



ECONOMICS NOTES



Economics Class Notes for IAS and PCS

Chapter 1: Introduction Economy

Economy
<ul style="list-style-type: none"> ➤ Economy is use & care of scare resources ➤ Economics are two types <ol style="list-style-type: none"> 1. Capitalist Economy 2. State Economy
Capitalist Economy
<ul style="list-style-type: none"> ➤ Adam Smith wrote book "A wealth of Nation" ➤ Voice against heavy handed by government. ➤ Capitalist economy follows Laissez faire (non – interference by government). ➤ Invisible hand of Market (Price Mechanism) which depend on Demand & Supply
State Economy
<ul style="list-style-type: none"> ➤ State Economy (Karl Marx) are of two types <ol style="list-style-type: none"> 1. Socialist – Collective ownership of means of Production. 2. Communist – State ownership of all properties & labor.
Centralized Economy
<ul style="list-style-type: none"> ➤ Centralized economy (Planned Economy, Non – market Economy, Command Economy) ➤ It includes production, supply & price run by state. Ex. USSR, Cuba. ➤ Totally bound on communist Model
Mixed Economy
<ul style="list-style-type: none"> ➤ Mixed Economy given by John Maynard Keynes and it also called "Inductive Economy" ➤ both Market and State or Public + Private ➤ Where Public sector exists along with heavy does of swadesi in National Economy.
Market Socialism – Justice with Market
<ul style="list-style-type: none"> ➤ Neoliberalism is Individual liberty, free market, free trade ➤ Structural change of economy is Long term, change basically on fundamental structure. ➤ Subsistence change of economy is transformed into commercial economy. ➤ Market economy is Laissez faire economy, minimum participation of government.
Types of Economy
Microeconomics
<ul style="list-style-type: none"> ➤ Production /output in individual industries & business & consumer behavior. ➤ How much office space, how many car etc.



Macroeconomics

- National production/ output, GDP, GNP, BOP, Poverty, inflation, employment

Sector of Economy

1. **Primary Sector** – Activities, use direct use of National Resources.
Ex. Agriculture, forestry, fishing, fuels, metals & minerals.
2. **Secondary Sector** (Manufacturing Sector) – Produce from Primary sector material.
Ex. Automobile, Breed, Butter, Textile etc.
3. **Tertiary Sector** – Related to Service provided
Ex. Education, Banking, Health, Infrastructure, Insurance, Tourism, Transportation etc.
4. **Quaternary Sector** – Related to Intellectual Service
Ex. Information generation, information sharing, consultation, development & Research
5. **Quinary Sector** – High level decision made by Top executive in government, industry, education, media and Not Profit Organization.



Economics Class Notes for IAS and PCS

Chapter 2: GDP/GNP/NI/NNP/PCI

GDP / GNP / NI / NNP / GDP Deflator / PCI
GDP-GROSS DOMESTIC PRODUCT
<ul style="list-style-type: none"> ➤ Value of final goods/ service produced within boundary of Nation, during 1 year. ➤ It is quantitative, but not qualitative.
NDP-NET DOMESTIC PRODUCT
<ul style="list-style-type: none"> ➤ Net Domestic Product (NDP) = GDP – Depreciation
GNP-GROSS NATIONAL PRODUCT
<ul style="list-style-type: none"> ➤ Gross National Product (GNP) = GDP + Income from Abroad ➤ Trade balance (+ve/ –ve) ➤ Income from abroad from Interest of External loan and Private Remittance etc.
NNP-NET NATIONAL PRODUCT
<ul style="list-style-type: none"> ➤ Net National Product (NNP) = GNP – Depreciation ➤ NI (National Income)= NNP = GDP + Income from Abroad – Depreciation ➤ NI = National Income is Purest form of Income of Nation ➤ PCI = Per Capital Income = $\left[\frac{\text{NNP}}{\text{Total Population}} \right]$
<ul style="list-style-type: none"> ➤ If FDI increases, foreign flow more → Income from Abroad increases, means GNP > GDP ➤ If closed economy, GDP > GNP
GDP Deflator
$\text{GDP Deflator} = \left[\frac{\text{GDP at current price}}{\text{GDP at basic price}} \right]$
<ul style="list-style-type: none"> ➤ Depreciation Calculate: <ol style="list-style-type: none"> 1. CSO in Ministry of statistics & Program Implementation 2. DES (Directorate of Economic & Statistics) – at state level ➤ NI at Factor Price = [NNP at Market Cost – Indirect tax + Subsidies]



