central government based on the cost of cultivation estimated by the Commission for Agricultural Costs and Prices (CACP)
- 2** Citing differences in cost of production, productivity levels and also as a result of pressure from farmers' groups, some states also declare state-specific sugarcane prices called State Advised Prices (SAP), usually higher than the SMP.
- 3** Unlike the MSP for wheat or paddy announced by the Centre, where the government procures a commodity from farmers directly in case market prices go below the MSP, the government never procures sugarcane from farmers directly.
- 4** It is only sugar mills that buy it from farmers at the prices which shouldn't fall below that determined by the government (SMP or SAP).
- 5** SMP been replaced with FRP (Fair and Remunerative Price) since 2009-10

QUESTION 5

Q. The correct sequence in decreasing order of the four sugarcane producing States in India is: (2000)

- Maharashtra, U.P, Tamil Nadu, Andhra Pradesh
- U.P, Maharashtra, Tamil Nadu, Andhra Pradesh
- Maharashtra, U.P, Andhra Pradesh, Tamil Nadu
- U. P, Maharashtra, Andhra Pradesh, Tamil Nadu

Answer: b

EXPLANATION

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UP > Maharashtra > Tamil Nadu > Karnataka > Andhra Pradesh > Bihar > Gujarat > Haryana > Punjab > Uttarakhand

QUESTION 6

Q. Consider the following statements: (2004)

1. Regarding the procurement of food-grains, Government of India follows a procurement target rather than an open-ended procurement policy.
2. Government of India announces minimum support prices only for cereals.
3. For distribution under Targeted Public Distribution System (TPDS), wheat and rice are issued by the Government of India at uniform central issue prices to the States/Union Territories.

Which of the statements given above is/are correct?

- a) 1 and 2 only
- b) 2 only
- c) 1 and 3
- d) 3 only

Answer: c

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QUESTION 7

Q. With reference to the provisions made under the National Food Security Act, 2013 consider the following statements: (2018)



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1. The families coming under the category of 'below poverty line (BPL)' only are eligible to receive subsidised grains.
2. The eldest woman in a household, of age 18 years or above, shall be the head of the household for the purpose of issuance of a ration card.
3. Pregnant women and lactating mothers are entitled to a take-home ration of 1600 calories per day during pregnancy and for six months thereafter.

Which of the statements given above is/are correct?

- a) 1 and 2 only
- b) 2 only
- c) 1 and 3 only
- d) 3 only

Answer: b

EXPLANATION

1. about NFSA:

- came into force in July, 2013
- Nutritious meal, free of charge to pregnant women & lactating mothers and children up to 6 years of age under ICDS.
- Nutritious meal, free of charge to children in the 6-14 years of age group under MDM.
- Maternity benefits of Rs. 6000 to Pregnant Women & Lactating Mothers
- PDS now governed by provisions of NFSA

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- Coverage under PDS: 75% Rural and 50% Urban population; State-wise coverage determined by the Planning Commission (now NITI Aayog) on the basis of 2011-12 Household Consumption Expenditure survey of NSSO.
 - Coverage of two-thirds of the total population at the all India level, under two categories of beneficiaries – Antodaya Anna Yojana (AAY) households and Priority Households (PHH).
 - Foodgrains Entitlement: 5 kg per person for PHH category and 35 kg per household for AAY households.
 - Prices: Rs. 3/2/1 per kg for rice, wheat and coarse grains
2. • Identification of Households: to be done by States/UTs, which are required to frame their own criteria
- Women Empowerment: Eldest woman (18 years or above) to be the head of the household for the purpose of issuing of ration cards.
 - Grievance Redressal Mechanism: To be set up at the District and State levels.
 - Transparency: Provisions for disclosure of records relating to PDS, placing beneficiaries list in public domain.

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NFSA vis-à-vis Erstwhile TPDS

Category of beneficiary	Coverage (No. of Households in crore)	Foodgrains Entitlement (per month)	Issue Price (Rs./kg)	
			Rice	Wheat
Erstwhile TPDS				
AAY	2.5	35 kg per family	3.00	2.00
BPL	4.02	35 kg per family	5.65	4.15
APL	11.52	Depending on availability	8.30	6.10
NFSA				
AAY	2.5	35 kg per family	3.00	2.00
Priority Households (PHH)	16.1 (approx)	5 kg per person		

QUESTION 8

Q. With reference to 'Pradhan Mantri Fasal Bima Yojana', consider the following statements: (2016)

1. Under this scheme, farmers will have to pay a uniform premium of two percent for any crop they cultivate in any season of the year.
2. This scheme covers post-harvest losses arising out of cyclones and unseasonal rains.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

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Answer: b

EXPLANATION

- 1 PMFBY was launched by GOI in 2016 after rolling back the earlier insurance schemes - National Agriculture Insurance Scheme (NAIS), Weather-based Crop Insurance scheme (WBCIS) and Modified National Agricultural Insurance Scheme (MNAIS).
- 2 PMFBY will provide a comprehensive insurance cover against failure of the crop thus helping in stabilising the income of the farmers and encourage them for adoption of innovative practices.
- 3 The scheme is compulsory for loanee farmer obtaining Crop Loan /KCC account for notified crops
- 4 It is voluntary for Other/non loanee farmers who have insurable interest in the insured crop(s).
- 5 Coverage of crops:
 - ✓ Food crops (Cereals ,Millets and Pulses)
 - ✓ Oilseeds
 - ✓ Annual Commercial / Annual Horticultural crops

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6 The maximum premium payable by the farmers will be **2% for all Kharif Food & Oilseeds crops, 1.5% for Rabi Food & Oilseeds crops and 5% for Annual Commercial/Horticultural Crops.**

7 The **difference** between premium and the rate of insurance charges payable by farmers **shall be shared equally by the Centre and State.**

8 Both Private and Public Sector Insurance Companies provide crop insurance.

9 Coverage:

- ✓ **Yield losses** (includes Natural Fire and Lightning; Storm, Hailstorm, Cyclone, Typhoon, Tempest, Hurricane, Tornado etc.; Flood, Inundation and Landslide; Drought, Dry spells; Pests/ Diseases etc)
- ✓ **Post harvest losses** (against specific perils of hailstorm, cyclone / cyclonic rains, unseasonal rains throughout the country)
- ✓ **Localised calamities** (includes loss / damage resulting from occurrence of identified localized risks i.e. hailstorm, landslide, Inundation, cloud burst and natural fire due to lightening affecting isolated farms in the notified area)

9 **Add-on coverage for crop loss due to attack by wild animals:** The States may consider providing add-on coverage for crop loss due to attack by wild animals wherever the risk is perceived to be substantial and is identifiable

10 General Exclusions: Losses arising out of war and nuclear risks, malicious damage and other preventable risks shall be excluded.

