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By: *Somika Kapoor,* M. Com., M.A. (English)

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Mob.: 8510009872, 8510009878 E-mail: info@neerajbooks.com
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QUESTION PAPER

June – 2024

(Solved)

INDIAN ECONOMY

BCOG-172

Time: 3 Hours] *[Maximum Marks: 100*

Note: *Attempt any five questions. All questions carry equal marks.*

Q. 1. Define the concept of economic development. Distinguish between development and underdevelopment. What are the features of an underdeveloped economy?

Ans. Ref.: See Chapter-1, Page No. 1, 'Concept of Economic Development', Page No. 5, Q.No. 2, and Page No. 4, Q.No. 7.

Q. 2. Assess the Indian economy before economic reforms. What are the main characteristics of the New Economic Policy, 1991?

Ans. Ref.: See Chapter-3, Page No. 19, Q.No. 3 and Page No. 20, Q.No. 5.

Q. 3. Describe various sources of commercial energy along with their advantages and disadvantages.

Ans. Ref.: See Chapter-4, Page No. 24, 'Energy Resources'.

Also Add: Commercial energy refers to energy that is produced and sold for use in industries, businesses, and households. It typically includes energy sources that are widely used in modern economies, such as fossil fuels, nuclear energy, and renewable sources. Below is an overview of the main sources of commercial energy, along with their advantages and disadvantages.

1. Fossil Fuels (Coal, Oil, Natural Gas)

A. Coal: Coal is one of the oldest and most abundant sources of energy, used mainly for electricity generation and industrial processes.

Advantages:

- **Abundant and Reliable:** Coal is plentiful in many countries, providing a reliable and continuous energy source.
- **Cost-Effective:** In regions where coal is abundant, it can be a relatively inexpensive energy source.
- **Energy-Dense:** Coal has a high energy density, meaning it provides a large amount of energy per unit of weight.

Disadvantages:

- **Environmental Impact:** Coal combustion releases large amounts of carbon dioxide (CO_2), contributing to global warming and climate change.
- **Air Pollution:** Coal burning also emits sulfur dioxide (SO_2), nitrogen oxides (NO_x), and particulate matter, which contribute to acid rain and respiratory issues.
- **Non-Renewable:** Coal is finite and takes millions of years to form, making it a non-renewable resource.

B. Oil: Oil is primarily used for transportation, electricity generation, and heating.

Advantages:

- **Versatile:** Oil can be refined into various fuels like gasoline, diesel, and jet fuel, making it highly versatile.
- **High Energy Density:** Like coal, oil provides a large amount of energy per unit, especially for transportation.
- **Established Infrastructure:** Global infrastructure for extraction, refining, and distribution of oil is well-established.

Disadvantages:

- **Environmental Damage:** Oil drilling and transportation can cause significant environmental damage, including oil spills that harm ecosystems.
- **CO_2 Emissions:** Burning oil releases CO_2 and other pollutants, contributing to climate change and air quality issues.
- **Geopolitical Risk:** Oil reserves are concentrated in a few countries, making supply vulnerable to political instability and price volatility.

C. Natural Gas: Natural gas is used for electricity generation, heating, and as an industrial energy source.

Advantages:

- **Cleaner than Coal and Oil:** Natural gas emits less CO_2, sulfur, and nitrogen compounds than other fossil fuels when burned.
- **Efficient for Power Generation:** Natural gas-fired power plants can quickly ramp up to meet electricity demand, making it ideal for peak loads.
- **Abundant and Accessible:** Technological advances in hydraulic fracturing (fracking) have made natural gas more widely available.

Disadvantages:

- **Methane Emissions:** Natural gas consists mostly of methane, a potent greenhouse gas. Leaks during extraction, transportation, and use contribute significantly to climate change.
- **Environmental Impact of Fracking:** Fracking has been linked to groundwater contamination and increased seismic activity in some areas.
- **Non-Renewable:** Like other fossil fuels, natural gas is finite and will eventually deplete.

2. Nuclear Energy: Nuclear power is generated by splitting atoms (fission) in a reactor to produce heat, which is then used to generate electricity.

Advantages:

- **Low Greenhouse Gas Emissions:** Nuclear power produces very low direct CO_2 emissions, making it an appealing option for reducing global warming.
- **High Energy Density:** A small amount of nuclear fuel can produce a large amount of energy compared to fossil fuels.
- **Reliable Base Load Power:** Nuclear power plants provide continuous energy, making them suitable for providing base load electricity.

Disadvantages:

- **Radioactive Waste:** Nuclear plants produce radioactive waste, which requires secure long-term storage solutions to prevent environmental contamination.
- **High Initial Costs:** Building nuclear power plants requires substantial capital investment and long lead times.
- **Risk of Accidents:** Accidents, though rare, can be catastrophic (e.g., Chernobyl, Fukushima), leading to widespread environmental and health impacts.