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Chapter 3: Economy planning

Economic Plan	
➤	The Visvaraya Plan is called “Planned Economy of India”
➤	The Bombay Plan (By 8 Capitalist) –is a Plan of Economic Development for India.
➤	Nehru Plan also called “ Heavy Industrialization”
➤	Gandhian Plan is Agriculture with Industrialization of Cottage & Village level industries. <ul style="list-style-type: none"> • Decentralized Economic Structure • By “Sriman Narayan & S.N. Aggarwal”.
➤	The People Plan given by M.N Roy plan was bound on Marxist socialism & Advocate need of providing people with basic necessities of life.
➤	The Sarvodya Plan given by By Jaiparkash Narayan. Bound on concept of “Acharya Vinoba Bhava”.
➤	PC (Planning Commission) formed in 1950 and on its recommendation NDC (National Development council) formed in 1952
Planning has long term goal	
➤	Planning has long term goal <ol style="list-style-type: none"> 1. Modernization 2. Growth 3. Self – Reliance 4. Social Justice/ equality
➤	Economic Planning is under 7 th Schedule
➤	It was add in Concurrent list (added by 42 th Amendment)
➤	Development mean –Social change
➤	Economic survey published by “Ministry of Finance”.
Type of Planning	
➤	Perspective Planning :Long FYP
➤	Rolling Planning :1/2 year Planning
➤	Core Planning : Specific sector/ point
➤	India is 4 th Biggest Economy – USA, China, Japan, India
➤	Income stage: Contribution → Service > Manufacturing > Agriculture
➤	Business Cycle: Expansion → Growth → Slowdown → Recession
➤	Financial Year : 1 April to 31 March (Data of estimation of NI Issued by CSO)



Steel Factory
<ul style="list-style-type: none"> ➤ Durgapur at West Bangal by UK ➤ Bhilani at Chhattisgarh by USSR ➤ Bhokaro at Jharkhand by USSR ➤ Rahulkela at Odissa by Germany
<ul style="list-style-type: none"> ➤ Locomotion factory at Chittrangen ➤ Coach factory at Perambur ➤ Lokodwala committee formed for unemployment ➤ Tendulkar committee formed for poverty ➤ Ist Budget presented by "James Wilson" during Regim of Lord Canning
<ul style="list-style-type: none"> ➤ Ist factory of cotton textile in India established in 1818 at Chugharines Kolkata but failed. ➤ Seed of cotton textile by Kawaji Nova Bhai in Mumbai
<ul style="list-style-type: none"> ➤ Ist Jute factory established in Rishara (WB) ➤ Ist steel factory by Tata in Jamshedpur
Five Year Plan
1:1951 – 1955
<ul style="list-style-type: none"> ➤ By R.K. Raj ➤ Herold Doman Modal ➤ Growth Rate :(target 2.1 → Achieved 3.6%) ➤ More strengthen on Agriculture
2:1956 – 1960
<ul style="list-style-type: none"> ➤ By P.C. Mahalonotris (Nehru Model) ➤ Heavy Industrialization ➤ Steel factories stablished
3:1961 – 1965
<ul style="list-style-type: none"> ➤ Called "Godgil formula " and given by Sukhmary Cakhula ➤ Focused in Agriculture and Industrial (Self Reliant) ➤ Rupee (↓) decreased ➤ Taking Loan from IMF ➤ Start Green Revolution
1966 – 1967, 1967- 1968, 1968 – 1969
<ul style="list-style-type: none"> ➤ Plan Holiday (gives Primary Priority) ➤ Fail Due to <ul style="list-style-type: none"> • Indo – Pak • Indochina War



4:1969 – 1974
<ul style="list-style-type: none"> ➤ Growth with justice & stability ➤ By Ashok Rudra Plan ➤ Not achieve target due to Bangladeshi Refuge
5:1974 – 1979
<ul style="list-style-type: none"> ➤ By D.P. Dhar ➤ Focusing on Removing of Poverty ➤ Target 4.5% → Achieved 5% ➤ Janta Party lost government. ➤ 1978 – 1980 (Rolling plan → Gunar Myrdal)
6:1980 – 1985
<ul style="list-style-type: none"> ➤ During Indira Gandhi ➤ IDRP – Integrated Rural Development Program implemented ➤ NABARD and EXIM Bank established ➤ MNP – Minimum Need Program start
7:1985 – 1990
<ul style="list-style-type: none"> ➤ During Rajiv Gandhi ➤ Jawahar Rojgar Yojna (JRY)start ➤ Hindu growth (Raj – Krishna) occurred ➤ More fiscal deficit ➤ More emphasis on Private sector than Public sector ➤ SIDBI formed ➤ 1991 – 1992 (Annual Plan → Elephant Plan)
8:1992 – 1997
<ul style="list-style-type: none"> ➤ Economy open, LPG(liberalization ,privatization and globalization) – adopt ➤ Rupee convertibility start ➤ Pradhan Mantri Rojgar Yojna (PMRY) start ➤ During P.V. Narshima Rao ➤ During Manmohan Singh
9:1997 – 2002
<ul style="list-style-type: none"> ➤ Growth with social justice ➤ BOP(Balance of Payment) and CAD (Current account deficit) increased ➤ Recession in International Economy
10:2002 – 2007
<ul style="list-style-type: none"> ➤ Bring down regional inequality ➤ Main emphasis on agriculture ➤ No fix production
11:2007 – 2012
<ul style="list-style-type: none"> ➤ Toward faster & more inclusive growth.