QUESTION 9

Q. With reference to 'Initiative for Nutritional Security through Intensive Millets Promotion', which of the following statements is/are correct? (2016)

1. This initiative aims to demonstrate the improved production and post-harvest technologies, and to demonstrate value addition techniques, in an integrated manner, with cluster approach.
2. Poor, small, marginal and tribal farmers have larger stake in this scheme.

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3. An important objective of the scheme is to encourage farmers of commercial crops to shift to millet cultivation by offering them free kits of critical inputs of nutrients and micro irrigation equipment.

Select the correct answer using the code given below:

- a) 1 only
- b) 2 and 3 only
- c) 1 and 2 only
- d) 1, 2 and 3

Answer: c

EXPLANATION

1 Millets are **largely grown under rainfed conditions** and can thrive with rain fall of 300 mm, wherein major cereals like wheat and rice cannot be grown.

2 Millets **supplement the nutritional security of both human as well as livestock in rainfed areas.**

3 Millets are the **hardy crops against the disease/pests** and also grown as **trap crops in Oilseed and Pulses for control of disease and pest management.** Therefore, they require lesser support for chemicals, fertilizers and pesticides.

*** Trap crop:**

A crop planted to attract insect pests from another crop, especially one in which the pests fail to survive or reproduce.

*** Hardy crop:**

Crops that can survive a freeze, frost, or a cold snap



CIVIL SERVICES ACHIEVER'S POINT

4

Government schemes/ projects/programmes with respect to millets production/promotion, include:

- ✓ **Initiative for Nutritional Security through Intensive Millets Promotion (INSIMP)** – a part of Rashtriya Krishi Vikas Yojana” (RKVY) which is the **only comprehensive initiative to support millet production**.
- ✓ **Rainfed Area Development Programme (RADP)** – a component of the Rashtriya Krishi Vikas Yojana” (RKVY);
- ✓ **Integrated Cereals Development Programmes in Coarse Cereals based Cropping Systems Areas (ICDP-CC)** under Macro Management of Agriculture (MMA).

5

INSIMP:

- ✓ **aims to demonstrate the improved production and post-harvest technologies** in an integrated manner with visible impact to **catalyze increased production of millets in the country**
- ✓ Besides increasing production of millets, the scheme **through processing and value addition techniques is expected to generate consumer demand for millet based food products**

QUESTION 10

Q. With reference to micro-irrigation, which of the following statements is/are correct? (2011)

1. Fertilizer/nutrient loss can be reduced.
2. It is the only means of irrigation in dry land farming.
3. In some areas of farming, receding of ground water table can be checked.

Select the correct answer using the code given below.

- a) 1 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Answer: c

Leadership through knowledge...

QUESTION 11

Q. Which of the following is/are the advantage /advantages of practising drip irrigation? (2016)

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1. Reduction in weed
2. Reduction in soil salinity
3. Reduction in soil erosion

Select the correct answer using the code given below:

- a) 1 and 2 only
- b) 3 only
- c) 1 and 3 only
- d) None of the above is an advantage of practising drip irrigation

Answer: c

EXPLANATION

- 1** Irrigation-led salinization is a problem all over the world endangering the sustainability of many agricultural activities
- 2** Salinization occurs due to the fact that all irrigation water contains salts. Crops take up nearly pure water for transpiration (nutrients and some specific salts are taken up by the roots) and therefore salts will remain behind and concentrate in the root zone
- 3** The evaporation of water from the soil surface is another cause of salinization as pure water is evaporated, salts are left behind.

CIVIL SERVICES ACHIEVER'S POINT

QUESTION 12

Leadership through knowledge...

Q. Assertion (A): India does not export natural rubber.

Reason (R): About 97% of India's demand for natural rubber is met from domestic production. (2004)

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Which of the statements given above is/are correct?

- a) Both A and R is true and R is the correct explanation of A
- b) Both A and R is true but R is not a correct explanation of A
- c) A is true but R is false
- d) A is false but R is true

Answer: b

IF ASKED NOW

Q. Assertion (A): India does not export natural rubber.

Reason (R): About 97% of India's demand for natural rubber is met from domestic production. (2004)

Which of the statements given above is/are correct?

- a) Both A and R is true and R is the correct explanation of A
- b) Both A and R is true but R is not a correct explanation of A
- c) A is true but R is false
- d) Both A and R is false

Answer: d

EXPLANATION

Leadership through knowledge...



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1

2018 - Domestic natural rubber production could meet only 42 per cent of the domestic demand.

2

2018 - India's rubber manufacturing industry is becoming over-reliant on imports of low-cost natural rubber, the Rubber Research Institute of India has warned

3

2017 - Natural rubber (NR) exports from India registered a big jump in 2017 as compared to 2016. After touching 30,594 tonnes in 2012-13, the exports had progressively dropped every year owing to relative low price of NR in the international market.

QUESTION 13

Q. Consider the following statement:

India continues to be dependent on imports to meet the requirement of oilseeds in the country because: (2004)

1. farmers prefer to grow food grains with highly remunerative support prices.
2. most of the cultivation of oilseed crops continues to be dependent on rainfall.
3. oils from the seeds of free origin and rice bran have remained unexploited.
4. it far cheaper to import oilseeds than to cultivate the oilseed crops.

Which of the statements given above is/are correct?