3. Renewable Energy Sources

A. Hydropower: Hydropower harnesses the energy of flowing water to generate electricity.

Advantages:

- **Renewable:** As long as water flows, hydropower is a sustainable energy source.
- **Low Operating Costs:** Once a dam is built, operating costs are relatively low, and it produces very low emissions.
- **Energy Storage Potential:** Hydropower reservoirs can act as energy storage, balancing supply and demand.

Disadvantages:

- **Environmental Impact:** Damming rivers disrupts ecosystems, affects aquatic life, and can displace communities.
- **Geographic Limitations:** Hydropower requires specific geographic conditions (e.g., rivers with sufficient flow) and is not suitable for all regions.
- **High Initial Costs:** Building dams and related infrastructure is expensive and time-consuming.

B. Solar Energy: Solar power captures sunlight and converts it into electricity or heat.

Advantages:

- **Infinite Resource:** Sunlight is abundant and available in many parts of the world.
- **Environmentally Friendly:** Solar energy produces no direct emissions and has minimal environmental impact when operational.
- **Scalability:** Solar installations can range from small rooftop panels to large-scale solar farms.

Disadvantages:

- **Intermittency:** Solar power is dependent on sunlight, making it unreliable during cloudy days or nighttime without storage solutions.
- **High Initial Costs:** Although prices have fallen, solar panels and storage systems still require significant upfront investment.
- **Land Use:** Large-scale solar farms require substantial land, which may compete with agricultural or natural land uses.

C. Wind Energy: Wind power uses the kinetic energy of moving air to generate electricity through turbines.

Advantages:

- **Renewable:** Wind is a renewable resource that doesn't deplete over time.
- **Low Operating Costs:** Once wind turbines are installed, the cost of maintenance is relatively low, and there are no fuel costs.
- **Clean Energy:** Wind energy produces no direct CO_2 emissions or other pollutants.

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The Chapter

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INDIAN ECONOMY

Economic Development

1

INTRODUCTION

Economic development refers to programmes, policies, or activities that seek to improve the economic well-being and quality of life of a community.

What "economic development" means to you will depend on the community you live in. Each community has its own opportunities, challenges, and priorities. Your economic development plan must include the people who live and work in the community.

These systems of economic development are based on the historical legacies of the country, but their objective is to attain growth and development. It was increasingly felt that most of the population in most of the developing world did not benefit much from the growth process, which includes promoting the standard of living and economic condition of a country.

CHAPTER AT A GLANCE

HOW DOES AN ECONOMY WORK?

Many people doing economic development work are economic development practitioners, or economic development officers, or "EDOs" for short.

There are three kinds of economic systems: Capitalism, Socialism and Mixed Economy. Let us learn them in detail.

Capitalism

Capitalism is often thought of as an economic system in which private actors own and control property in accordance with their interests, and demand and supply freely set prices in markets in a way that can serve the best interests of society. There is payment by producers for these services, which is in the form of rent, wages, salaries, interest, and profit.

This system decides: 'What to produce', 'How to produce", and 'For Whom to produce'.

Socialism

Socialism is a social and economic doctrine that calls for public rather than private ownership or control of property and natural resources. According to Paul M. Sweezy, socialism can be summarized as collective ownership and democratic control of the means of production.

Mixed Economy

A mixed economy is one that contains aspects of market capitalism (a free-market system), socialism (government control over the means of production, including state ownership of all or almost all property), and a combination of the two. According to Samuelson, a mixed economy is characterized by the existence of both public and private institutions exercising economic controls.

CONCEPT OF ECONOMIC DEVELOPMENT

Economic development is defined as an increase in a country's wealth and standard of living. For example, improved productivity, higher literacy rates, and better public education are all consequences of economic development in a country.

Development and Underdevelopment: In the Indian economy, development refers to the sustained growth of sectors like industry, agriculture, and services, along with improvements in infrastructure, education, and healthcare. However, underdevelopment persists in certain regions, characterized by poverty, inadequate access to basic amenities, and disparities in income and development indicators, necessitating targeted interventions.

Some of the features of the underdeveloped economy are as follows:

- **Low Per Capita Income:** It signifies a meagre average income per individual, leading to economic struggles and limited opportunities for growth.
- **Inequitable Distribution of Income and Wealth:** It highlights a significant disparity in wealth and income levels, creating social and economic imbalances.