- Target: Agriculture – 41%, Industry – 10%, Service – 9%

12:2012 – 2017

- Toward faster, sustainable & more inclusive growth
- Target: Agriculture – 4%, Industry – 9.6%, Service – 10%

13:2017 – 2022

- Moderate economic growth, Industrial upgrading innovation & reform environment improvement.



Economics Class Notes for IAS and PCS

Chapter no3: Index

Index
Human Development Index (HDI)-3 index
<ul style="list-style-type: none">➤ Longer and health life➤ Knowledge➤ Standard of living
Humans Poverty Index (HPI)-4 index
<ul style="list-style-type: none">➤ Life span➤ Literacy skill➤ Long term employment➤ Relative poverty
Bhutan Report Index-4 index
<ul style="list-style-type: none">➤ High rate per capital income➤ Good governance➤ Environment protection➤ Cultural promotion
World Happiness Index-5 index
<ul style="list-style-type: none">➤ GDP per capital➤ Health life expectancy➤ Freedom from corruption➤ Generosity➤ Make life change
Note
<ul style="list-style-type: none">➤ 1st economic policy by – Rajiv Gandhi➤ 2nd economic policy by – P.V. Narshima Rao [due to Gulf war & BoP issue]➤ LPG Model by Manmohan Singh – 1991➤ Nehru – Mahalonobis Model – economy through Public sector & heavy idushili Zatia



Economics Class Notes for IAS and PCS

Chapter no 4: IMF

IMF	
➤	IMF (International Monetary Fund) and IBRD (International Bank for Reconstruction and Development) called "Bretton Woods twins"
➤	IMF HQ at Washington and IMF have 190 Member with Director Kristina Lagarde
➤	SDR – Special Drawing Right is International Reserve Asset created by IMF. SDR is 5 type. Dollar (1) + Euro (2) + Pound (3) + Sterling (4) + Yen (5)
➤	IMF gives borrow at concession interest rate to low income country for (i) Poverty reduction & growth facility.
➤	Extended fund facility (EFF) is help countries addressing long term in BoP (Balance of Payment) problem requiring fundamental economic reform.
GATT	
➤	General Agreement on Trade & Trade is agreement that was arrived in 1947 by 23 countries to establish free & fair international trading, based on dismantle of trade barrier or non-trade, restriction like – Quota
➤	GATT – Headquarter – Geneva
➤	In 8 th Uruguay Round – WTO set up (Doha round is 1 st round in 2001 of WTO (world trade organization)).
➤	
WTO	
➤	WTO Director – Roberto Azevedo from Brazil.
➤	Highest decision making body is ministerial conference (Authority Council) (meet twice in a year) – commerce minister participate
➤	Dispute Settlement Body (DSB) – (Authority council act as DSB) → (60 days to resolve problem conclusion challenged in Appellate body)
➤	In WTO ,There is Trade Policy Review Body (TPRB)
AoA	
➤	Agreement on Agriculture
➤	Green Box – Not Restricted, Not considered as trade dismantle subsidiary given.
➤	Amber Box – distorting trade, only support within 5 – 10% value of Production
➤	Blue Box – Direct payment not allowed and it highly effect the trade
➤	TRIPS (Trade Related Aspect of Intellectual Property Right)
➤	Legal Protect – copyright, GI (Geographical Indicators) , Industrial design, Integrated Circuit, Layout design, Patents, Development of New Plan/ variety, trade mark, labor



standard
➤ NAMA – Non Agriculture Market Access related to Trader Negotiation on Non Agriculture/ Industrial Product.
➤ AMS – Aggregate Measurement of Support mean Support provided by government to agriculture sector.
➤ Anti – Dumping duties – If a product sold, in home market below the cast production.
➤ Counter vailing duties – Special duties imposed on import to offset injurious effect of Subsidies to produce or export.
➤ Natural Treatment – No MFN (Most favored nations)
➤ Non Traffic Barrier – Traffic Barrier (License, standard, rule)
➤ MFN (Most Favored Nation) – provide any concession privilege or granted in Trade agreement.
➤ G – 7 members: UK + USA + Canada + Germany + Italy + France + Spain
➤ Non-Traffic is way to restrict trade using trade barrier in a form other than traffic. Ex. Quota, standard license, quality, foreign exchange, technical, regulatory, state trading, Preferential Agreement.
Traffic Barrier
➤ Anti-damping duty ➤ Traffic ➤ Quota ➤ Subsidies ➤ Voluntary export restrain

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Chapter no 5: Inflation

Inflation

- Inflation – Increase (↑) Rate of general price.