- a) 1 and 2 only
- b) 1, 2 and 3 only
- c) 2 and 3



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d) 1, 2, 3 and 4

Answer: b

EXPLANATION

- 1** India occupies a prominent position in the world oilseeds industry with **contribution of around 10% in worldwide production**
- 2** But the **demand of edible oils is significantly higher than the domestic production**, leading to dependence on imports (60% of requirement).
- 3** The government is currently running '**National Mission on Oilseeds and Oil Palm (NMOOP)**' (under NFSM) to encourage the adoption of **newly released varieties and improved agro-techniques in oilseed crops**. **NMOOP targets increasing production of oilseeds to 42 mn tonnes by FY2022 .**

QUESTION 14

Q. Consider the following statements: (2018)

1. The quantity of imported edible oils is more than the domestic production of edible oils in the last five years.
2. The Government does not impose any customs duty on all the imported edible oils as a special case.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2



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Answer: a

QUESTION 15

Q. In the context of food and nutritional security of India, enhancing the 'Seed Replacement Rates' of various crops helps in achieving the food production targets of the future. But what is/are the constraint/s in its wider/greater implementation? (2014)

1. There is no National Seeds Policy in place.
2. There is no participation of private sector seed companies in the supply of quality seeds of vegetables and planting materials of horticultural crops.
3. There is a demand-supply gap regarding quality seeds in case of low value and high volume crops.

Select the correct answer using the code given below.

- a) 1 and 2 only
- b) 3 only
- c) 2 and 3 only
- d) None

Answer: b

EXPLANATION

1 Seed Replacement Rate is the percentage of area sown out of total area of crop planted in the season **by using certified/quality seeds other than the farm saved seed.**

2 It denotes **how much of the total cropped area was sown with certified seeds in comparison to farm saved seeds.**

3 At **public sector level**, the National Seed Corporation, State Farms Corporation and State Seed Corporations are producing quality seeds and distributing to the farming community.

4 The **National Seeds Policy 2002**, clearly emphasizes that "*It has become evident that in order to achieve the food production targets of the future, a major effort will be required to enhance the seed replacement rates of various crops. This would require a major increase in the production of quality seeds.....*"



CIVIL SERVICES ACHIEVERS' POINT

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- 5** The **public sector** was limited to produce quality seeds of only low value food grain crops; while **private sector** has focused on high value crops.

QUESTION 16

Q. Indian farmers are unhappy over the introduction of “Terminator Seed Technology” because the seeds produced by this technology are expected to: (1999)

- a) show poor germination
- b) from low-yielding plants despite the high quality
- c) give rise to sexually sterile plants
- d) give rise to plants incapable of forming viable seeds

Answer: c

EXPLANATION

- 1** **Terminator technology** is the genetic modification of plants to make them produce sterile seeds. They are also known as **suicide seeds**.
- 2** **Genetic Use Restriction Technology (GURT)** is the technical/official term used for terminator seeds.
- 3** Terminator refers to plants that are genetically modified to kill their own seeds. Seeds harvested from Terminator crops will not germinate if re-planted the following season
- 4** Farmers using terminator seeds would **no longer be able to save seeds to re-use from one harvest to the next**. So **seed replacement ratio/rate would be 100%**. Many poor farmers cannot afford to buy seeds each year, hence it is opposed by farmers at large.

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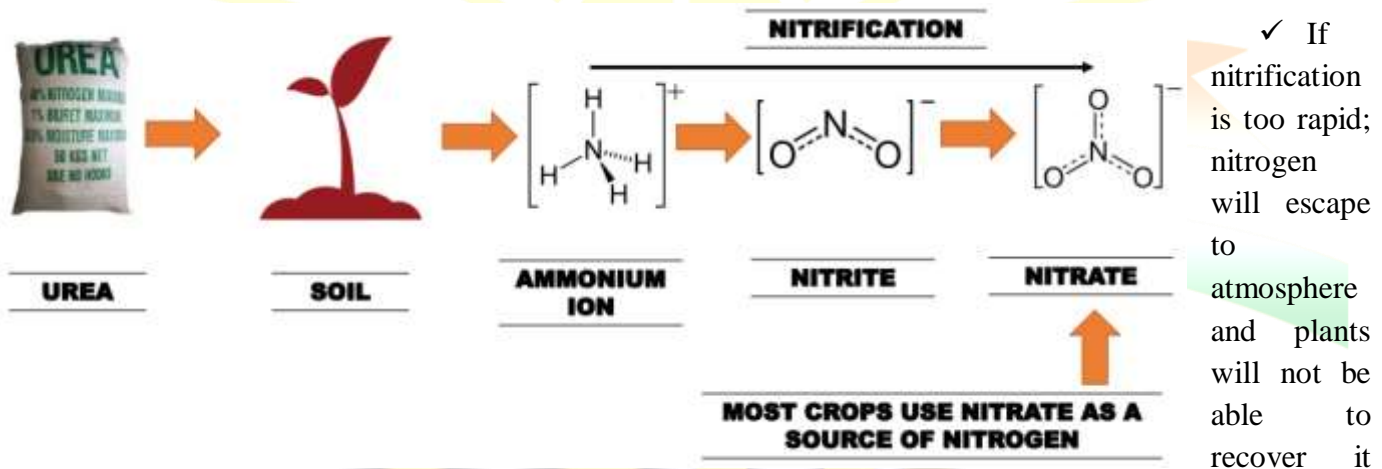
QUESTION 17

Q. Why does the Government of India promote the use of 'Neem-coated Urea' in agriculture? (2016)

- a) Release of Neem oil in the soil increases nitrogen fixation by the soil microorganisms
- b) Neem coating slows down the rate of dissolution of urea in the soil
- c) Nitrous oxide, which is a greenhouse gas, is not at all released into atmosphere by crop fields
- d) It is a combination of a weedicide and a fertilizer for particular

Answer: b

EXPLANATION



from Urea efficiently.

- ✓ Nitrogen use efficiency (NUE) is the fraction of applied nitrogen that is absorbed and used by the plant.
- ✓ It has been scientifically established that neem oil serves as an effective inhibitor (i.e. slows down nitrification) if coated on Urea.
- ✓ It also serves as a natural insecticide, neem coating also checks diversion of highly subsidized urea towards non-agricultural purposes.