- **Heavy Dependence on Agriculture:** It implies a substantial reliance on the agricultural sector as the main driver of economic activity and livelihoods.
- **Heavy Population Pressure:** It refers to a situation where the population size exceeds the available resources and infrastructure, leading to various challenges and strains on the economy.
- **Unemployment and underemployment:** Insufficient job opportunities and underutilization of skills and qualifications among individuals in underdeveloped economies result in unemployment and underemployment.
- **Capital Scarcity and Low Rate of Capital Formation:** The use of primitive technologies contributes to limited investment and reliance on outdated, primitive technologies. This hinders economic progress and modernization.
- **Use of Primitive Technologies:** "Primitive technologies refer to early, basic tools and techniques used by human societies before the advent of advanced technology".
- **Disparities in Rural and Urban Living Standards:** It highlights significant differences in quality of life between rural and urban areas.
- **Low Financial Inclusion Rate:** It indicates limited access to financial services, including banking, credit, and insurance, among the population.

A Developing Economy: A developing economy refers to a nation or region that is in the process of transitioning from a less advanced state to a more advanced one, typically characterized by improving living standards, increasing industrialization, and economic growth.

Economic Growth: Economic growth refers to the sustained increase in a country's production and income levels over time, resulting in improved living standards and the expansion of business opportunities.

"Big Push" Approach: The "Big Push" approach is when a country or region makes a big effort to improve its economy. It involves investing a lot of money in different areas all at once to help create development and overcome challenges, with the goal of achieving long-term growth and progress.

Poverty Trap: The poverty trap occurs when people are caught in a cycle of poverty and find it hard to improve their lives. They lack the resources and opportunities to escape poverty, making it difficult to break free and achieve a better standard of living.

UN Development Decade: The UN Development Decade refers to a specific period of ten years during which the United Nations focuses on promoting and supporting development efforts around the world. The first Development Decade was announced by President John. F. Kennedy of the United States in 1962.

Sustainable Development: Sustainable development means meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. It involves finding a balance between economic growth, social well-being, and environmental protection to ensure a better and more equitable future for all.

Millennium Development Goals (MDGs): The Millennium Development Goals (MDGs) were a set of global goals established by the United Nations to tackle major issues such as poverty, education, health, and gender equality.

MEASUREMENT OF ECONOMIC DEVELOPMENT

The measurement of economic development refers to the process of quantifying and evaluating the progress and growth of an economy over time. It involves analyzing various indicators such as gross domestic product (GDP), per capita income, poverty rates, employment levels, infrastructure development, education, healthcare, and other socioeconomic factors.

Currently measurements of development are:

- **GNP per capita:** It is a measure used to assess the average economic output or income per person in a nation. GNP includes the total value of goods and services produced by both domestic and foreign entities within a country's borders. GNP per capita helps in comparing the economic well-being and living standards among different countries and understanding the overall economic performance of a nation.
- **Population Growth:** It refers to the increase in the number of individuals living in a specific area over a certain period. It occurs due to factors such as birth rates, death rates, immigration, and emigration and has significant implications for resource availability, social dynamics, and environmental sustainability.
- **Occupational structure of the labour force:** The distribution of workers across different jobs and industries in an economy, the economic activities of any country are broadly classified

into primary activities, secondary activities, and tertiary activities. "In the process of development, people typically move from agriculture to manufacturing and finally to service industries".

- **Human Development Index (HDI)** measures a country's average achievement in health, education, and income to assess its overall development level.

DETERMINANTS OF ECONOMIC DEVELOPMENT

Factors influencing economic development include human capital, infrastructure, technological advancement, natural resources, political stability, and institutional framework. The economic determinants of economic development are as follows:

Capital formation: It refers to the accumulation of physical and financial assets within an economy through investments in infrastructure, machinery, equipment, and other productive resources.

The capital-output ratio: It also known as the capital intensity ratio, measures the amount of capital required to produce a unit of output in an economy. It indicates the efficiency of capital utilization and is used to analyze productivity, investment effectiveness, and economic performance.

Natural resources: They include minerals, water, forests, and energy sources like oil and gas, which are essential for economic activities and the well-being of societies. Some developed countries like the USA, Canada, Australia, New Zealand, etc. have abundance of natural resources but Japan lacks natural resources as compared to these countries, but it is a developed country.

Non-economic factors in economic develop-ment: It refers to the social, cultural, political, and environmental elements that influence the develop-ment of an economy. These factors include education, healthcare, social infrastructure, political stability, governance, environmental sustainability, and social cohesion, which play significant roles in shaping economic progress and overall societal well-being.

Institutional factors affecting development

refer to the rules, regulations, policies, and governance structures that shape economic activities and outcomes. These factors include the quality of institutions, property rights, rule of law, corruption levels, regulatory frameworks, and ease of doing business, which can significantly impact economic development and the investment climate.

ROLE OF GOVERNMENT IN DEVELOPMENT

The government plays a crucial role in development by formulating and implementing policies and programmes to promote economic growth. It also focuses on poverty alleviation, education, healthcare, and sustainable development to foster inclusive and sustainable growth.