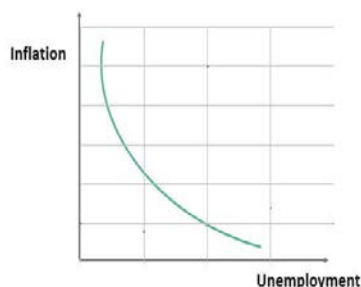
CTGH

- Creeping Inflation (C) – Rate of general price, (↑) to 5% per year.
- Trotting Inflation (T)– 5 to 10%
- Galloping Inflation (G)– 10 to 20%
- Hyper Inflation (H)– 20 to 30%

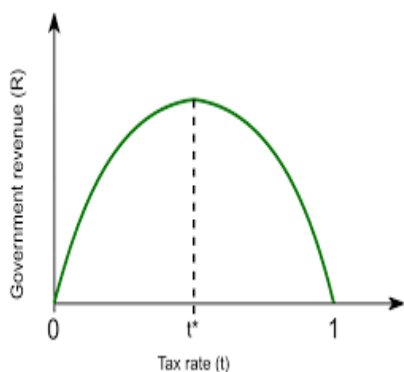
- Deflation – when fall in level in General Price.
- Disinflation – Decrease Rate of Inflation

- Stag Inflation – Inflation + unemployment
- Skew Inflation – one particular part (↑) inflation
- Philips curve mean $\text{Inflation} \propto \frac{1}{\text{unemployment}}$

Phillips Curve



- Benett law (Protein inflation) – $\text{Income} \propto \text{Inflation}$
- Laffer curve show graph between tax revenue and tax rate





- WPI (Whole Price index) – measure, change in price of selection of goods at whole sale, prior retail sales thus exclude sale tax.
- WPI – Publishing by “Economic Advisor in Ministry of Commerce & Industry”.

Type of Currency

- M0 = Currency in circulation + Banker Deposit with RBI + other deposit with RBI
- M1 = M0 + Demand deposit of Bank (current & saving) + other deposit of RBI
- M2 = M1 + Demand deposit of Post office
- M3 = M2 + Time Deposit of Bank
- M4 = M3 + All deposit with Post office saving bank

(M0 = Reserve Money, M1 = Narrow Money, M3 = Broad Money)

- Function of RBI – credit to government, Credit to Bank, Commercial at Bank, Banker of Bank, Foreign Money

IMF:6 part of IMF

- IBRD: International Bank of Reconstruction & Development – all Requirement
- IDA: International Development Authority – Infrastructure Development
- IFC: International Financial Corporation – Private organization
- MIGA: Multilateral Investing Guarantee Agency – Encourage investment in foreign
- BIPA: Bilateral Investment Promotion & Promoting Agency
- ICSID: International Centre for Settlement of Investment Dispute-for all dispute

- Government agmark lab – Nagpur
- Ist Hydro Power Plant installed in Darjeeling

Revolution

- Yellow Revolution related to– oil
- Evergreen Revolution related to – development of Agriculture
- White Revolution related to – Milk
- Red Revolution related to – Meat
- Silver Revolution related to – Cotton
- Gold Revolution related to – Jute
- Green Revolution related to – Food grains
- Black Revolution related to – Petrol
- Brown Revolution related to – Coco/ leather
- Pink Revolution related to – Onion/ Prom
- Round Revolution related to – Potato
- Grey Revolution related to – fertilizer
- Rainbow Revolution related to – Holistic Development of Agriculture
- Blue Revolution related to – Fish