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QUESTION 18

Q. As per the NSSO 70th Round "Situation Assessment Survey of Agricultural Households", consider the following statements: (2018)

1. Rajasthan has the highest percentage share of agricultural households among its rural households.
2. Out of the total agricultural households in the country, a little over 60 percent belong to OBCs.
3. In Kerala, a little over 60 percent of agricultural households reported to have received maximum income from sources other than agricultural activities.

Which of the statements given above is/are correct?

- a) 2 and 3 only
- b) 2 only
- c) 1 and 3 only
- d) 1, 2 and 3

Answer: c

QUESTION 19

Q. The FAO accords the status of 'Globally Important Agricultural Heritage System (GIAHS)' to traditional agricultural systems. What is the overall goal of this initiative? (2016)

1. To provide modern technology, training in modern farming methods and financial support to local communities of identified GIAHS so as to greatly enhance their agricultural productivity
2. To identify and safeguard eco-friendly traditional farm practices and their associated landscapers, agricultural biodiversity and knowledge systems of the local communities

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3. To provide Geographical Indication status to all the varieties of agricultural produce in such identified GIAHS

Select the correct answer using the code given below:

- a) 1 and 3 only
- b) 2 only
- c) 2 and 3 only
- d) 1, 2 and 3

Answer: b

EXPLANATION

1 GIAHS stands for "Globally Important Agricultural Heritage Systems".

2 GIAHS are defined as "Remarkable land use systems and landscapes which are rich in globally significant biological diversity evolving from the co-adaptation of a community with its environment and its needs and aspirations for sustainable development".

3 GIAHS aims to set the basis for

- global and national recognition
- dynamic conservation and
- sustainable management of agricultural heritage systems and their associated biodiversity, knowledge systems and cultures.

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5. FINANCIAL SYSTEM IN INDIA

Fiscal Policy + Monetary Policy

Controlling the **income and expenses** of a country

Controlling the **interest rates** in the economy

Fiscal Policy

Monetary Policy

- Influence the **money supply** in the economy
- Give direction to the country's **socio economic goals**



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From where does the RBI get the power to conduct the monetary policy?



This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934



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Monetary Policy – Aims and Objectives aka GOALS



Primary goal of the
monetary policy of RBI

How?

Target Inflation by controlling interest rates

How?

Use of Monetary Policy Instruments/Tools

1. Maintain **price stability** keeping in mind the **objective of growth**
2. Ensuring **adequate employment opportunities**
3. **Stability of financial markets**
4. **Stability in the foreign exchange markets**

Flexible Inflation Targeting

In May 2016, the Reserve Bank of India (RBI) Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.

The amended RBI Act also provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years.

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- 4% CPI- Combined (August 5, 2016 to March 31, 2021)

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- Upper tolerance limit of 6 per cent and the lower tolerance limit of 2 per cent.

Flexible Inflation Targeting

What are the factors that constitute failure to achieve the inflation target?

The **average inflation** is **more than the upper tolerance level** of the inflation target for **any three consecutive quarters**

OR

The **average inflation** is **less than the lower tolerance level** for **any three consecutive quarters.**

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Monetary Policy Committee (MPC)

Before the amendment to the RBI Act, 1934



The policy rate was decided by the **RBI Governor**

After the amendment to the RBI Act, 1934



Monetary Policy Committee (MPC) created and empowered to decide the policy rate

A

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Monetary Policy Committee (MPC)

Section 45ZB of the amended RBI Act, 1934

6 member Monetary Policy Committee (MPC)

Constituted by the Central Government by notification in the Official Gazette.

The Central Government in September 2016 constituted the MPC as under:

3 members from RBI + 3 members from Government

Governor of RBI – Chairperson, ex officio

Deputy Governor of RBI, in charge of Monetary Policy –
Member, ex officio

One officer of RBI to be nominated by the Central Board –
Member, ex officio

3 members – appointed by the Centre on the recommendations of a search-cum-selection committee which is to be headed by the Cabinet Secretary.

They will hold office for a period of 4 years or until further orders whichever is earlier

Monetary Policy Committee (MPC)

Other Important points

✓ Every two months, the RBI comes out with the Monetary Policy Statement

✓ The MPC is required to meet **at least four times in a year**. The **quorum** for the meeting of the MPC is **four members**.

✓ **Voting:** Each member of the MPC has **one vote**, and in the event of an equality of votes, the **Governor has a second or casting vote**.

✓ **The resolution** adopted by the MPC is published after the conclusion of every meeting of the MPC

✓ **Monetary Policy Report:** Once in every six months, the Reserve Bank is required to publish a document called the **Monetary Policy Report** to explain the sources of inflation and the forecast of inflation for 6-18 months ahead.



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Monetary Policy Instruments

Quantitative and Qualitative Tools

Quantitative tools	Qualitative tools
cash reserve ratio (CRR)	loan to value ratio (LTV)
statutory liquidity ratio (SLR)	priority sector lending/ credit rationing
repo rate	RBI guidelines
reverse repo rate	moral suasion
marginal standing facility (MSF)	direct action
bank rate	
open market operations (OMO)	