CHECK YOUR PROGRESS

Q. 1. Define the public sector.

Ans. The public sector refers to the portion of an economy that is owned, controlled, and operated by the government. It comprises government organizations, agencies, and enterprises that are responsible for providing public goods and services to the society. These may include essential services like education, healthcare, transportation, defence, law enforcement, and infrastructure development. The public sector is funded through tax revenues and government investments, and its primary goal is to serve the public interest rather than generate profits.

Q. 2. Write two characteristics of capitalism.

Ans. Two key characteristics of capitalism are:

1. Private Ownership: Capitalism is based on the concept of private ownership of resources, means of production, and capital. Individuals and businesses have the right to own and control property, land, and businesses, allowing for economic decisions to be made by private individuals rather than the state.

2. Market Economy: Capitalism operates on the principles of supply and demand, with prices determined by market forces. The allocation of resources and production decisions are primarily guided by market competition and the pursuit of profit.

Q. 3. Write two characteristics of socialism.

Ans. Two key characteristics of socialism are:

1. Public Ownership: Socialism emphasizes public ownership or collective ownership of resources, means of production, and capital. The state or the community collectively owns and controls key industries, infrastructure, and resources, aiming to distribute wealth and resources more equitably among the population.

2. Economic Planning: Socialism involves central economic planning to guide production and distribution decisions. Instead of relying solely on market forces, the state or a central planning authority determines resource allocation, sets production targets, and coordinates economic activities to achieve social welfare goals and address societal needs.

Q. 4. Define the mixed economy.

Ans. A mixed economy is an economic system that combines elements of both capitalism and socialism. In a mixed economy, there is a blend of private ownership and control of resources and businesses, along with government intervention and regulation. The government plays a role in providing public goods and services, ensuring social welfare, and addressing market failures. At the same time, private individuals and businesses have the freedom to engage in economic activities and make decisions based on market forces.

Q. 5. State whether the following statements are true or false.

1. **In a capitalist economic system, the activities of a business firm are market determined.**
2. **Market systems or market determined prices have no role to play in the working of a socialist economy.**
3. **In a socialist system, workers are motivated to work hard.**
4. **A mixed economy is characterized by the existence of both public and private institutions exercising economic controls.**
5. **A mixed economy contains the good features of both socialism and capitalism.**

Ans. 1. True, 2. True, 3. False, 4. True, 5. True.

Q. 6. Define economic development.

Ans. Economic development refers to the sustained improvement in the standard of living, well-being, and overall economic conditions of a country or region over time. It encompasses various aspects, including increased production and productivity, technological advancements, poverty reduction, improved infrastructure, and access to education, healthcare, and other essential services. Economic development involves not only the growth of the economy but also the equitable distribution of wealth and opportunities among the population. It aims to enhance the quality of life for individuals, promote social progress, and create a conducive environment for sustainable economic growth. Economic development is often measured using indicators such as gross domestic product (GDP), income per capita, human development index (HDI), and various socio-economic metrics that reflect the well-being and progress of a society.

Q. 7. Write any of the four characteristics of underdevelopment.

Ans. Four characteristics of underdevelopment can be described in simple manner as follows:

- **Low standard of living:** Underdeveloped regions often have a low standard of living, with people struggling to meet their basic needs like food, housing, and healthcare. Poverty and a lack of access to resources contribute to a lower quality of life.
- **Limited infrastructure:** Underdeveloped areas often lack basic infrastructure such as roads, electricity, clean water, and sanitation systems.
- **High unemployment and poverty:** Under-development is marked by high unemployment rates and widespread poverty. Many people are unable to find stable jobs or earn a sufficient income, perpetuating the cycle of poverty and inequality.
- **Dependence on agriculture:** Underdeveloped economies often rely heavily on agriculture as the main source of income and employment.

Q. 8. What is the per capita income?

Ans. Per capita income is a measure that calculates the average income earned per person in a specific geographic area, such as a country or region. It is derived by dividing the total income of the area by its population. Per capita income provides an indication of the economic well-being and average earning capacity of individuals within that area. It serves as a useful tool for comparing the relative prosperity and standard of living between different countries or regions. Higher per capita income generally implies greater economic development, higher disposable income, and improved access to goods and services. However, it is important to note that per capita income alone does not provide a comprehensive picture of economic conditions, as it does not consider income inequality or the distribution of wealth within a population.

Q. 9. Write three indicators of the human development index.

Ans. The Human Development Index (HDI) comprises several indicators that provide a comprehensive view of human development within an economy. The three key indicators of the HDI are as follows:

- **Life Expectancy at Birth:** This indicator reflects the average number of years a person is expected to live after birth. It highlights the overall health and well-being of the population