Economics Class Notes for IAS and PCS

Chapter 6: Stock Market

Stock
➤ Stock Exchange provide a platform for trading of share.
➤ Stock Market deal debenture, MF & government securities (not Commercial Paper/ Certificate Deposit)
➤ Stock Exchange provide an organized market for transaction like – BSE, NSE etc.
➤ Demutualization – when management & ownership are separated & prevent inside trading
SEBI
➤ Regulate Capital Market (debt, equity), working of stock exchange, act as intermediate such as – Broker, Merchant Bank, approved for MF & register FII.
➤ Provide educational Training, Prohibit unfair Trading, Impose penalty, Regulate security market.
➤ HQ is in Mumbai & 3 Regional office – New Delhi, Calcutta, Mumbai
➤ It formed in 1992 and got statutory status.
➤ It have quasi judiciary and legislative body
Primary Market
➤ Issue of new securities directly by company to investors. Companies, government, Public sector can obtain funding through sale of new stock. New Issue called “IPO (Initial Public Offering)”.
➤ If company already issue shares & is going to market with new issue called “FPO (Follow on Public Offer)”.
➤ Secondary Market – One a newly issued stocks listed on stock exchange which are already issued in IPO.
➤ Bear – Market is good,
➤ Bull – Market will go good
➤ Gilt – Bond issued by central bank on behalf of government
➤ Blue chip – Show of comparison that most valuable companies
➤ Preference Stock – Generally issued by company to bank, so that retail investor one eligible when company closed, Preference stock one go 1st who holder of it.
➤ Systematic Risk – If risk came, whole system got affected. Test by RBI.
➤ Rolling Settlement – Mechanism of settling trades, traders done on a single day. (1/2 days)



Commodity Exchange

- Commodity exchange are institution which provide platform for trading in commodity futures. Presently Regular, FMC (Forward market Commission) allow future trading.
- FMC set up in 1953, consist 2 – 4 member. HQ – Mumbai,
- Commodity Exchange shifted to finance Minister over seen by ministry of consumer affair, Public distribution, Govt. of India.

PN (Participatory Note)

- It is instrument for making investment in stock market. FII use this for facilitate to participate of over funds like – Hedge fund who one not eligible, registered with SEBI, not directly invest.
- But SEBI restrict limit PN that a single FII can issue.
- PN needs register with SEBI.

Off shore

- outside country, hedge fund
- Investment fund open to only a limit drag of investors. They one mostly unregulated. It is not allowed India & they do not disclose date required by SEBI.
- **ADR** – American Depository Receipt. It is route is taken as non USA companies one not eligible to listing US stock exchange by Issue share.
- **GDR** – Indian companies are allowed to raise equity capital in International market by Global Depository Receipt. It designated in Dollar/ other foreign currency.
- **IDR** – India Depository Receipts – whey they one allowed, issued to non-listed company in India.

QFI

- Qualified Foreign Investors – May be same charity/ university fund/ other insured company. A resident of country that is member of FATF or member of go which in turn in member of global body against money laundry & terror funding.
- QIF allowed in 3 : Mutual Fund, Equities & corporal debt.
- Not need disclose details (some hidden transparency) commercial paper.
- **FATF** – Financial Action Task Force, is an inter-governmental organization in 1989. Combat of money laundry & terror finance.
- HQ at OECD in Paris.

ETF

- Electronic funds transfer (EFT) is the electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff.
- People get gold and save in Bank so it's better to get ETF of this gold so bank invest into hedge fund.
- Benefits:
 - Liquidity essay
 - Satisfy
 - Not waiting till transfer



- Also called “E – gold”
- Government think Public sector as ETF.

FII (Foreign Institutional Investors)

- One organization which invest huge money in finance asset like – debt, MF, Pension fund etc.
- Foreign are not allowed directly so it purchase on by FII through PIS (Portfolio Investment Scheme)
- FII called hot money investment.
- SEBI prescribed norms for FII
- FII can issue in Pensions fund, investment bank , Mutual Fund
- FDI (Foreign direct Investment) can buy all share of company but FII not
- FII cannot buy share of company & can buy MF, Debenture, Securities of govt., equity.



Economics Class Notes for IAS and PCS

Chapter 7: Taxation

Taxation	
➤	Art 112 – Annual financial statement called “Budget”
➤	Art 265 – If government applied Tax then need approval of Parliament
➤	Art 266 – Appropriation Bill for vote on account charged from Consolidate Fund India (CFI) & Public fund and CFI – Contingency fund of India (President)
➤	Art 110 – Money Bill
➤	Direct Tax – Income Tax, Corporate Tax, Wealth Tax, Property Tax, MAT, Gift, MAT
➤	Indirect Tax – Excise duty, custom duty, central sales tax (CST), GST
➤	Reform after 1991 – Reduce custom & excise duties, lower corporative tax, law SLR, CRR, Simplifying Tax Return (Saral, SAHAJ, SUGHM).
➤	SARAL– Toward better tax payer, SAHAJ (for sales tax payer), SUGHAM (Small tax payer available)
➤	Tax got by GOI: Corporation Tax > Income tax > Custom Tax > excise Tax > Service Tax
➤	7 th Schedule of Constitution – under Art 246, relating to Taxes on services was not specially mention in any union & state list.
➤	88 th Amendment of 2004 – Insert under union list collect tax on service.
➤	Tax collect by Indirect Tax more than Direct Tax
➤	In initial after 1991, tax revenue (↓) but after some year it (↑)
GST	
➤	115 th Amendment – introduced GST Council & Parliament has power to make laws on manufacture of goods and provision of sales.
➤	Art 279 –President shall established GST Council (chairmen as finance minister) within in 60 days
➤	GST Dispute body – 3 Members <ul style="list-style-type: none"> • Chairperson • SC Judge • CJ of HC • Remaining member expert in fiscal law, economic, public affair.
➤	Only SC have jurisdiction over GST dispute
Note	