QUESTION 1

Q. With reference to Indian economy, consider the following: (2015)

1. Bank rate
2. Open market operations
3. Public debt
4. Public revenue

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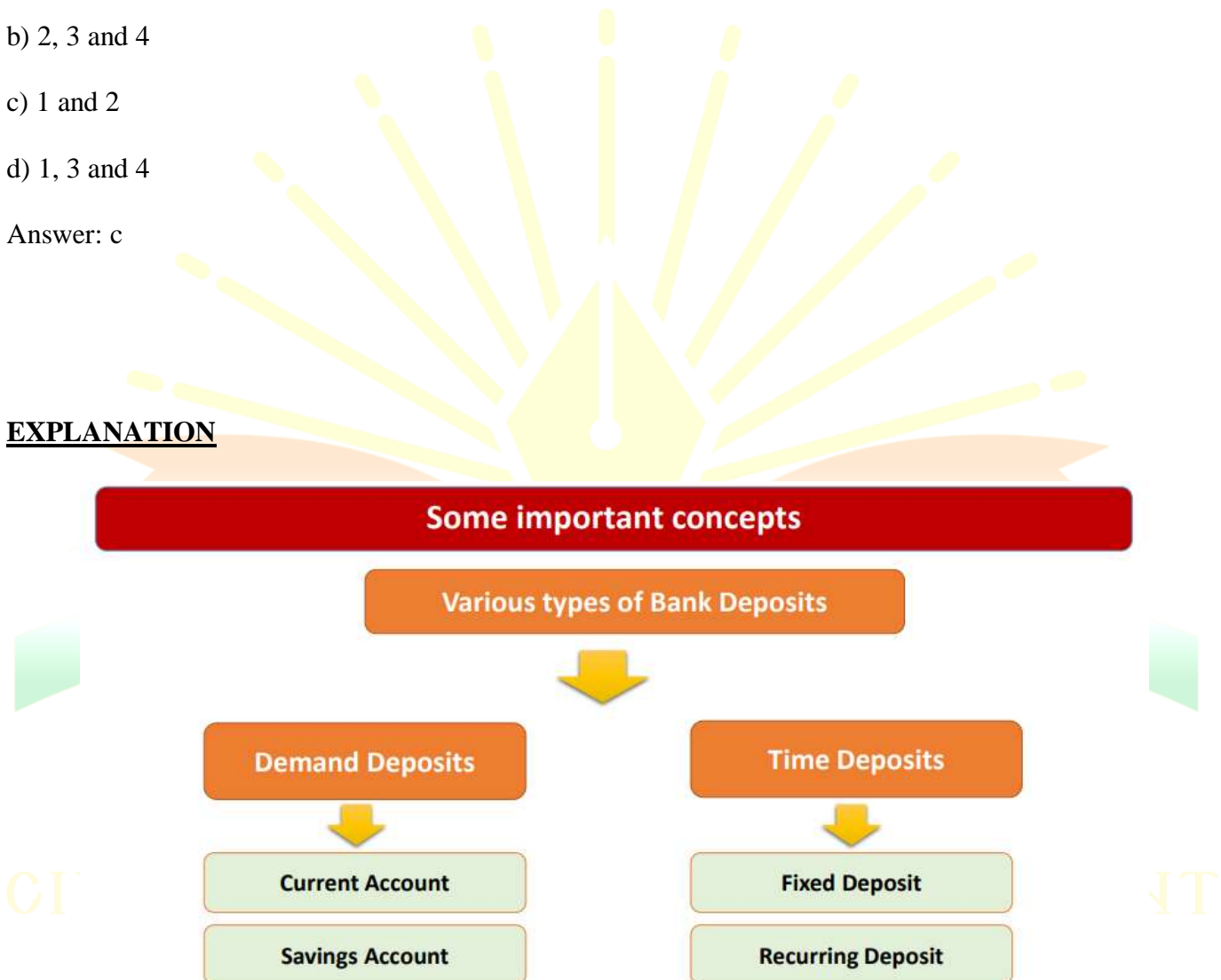
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Which of the above is/are component/ components of Monetary Policy?

- a) 1 only
- b) 2, 3 and 4
- c) 1 and 2
- d) 1, 3 and 4

Answer: c

EXPLANATION



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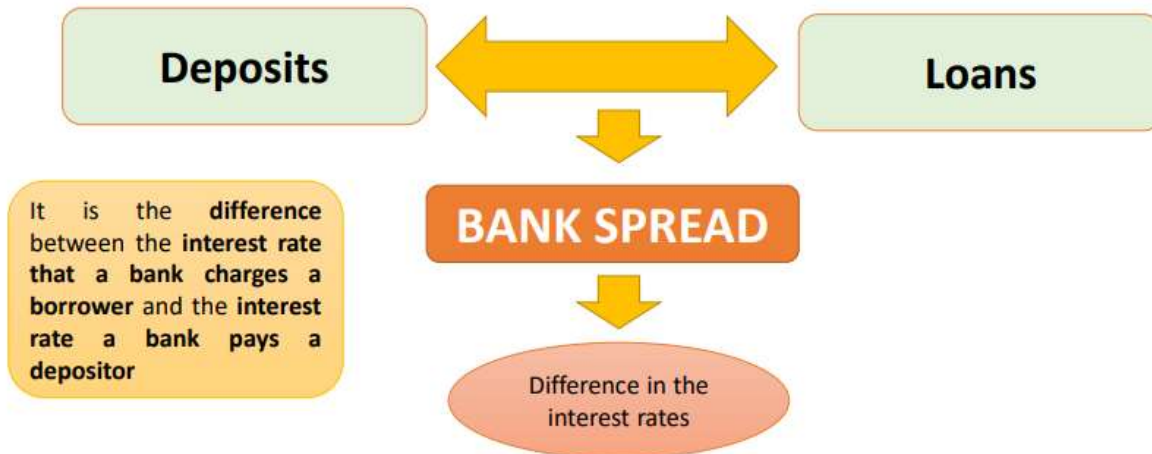


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How a bank earns?



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Quantitative tools

Cash Reserve Ratio (CRR)

It is the share of a bank's total deposit that is mandated by the Reserve Bank of India (RBI) to be maintained with the RBI in the form liquid cash.

Objectives

Cash Reserve Ratio (CRR) ensures that a part of the bank's deposit is with the Central Bank and is hence, safe

To influence prices and liquidity

To keep the liquidity in check, the RBI resorts to increasing and decreasing the Cash Reserve Ratio.

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Cash Reserve Ratio (CRR)

How much should be maintained?

CRR is subject to change so stay updated with the current values

The cash balance that is to be maintained by scheduled banks with the RBI should not be less than 4% of the total NDTL (Net Demand and Time Liabilities)

Important points:

From 2006 onwards the RBI is empowered to fix the CRR on its discretion without any ceiling;

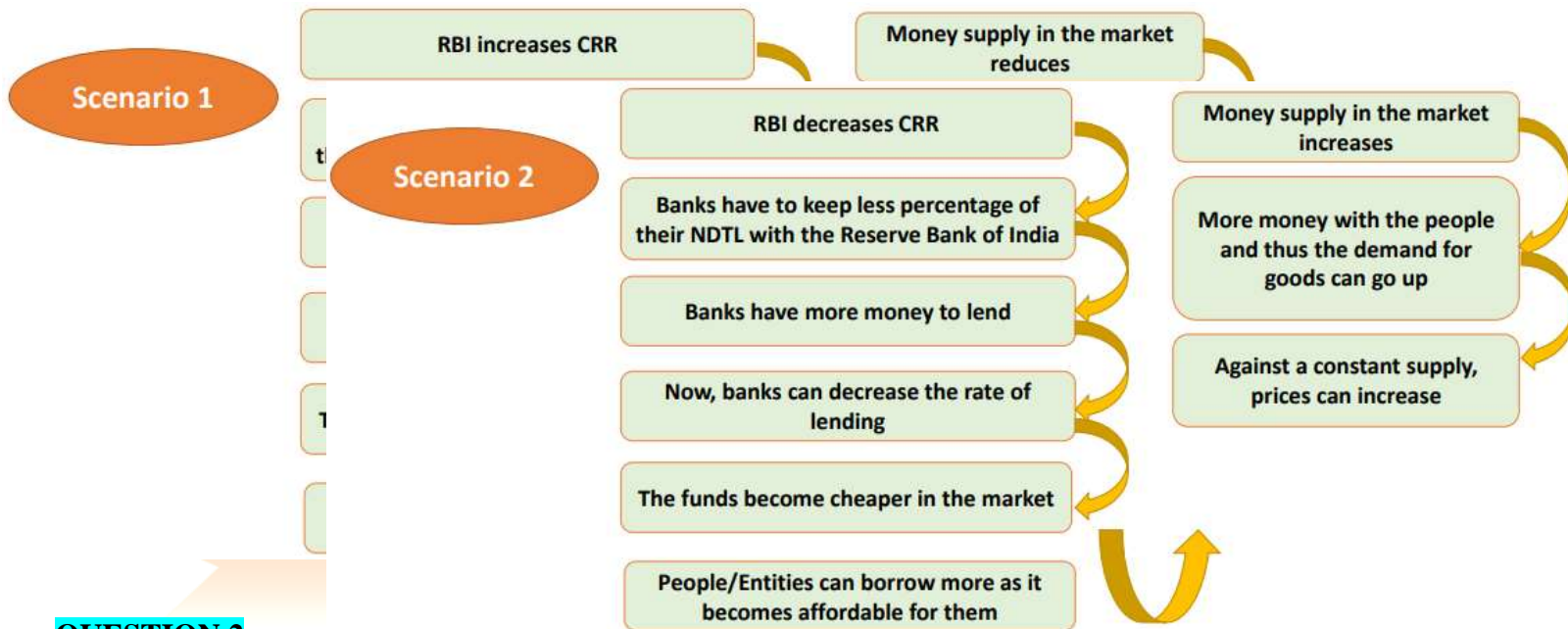
Do banks earn interest rate on CRR?

From March 31, 2007 onwards, RBI does not pay any interest on the CRR balances

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How is CRR, money supply, interest rates and inflation linked?



QUESTION 2

Q. When the Reserve Bank of India announces an increase of the Cash Reserve Rate, what does it mean? (2010)

- a) The commercial banks will have less money to lend
- b) The Reserve Bank of India will have less money to lend
- c) The Union Government will have less money to lend
- d) The commercial banks will have more money to lend

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Answer: a

Quantitative tools

Statutory Liquidity Ratio (SLR)

- It is defined as the **share of bank's NDTL** that it needs to **maintain with itself as liquid assets**.
- Every bank is required to **maintain a minimum portion of their Net Demand and Time Liabilities (NDTL)** in the form of **gold, cash, or any liquid asset form**.
- The **ratio of these liquid assets to the demand and time liabilities** is referred to as the **Statutory Liquidity Ratio**.
- This percentage should **not be more than 40%**.

Statutory Liquidity Ratio (SLR)

Where is it mandated?

All the commercial banks in India are required to maintain the Statutory Liquidity Ratio as per **Section 24 and Section 56 of the Banking Regulation Act 1949**.

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Differences between CRR and SLR



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CRR (Cash Reserve Ratio)	SLR (Statutory Liquidity Ratio)
The CRR requires banks to have only cash reserves with the RBI.	In case of SLR, banks are asked to have reserves of liquid assets which include both cash and gold.
Banks don't earn returns on money parked as CRR	Banks earn returns on money parked as SLR
In CRR, the cash reserve is maintained by the banks with the Reserve Bank of India.	In case of SLR, the securities are kept with the banks themselves which they need to maintain in the form of liquid assets.

QUESTION 3

Q. The banks are required to maintain a certain ratio between their cash in hand and total assets. This is called: (1998)

- a) SBR (Statutory Bank Ratio)
- b) SLR (Statutory Liquid Ratio)
- c) CBR (Central Liquid Reserve)
- d) CLR (Central Liquid Reserve)

Answer: b

QUESTION 4

Q. In the context of Indian economy, which of the following is/are the purpose/purposes of "Statutory Reserve Requirements"? (2011)

1. To enable the Central Bank to control the amount of advances the banks can create
2. To make the people's deposits with banks safe and liquid
3. To prevent the commercial banks from making excessive profits



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4. To force the banks to have sufficient vault cash to meet their day-to-day requirements

Select the correct answer using the code given below.

- a) 1 only
- b) 1 and 2 only
- c) 2 and 3 only
- d) 1, 2, 3 and 4

Answer: b

QUESTION 5

Q. When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points, which of the following is likely to happen? (2015)

- a) India's GDP growth rate increases drastically
- b) Foreign Institutional Investors may bring more capital into our country
- c) Scheduled Commercial Banks may cut their lending rates
- d) It may drastically reduce the liquidity to the banking system

Answer: c

Quantitative tools

Liquidity Adjustment Facility (LAF)

The Reserve Bank of India's Liquidity Adjustment Facility (LAF) helps banks to adjust their **daily liquidity mismatches**.