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- Tax heaven – is country/ territory where certain tax are levied at a low rate or not at all
- Tax base – tax base (↑) they mean a wider range of goods and services.
- Tax avoidance – It is lawful to take all available tax deduction
- Tax evasion – Punishable offence
- Hidden tax – Indirect tax
- Proportional tax – Tax same if income (↑) or (↓)
- Progressive tax – Tax (↑) if income (↑)
- Regressive tax – tax (↓) if income (↓)
- Pigovian tax – Tax on negativity. Ex: Pollution, smoke, Tabaco etc
- Octroi tax– entry in state list
- Tax Buoyant – Revenue (↑) tax base – constant
- Tax elasticity – Revenue (↑), tax base – not constant
- Tobin tax – all foreign exchange transaction which levied 1st time – entry & other – out

MAT

- Minimum Alternative Tax – There are large no. of company show book Profit & loss account. But do not pay any tax, so MAT apply (zero tax companies)

Presumptive Tax

- Establishment income method of assessment for certain category of business is prevent in several countries.
- No. of Business assessment do not maintain books of account/ one irregular
- Capital Gain Tax – On gain made from buying & selling asset like – land & share
- Wealth Tax – Tax on non-productivity asset (Motor car, Jewelry, Urban Land)
- Central Tax – Excise duty, Custom duty & service duty
- State Tax – Agriculture tax, entertainment tax, surcharge, sales tax, Professional tax
- Direct Tax – “R. Chelliaph Committee”
- Indirect Tax – “R.L. Rekhi Committee”



Economics Class Notes for IAS and PCS

Chapter 7: Monetary and Credit Facility

Monetary and Credit Facility	
Bank Rate	
➤	Rate at which RBI lend long term to commercial bank called "Bank Rate". Bank rate has been replaced with Repo rate.
➤	RBI lend on short base to bank on security of government bond called "Repo rate"
➤	If RBI Borrow from Market (Absorb excessive liquidity) called " Reverse Repo rate"
➤	RBI use Repo rate/ Reverse repo rate instrument for liquidity adjustment in system.
MSF	
➤	Marginal Stability Facility –it is type of window in which commercial bank can take borrow from RBI, 1% more at Repo rate.
➤	Bank can use Repo rate over securities and if bank want more above so can use mandatory SLR holding (23% of Bank deposit)
➤	MSF is open to bank that want borrow from RBI even if credit costly (2%). If bank have no access SLR, than bank can go to – MSF
➤	LAF (Liquidity Adjustment Facility) – Introduced by RBI, under which base use it for day to day mismatch liquidity.
SLR	
➤	Statutory Liquidity Ratio
➤	It may be government security, RBI approved security, gold
➤	It is portion of time & demand liability of bank – bank have to keep it in form of liquid asset.it is approx. 23% of total amount in bank.
➤	CRR (Cash Reserve Ratio) – Bank should keep with RBI in cash form (no earn interest)
Market Stabilizing Bond	
➤	To absorb excessive liquidity in market, RBI buy normally available govt. security are not enough for RBI to suck the huge rupee supply that buy dollar so MSS are started.
Function of RBI	
➤	Bank Issue, Bank of govt., Control of credit, Agent & advice of govt., function as National cleaning home, custodian foreign reserve, supervision & control over commercial & co – operative base, banker of bank
➤	Liquidity Trap – Inflation of cash into Private Bank system by central base fail to lower interest rate.
FSDC	
➤	Financial Stability & Development Council – apex body (chairman as Finance Minister)
➤	Member pf FSDC– governor of RBI, SEBI, IROA, PFRDA, etc.
➤	Help in Financial stability and Collaborate with – FATF, FSB (Financial Stability Board)



Economics Class Notes for IAS and PCS

Chapter 7: Fiscal System

Fiscal System	
Fiscal Policy	
<ul style="list-style-type: none"> ➤ Raising & spending money in quantitative & qualitative term. ➤ Fiscal Policy include Expenditure of center, state government, Public debt, and deficit. ➤ Fiscal policy Taxation, disinvestment, borrowing from internal & external sources. 	
Revenue Receipt (RR) and Revenue Expenditure (RE)	
<ul style="list-style-type: none"> ➤ Revenue Receipt (RR) <ul style="list-style-type: none"> • Taxation • User charge (water & power) • Disinvestment • Borrow may be capital receipt ➤ Revenue expenditure (RE) <ul style="list-style-type: none"> • Plan Expenditure – Rural development + Irrigation + Science and Technology + Research & Development + environment + economic service • Non Plan Expenditure– Defense + Public Administration + Subsidy + Interest Payment ➤ Revenue Deficit (RD): $RR - RE = (\text{Tax} + \text{Non Tax receipt}) - (\text{Plan} \& \text{non plan expenditure})$ ➤ Art 112: Mandate that expenditure show in revenue source 	
Capital Account (CA)	
<ul style="list-style-type: none"> ➤ Capital Revenue(CR): Recovery of loan, fresh borrow from inside & outside & disinvestment department & non department ➤ Capital Expenditure (CE): loan to state & UT, loan repaid, social area, infrastructure ➤ Fiscal deficit: $(RR + CR) - (RE + CE) = (\text{revenue receipt} + \text{capital receipt}) - (\text{revenue expenditure} + \text{capital expenditure})$ ➤ Primary deficit: $(\text{Revenue deficit}) - (\text{Payment of Interest})$ ➤ Effective Revenue deficit (ERD): $RD - (\text{grants to state})$ 	
Gross Fiscal Deficit (GFD)	
<ul style="list-style-type: none"> ➤ Gross FD: $(\text{flagship} \& \text{non flagship program expenditure}) - (\text{Receipt by tax} \& \text{non tax} + \text{capital receipt by non-debt})$ ➤ Net FD: $GFD - \text{Loans grants to state/ UT}$ ➤ Financing gap between govt. receipt & expenditure by RBI. Printing by RBI called “high powered money” (Reserve Money) 	



WMA

- Prior 1997, RBI lent to central govt. against Adhoc Treasury bill, this provision for extending short term finance bridge and RBI have to print money if govt. have deficit.
- Now rule changed
 - Security replace by Repo rate
 - Overdraft – 2% + Repo rate
- In the case of state – RBI Provide two type of WMA
 - Normal WMA – unsecured advanced extend to bank rate.
 - Special WMA – Against govt. security.

FRBM

- Fiscal Responsibility & Budget Management
- Fiscal Discipline – RBI print only in exception situation (Natural Calamity)
- New Zealand 1st country to impact this.
- FRBM 2.0: ERD Introduced ERD (effective revenue deficit) concept

Zero Base Budget

- Cut wasteful expenditure & critical examine of govt. program.
- FBT(Frings benefit tax)– tax on enjoyable by companies to their employee
- Perquisites- Facility by company (car, club membership etc.)
- Fiscal cliff- Tax cut & spending cut
- Twin deficit-FD + CAD
- Griffin good- Demand up when price (↑)
- Demerit good-Tabaco, cigarette etc.
- Merit good-good for public like Park, Light. defense
- Pump priming- More expenditure by govt.
- Crowded out-Excessive govt. borrowing & lead to shrinkage of liquidity
- Fiscal drag- Automatic stabilize

Sensex

- NASDAQ – New York
- Hong Song – honk kong
- Nikki – Tokyo/ Japan
- Straight line – Singapore
- Shanghai – China
- Down-Jones – New York
- JCT – Indonesia

Inflation rate (IR)

- Government Borrowing – Interest rate (↑)
- Inflation = Interest rate (↑)
- Need of growth = cast of credit (↓) = More credit =IR (↓)
- NRI, Promotion of foreign investment = IR (↑)



	Tight Money/ Clear Money (Inflation)	Cheap Money/ Available
CRR	(↑)	(↓)
BR	(↑)	(↓)
RR	(↑)	(↓)
OMR	Sell	Buy
Quantitative Easing		
➤ Central bank purchase government security or other from market to order to lower interest rate & increase money supply called "Quantitative Easing"		
Liquidity Trap		
➤ When govt. fail to decrease Interest rate and people think this interest rate will goes increase and people start take out money from bank		
➤ $\text{Bond} \propto \frac{1}{\text{Interest Rate}}$		