LAF helps banks to **quickly borrow money in case of any emergency** or for adjusting their SLR/CRR requirements.

It is thus a tool used by the RBI to **control short-term liquidity/money supply in the market**

RITA

Under LAF, there 2 main tools being used are – Repo Rate and Reverse Rate



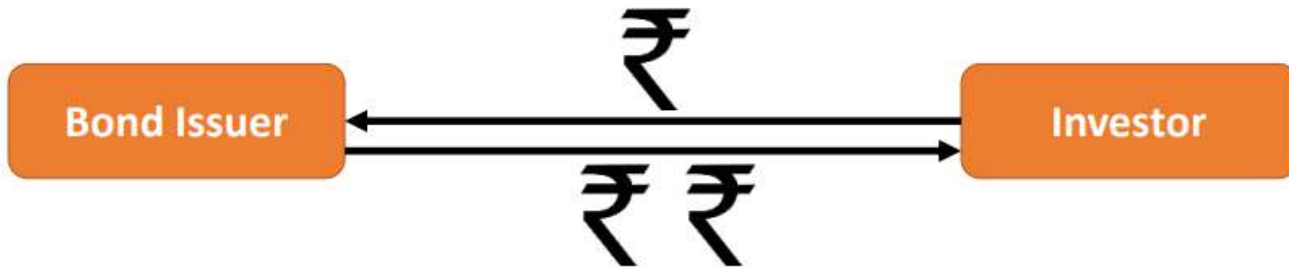
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Some important concepts

What is a bond?

Bond is a **debt instrument** created for the purpose of **raising capital**.
These represent **debt obligations**



Gives the money back (actual money)
+
Interest on the sum received on a predetermined date



Some important concepts

What is a Government Security (G-Sec)?

A Government Security (G-Sec) is a **tradeable instrument** issued by the **Central Government** or the **State Governments**. It acknowledges the **Government's debt obligation**



Short-term securities (with
maturity less than one year)

Long-term securities (with
maturity of one year or more)

NOTE: Minimum amount RS.5 crore

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Quantitative tools

Liquidity Adjustment Facility (LAF)

How is

Scenario 1

Clients

RBI Increases Repo rate

It becomes costly for the banks to borrow from the RBI but it does to meet its short term liquidity crisis

Now, since borrowing rates are high to compensate it increases its lending rate

Loans become costlier

People/Entities borrow less

Money supply in the market reduces

Less money with people and thus the demand for goods can go down

Against a constant supply, prices can decrease

Repo rate, money supply, interest rate and inflation linked?

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Scenario 2

RBI decreases the Repo rate

Loans become cheaper for the banks

Now, since borrowing rates are low, the banks can pass on the benefits to the consumers and decrease the lending rates

Loans can become cheaper in the market

People/Entities borrow more

Money supply in the market increases

More money with people and thus the demand for goods goes up

Against a constant supply, prices can increase



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QUESTION 6

Q. Consider the following statements: (2007)

1. The repo rate is the rate at which other banks borrow from the Reserve Bank of India.
2. A value of 1 for Gini Coefficient in a country implies that there is perfectly equal income for everyone in its population.

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer: a

QUESTION 7

Q. An increase in the Bank Rate generally indicates that the (2013)

- a) market rate of interest is likely to fall
- b) Central Bank is no longer making loans to commercial banks
- c) Central Bank is following an easy money policy
- d) Central Bank is following a tight money policy

Answer: d

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QUESTION 8

Q. If the interest rate is decreased in an economy, it will (2014)

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- a) decrease the consumption expenditure in the economy
- b) increase the tax collection of the Government
- c) increase the investment expenditure in the economy
- d) increase the total savings in the economy

Answer: c

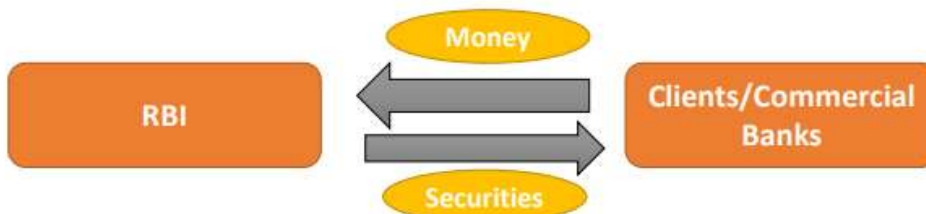
Liquidity Adjustment Facility (LAF)

Reverse Repo Rate

Reverse repo operation is when RBI borrows money from banks by lending securities.

The interest rate paid by RBI in this case is called the reverse repo rate.

This tool absorbs liquidity from the system



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LAF Corridor

The difference between the Repo Rate and the Reverse Repo Rate is known as the Policy rate corridor or the LAF corridor

Note: Previously the difference between these two rates was 1%.
Now this corridor has been narrowed down to 0.25%

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Marginal Standing Facility (MSF)

- Marginal Standing Facility is a liquidity support arrangement provided by RBI to commercial banks if the latter doesn't have the required eligible securities above the SLR limit.
- Under MSF, a bank can borrow one-day loans from the RBI, even if it doesn't have any eligible securities excess of its SLR requirement (maintains only the SLR).
- This means that the bank can't borrow under the repo facility.

Tenor and amount:

Under the facility, the eligible entities can avail overnight, up to 2% of their NDTL

The rate at which these funds can be borrowed is currently 0.25% above the repo rate.

Note: This is subject to change. keep yourself updated.

Minimum request size

Requests will be received for a minimum amount of Rs. 1 crore and in multiples of Rs. 1 crore thereafter.

QUESTION 9

Q. The terms 'Marginal Standing Facility Rate' and 'Net Demand and Time Liabilities', sometimes appearing in news, are used in relation to : (2014)

- a) Banking operations
- b) Communication networking
- c) Military strategies

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d) Supply and demand of agricultural products

Answer: a

Bank Rate

RBI lends money to its clients for long term at a rate which is known as the Bank Rate

The borrowing of money takes place without any security

Impact: When bank rate is increased interest rate also increases which have negative impact on demand thus prices decreases.