Economics Class Notes for IAS and PCS

Chapter 8: Money Market

Money Market
➤ Short term fund with maturity ranging from overnight to 1 year
➤ Short term fund is both secured & unsecured
➤ Call Money- Short Period, more than 1 day & up to 14 days, no collateral security, it can be issue by commercial bank, co – operative bank, MF, Primary deals & other are allowed to borrow & lend in market interest rate.
➤ Treasury bill (T-Bill)-Short term issued by RBI behalf of Gol, it is zero risk investment available in primary & secondary market, 91, 182, 364 days. No treasury bill issued by state govt. It is issued under MSS (Market Stabilization Scheme)
➤ Cash Management Bill (CMB) -Short term issued by govt. with consult RBI for temporary mismatch of govt. asset. It is for 91 days with discount and get value on maturity
➤ Inter – Bank term Money- for 14 days – 3 months
➤ Certificate Deposit (CD) - Next lower risk after T – Bill, is CD issued by schedule Bank & FT, but not regional & local area bank. (not less than 15 days & not more than 1 year) – Minimum 1 lakh.
➤ Commercial Paper (CP) - Short term promissory note, issued by Top corporate company & FI, Primary dealer for Minimum 7 day – 1 year and CP required credit card rating from credit agency.
➤ Commercial Bill (CB) - Also known as Trade Bill. Accepted by commercial bank, instrument drawn by seller of good on buy of goods for value of goods delivered. If bill is payable at future date & seller need money immediately, he may approach his bank for it.
➤ LIBOR (London Inter Bank Offer Rate) – Average rate estimate by leading base in London and they would be charged if borrowing from other bank
➤ MIBOR – Same as Mumbai



Economics Class Notes for IAS and PCS

Chapter 8: Bank

Bank
Commercial Bank
<ul style="list-style-type: none"> ➤ Type of bank: Public, Private, Co – operative, Foreign Bank ➤ IFCI (1948) → ICICI (1955) → LIC (1956 headquarter at Maharashtra) → UTT (1964) → RRB (1974 HQ at Kolkata) → NABARD/ EXIM (1982) → NHB (1985) → SIDBI (1990 HQ at Lucknow)
Financial Institution (FI)
<ul style="list-style-type: none"> ➤ All India Development Banks ➤ Specified FI (SIDBI) ➤ Investment Bank (ICICI) ➤ State level Institution
Commercial Banks
<ul style="list-style-type: none"> ➤ Bank established under 1934, RBI Act called "Schedule Bank "(SB) ➤ SB - SBI & its 8 association, other Nationalized banks, foreign banks cooperative bank, RRB ➤ Non – Schedule Bank – not established under 1934, RBI Act ➤ SB can approach RBI in need of Assistance, maintain CRR, SLR
NPA (Nonperformance assets)
<ul style="list-style-type: none"> ➤ Substandard Assets will be comes under NPA, if not pay for less or equal to 18 months ➤ Doubtful Assets – under for 12 months ➤ Loss Assets – not collected/ not warrantee ➤ shadow bank is NBFC
Important points
<ul style="list-style-type: none"> ➤ Vision 2020 – A Program of govt. of India to achieve full sufficiency in all field. ➤ Euro – 19 Country of European Union follow ➤ Consumer Price Index for Industrial workers used for collective central govt. employee wage compensation. ➤ Punjab Bank is Private Bank. ➤ Calories for rural – 2400 calorie and for urban – 2100 calorie ➤ Foreign exchange reserve - Foreign concerning assets + gold holding by RBI + SDR (Special Drawing Right) ➤ OIL is under taking engaged in oil exploration. ➤ OECD – Organization for Economic Corporation & Development – gap India's import



trade.
➤ ECGC – Export Credit Guarantee Corporation of India for export finance & Insurance.
➤ Household sector most saving in India.
➤ Fertilizers industry is one of fastest growing industry. 3 rd largest product of nitrogenous fertilizers in world. It is 2 nd most important industry of country in term of investment & value of manufactured product. But it is not self-sufficient in chemical fertilizers.
➤ Green Revolution – HYV required more fertilizer & more water. Program launched in kharif of 1966 – 67, to attain in self-sufficiency in food 1970 – 71 mean high quality seeds.
➤ Consumer act, Act 1886 – not include – Access to variety of goods & services at competitive prices. It also includes concession rates for goods and services for weaker sector of society.
➤ Art 270 – Provide taxes, on other than agriculture income & corporation tax shall be levied & collectively by union & distributed between union & state.
➤ First agriculture university – Pant Nagar
➤ Kelka Committee, recorded reduce corporate tax to 30%
➤ G – 22 is gp formed by India, Brazil, and China & due to country to negotiate with WTO.
➤ 6.7% of population is below official poverty limit in 2019
➤ In 2013 – Chhattisgarh is poorest state.
➤ Highest % of people living below the poverty line in WB
➤ India share in world trade is 1.67%
➤ Union Budget – Largest expenditure revenue – on Interest Payment
➤ Apex. Body to finance agriculture in India is NABARD.