QUESTION 10

Q. The lowering of Bank Rate by the Reserve Bank of India leads to (2011)

- a) more liquidity in the market
- b) less liquidity in the market
- c) no change in the liquidity in the market
- d) mobilization of more deposits by commercial banks

Answer: a

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Open Market Operations (OMO)

These are **operations in which the RBI buys and sells securities in the open market.**

This is done **either to inject liquidity in the system or to absorb the liquidity** from the system.

QUESTION 11

Q. In the context of Indian economy, 'Open Market Operations' refers to: (2013)

- a) borrowing by scheduled banks from the RBI
- b) lending by commercial banks to industry and trade
- c) purchase and sale of government securities by the RBI
- d) None of the above

Answer: c

EXPLANATION

How is it different from LAF or MSF?

- ✓ In LAF or MSF, the Government security is getting repurchased.
- ✓ One party buys Government security from second party.
- ✓ Now, the second party promises to buy back the security after some time.
- ✓ So, here the security is acting as collateral.
- ✓ In case of OMO, the securities are being sold permanently from one party to another. The second party can do anything with it.

SCENARIO 1

SCENARIO 2



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RBI purchases the Government securities	RBI sells the Government securities
Liquidity in the market increases as RBI pays money to the party from which it purchases the securities	Liquidity in the market decreases as RBI gets money from the players it is selling its security to
Prices can increase as more money in the market, demands for goods and services increases	Prices can reduce as there is less money in the market, demands for goods and services has come down

QUESTION 12

Q. Which of the following terms indicates a mechanism used by commercial banks for providing credit to the government? (2010)

- a) Cash Credit Ratio
- b) Debt Service Obligation
- c) Liquidity Adjustment Facility
- d) Statutory Liquidity Ratio

Answer: d

QUESTION 13

Q. Which of the following measures would result in an increase in the money supply in the economy? (2012)

1. Purchase of government securities from the public by the Central Bank
2. Deposit of currency in commercial banks by the public
3. Borrowing by the government from the Central Bank
4. Sale of government securities to the public by the Central Bank



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Select the correct answer using the codes given below:

- a) 1 only
- b) 2 and 4 only
- c) 1 and 3
- d) 2, 3 and 4

Answer: c

Monetary Policy Instruments

Two Types

Quantitative
OR
General
OR
Indirect

Qualitative
OR
Selective
OR
Direct

Quantitative tools	Qualitative tools
These are indirect in nature	These are direct in nature
These are general in nature	These are specific in nature

Rationing of Credit/Priority Sector Lending (PSL)

Categories included under the Priority Sector

Agriculture

Micro and Small Enterprises

Education

Housing

Export Credit

Others

equate credit

difficult to get

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Rationing of Credit/Priority Sector Lending (PSL)

PSL Targets

Three categories



Domestic Banks



Foreign banks having less than 20 branches
in India



Foreign banks having 20 or more than 20
branches in India

Rationing of Credit/Priority Sector Lending (PSL)

PSL Targets
Domestic Banks

Categories	Percentage of Loans
Total Priority Sector	40%
Agriculture	18% (8% of this to small and marginal farmers)
Micro-Enterprises	7.5%
Weaker Sections	10%

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Others	4.5%
--------	------

PSL Targets NOT met.....what happens?

Case 1: Domestic Banks and foreign banks having 20 and more than 20 branches in India.

The amount goes to the RIDF (Rural Infrastructure Development Fund) which is managed by NABARD (National Bank for Agriculture and Rural Development).

Case 2: For foreign banks having less than 20 branches in India

The amount goes to SEDF (Small Enterprises Development Fund) which is managed by SIDBI (Small Industries Development Bank of India).

Loan to Value Ratio (LTV) / Margin Requirements

- ✓ Loan-to-value (LTV) is a ratio of the amount of loan that can be given to the total value of the property/against a fixed value of collateral.
- ✓ A higher LTV implies a greater loan amount and therefore, lesser down-payment that you need to arrange out of your pocket. However, it also means a higher EMI.
- ✓ A lower LTV means that you have to arrange for a larger sum to be paid as down-payment.

Moral Suasion

- ✓ Moral Suasion is just as a request by the RBI to the commercial banks to take certain actions and measures as per the trend of the economy.
- ✓ RBI may request commercial banks not to give loans for unproductive purpose which does not add to economic growth but increases inflation.

Direct Action



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This step is taken by the RBI against banks that don't fulfil conditions and requirements. The banks may be penalized for not following the directions.

QUESTION 13

Q. Which one of the following is not an instrument of selective credit control in India? (1995)

- a) Regulation of consumer credit
- b) Rationing of credit
- c) Margin requirements
- d) Variable cost reserve ratios

Answer: c

Types of Monetary Policy followed by RBI

- ✓ Accommodative Monetary Policy
- ✓ Contractionary Monetary Policy
- ✓ Neutral Stance of RBI

I. Accommodative Monetary Policy

- ✓ Why is it followed? To increase the money supply in the economy
- ✓ How? Lowering of the repo rate by the RBI (though there are other tools as well) so that borrowing money gets easier

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Remember the
scenarios?

R'S POINT
ge...

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- ✓ Also called as Easy or Expansionary Monetary Policy of the RBI

II. Contractionary Monetary Policy

- ✓ Why is it followed? To decrease the money supply in the economy
- ✓ How? Increasing the Repo Rate



Remember the scenarios?

III. Neutral stance of RBI

It provides it the flexibility to move in either of the directions. But, prevailing risk of inflation may mean that the RBI won't cut down the interest rates.

QUESTION 14

Q. Consider the following liquid assets: (2013)

1. Demand deposits with the banks
2. Time deposits with the banks
3. Saving deposits with the banks
4. Currency

The correct sequence of these assets in the decreasing order of liquidity is:

- a) 1-4-3-2
- b) 4-3-2-1

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c) 2-3-1-4

d) 4-1-3-2

Answer: d



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