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By: *Suman,* (M.A. Economics, B.Ed.)

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BLOCK-4: INTERNATIONAL COMPARISONS

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Sample Preview
of the
Solved
Sample Question
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QUESTION PAPER

June – 2023

(Solved)

INDIAN ECONOMY-I

B.E.C.E.-145

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

Note: *Answer questions from each section as per instructions given in each section.*

SECTION-A

Note: Answer the following questions:

Q. 1. Discuss the *two* major phases of development paths pursued in India since independence.

Ans. Ref.: See Chapter-2, Page No. 14, 'Two Phases of Development: Mixed Economy'.

Q. 2. Explain the magnitude and causes of regional disparities in India.

Ans. Ref.: See Chapter-3, Page No. 29, 'Regional Disparities in India' and 'Magnitude and Causes of Regional Disparities'.

Q. 3. Analyse the linkage of poverty with factors influencing its alleviation.

Ans. Ref.: See Chapter-8, Page No. 88, 'Poverty Linkage' and Page No. 89, 'Poverty Alleviation Initiatives Till 2010'.

Q. 4. Discuss the issue of "regioinal divergence in inequality" in India.

Ans. Ref.: See Chapter-9, Page No. 101, 'Sectoral Divergence'.

SECTION-B

Note: Answer the following questions:

Q. 5. Critique the performance of Indian education sector in terms of its gender and quality dimensions.

Ans. Ref.: See Chapter-6, Page No. 61, 'Educational Attainment/Outcomes'.

Q. 6. Outline the recent measures initiated to combat poverty in India during the post-2010 years.

Ans. Ref.: See Chapter-8, Page No. 90, 'Recent Measure of Poverty Alleviation: Post-2010'.

Q. 7. State the dimensions of 'Nutritional Inequality.'

Ans. Ref.: See Chapter-9, Page No. 100, 'Nutritional Inequality'.

Q. 8. List the social security schemes for unorganized sector workers in India implemented in post-2000 years. Also make your broad comment.

Ans. Ref.: See Chapter-10, Page No. 114, 'Social Security for Unorganised Workers' and Page No. 117, Q. No. 11.

Q. 9. Highlight the principal differences in the economic growth profiles of India with those of Sri Lanka and China.

Ans. Ref.: See Chapter-12, Page No. 135, Q. No. 2, Q. No. 3 and Q. No. 4.

SECTION-C

Note: Attempt all questions from this section.

Q. 10. Distinguish between *any three* of the following:

***(a)* Government and Governance**

Ans. Ref.: See Chapter-14, Page No. 161, Q. No. 1.

***(b)* COR AND ICOR**

Ans. Capital output ratio is the amount of capital needed to produce one unit of output. For example, suppose that in an economy, investment is 32% (of GDP), and the economic growth corresponding to this level of investment is 8%. Here, a Rs 32 investment produces an output of Rs 8. Capital output ratio is 32/8 or 4. Capital output ratio thus explains the relationship between level of investment and the corresponding economic growth.

Another variant of capital output ratio is Incremental Capital Output Ratio (ICOR). The ICOR indicate additional unit of capital or investment needed to produce an additional unit of output. The utility of ICOR is that with more and more investment, the capital output ratio itself may change and hence the usual capital output ratio will not be useful. The concept of ICOR can be used to determine the current rate of income growth of a country. It can be obtained by dividing the current investment rate by ICOR. The concept of COR is used for estimating the size of investment that will be necessary for attaining the proposed rate of growth of national income.

***(c)* Natural resources and Manmade resources**

Ans. Ref.: See Chapter-4, Page No. 39, 'Natural Resources' and 'Manmade Resources'.

***(d)* QALY and DALY**

Ans. Ref.: See Chapter-7, Page No. 84, Q. No. 3.

***(e)* Horizontal inequality and Vertical inequality**

Ans. Ref.: See Chapter-9, Page No. 103, Q. No. 3.

Q. 11. Write short notes on the following:

***(a)* CDS of employment**

Ans. Current Daily Status (CDS) approach is used to measure employment seeks to ascertain the activity status of an individual for each day of the reference week. It reports time disposition of an individual on each day of the reference week. This means that in addition to recording the activity being pursued, time intensity is also recorded in quantitative terms for each day of the reference week. Following is the criteria used in assigning time intensities and determining activity status:

- For recording time disposition of activities pursued by a person, an intensity of 1.0 is given if activity is done for 'full day' and 0.5 is given if an activity is undertaken for 'half day'.
- A person is classified as employed for the 'full day' if he has worked for 4 hours or more during the day.
- If a person is engaged in two or more activities for more than 4 hours a day, then he is assigned two economic activities on which he spent relatively longer time and intensity of 0.5 is given to each of them.
- If a person works for more than 1 hour but less than 4 hours h/she is classified as 'working' (employed) for 'half day' and 'seeking/available for work' (unemployed) or 'neither seeking nor available for work' (outside the labour force) for the other half of the day depending on whether he was 'seeking/available for work' or not.
- If a person is not engaged in any work even for 1 hour during the day but was 'seeking/available for work' for more than 4 hours a day, then h/she is classified as 'unemployed' for 'full day'. However if the person is reported 'seeking/available for work' for more than 1 hour but less than 4 hours, then he/she is classified as 'unemployed' for 'half day' and not in labour force for other half of the day.
- If a person is neither 'working' nor 'seeking/available for work' even for half a day is classified as being outside the labour force for the entire day.

***(b)* Current Account deficit**

Ans. Ref.: See Chapter-13, Page No. 144, 'Current Account Deficit (CAD)'.

***(c)* Democracy Index**

Ans. Ref.: See Chapter-14, Page No. 157, 'Democracy Index'.

***(d)* Debt-GDP ratio**

Ans. A debt-to-GDP ratio is an indicator of how much a debt a country owes and how much it produces to pay off its debts. Expressed in percentages, it is alternatively interpreted as the number of years needed in paying back the debt, in case the entire GDP has been allocated for debt repayment. The indicator of a stable economy is one where a country is able to pay off its external debts without external funds injection and steady economic growth. On the other hand, a country that has problems paying off its debts is an indicator of a high debt-to-GDP ratio. The higher the debt-to-GDP ratio, the higher the chances of default. In the event of a war, stagnant economic growth or civil unrest, the economy of a country is slow to pick its pace at the time. So in order to stimulate the economy and boost demand, governments increase borrowing which inadvertently gives rise to a high-debt ratio.

***(e)* Learning poverty**

Ans. Learning poverty is a term that refers to the inability of individuals to acquire the necessary skills and knowledge to participate fully in society. It is a term used to describe the lack of access to quality education that leaves children unable to read, write, and perform basic arithmetic, and ultimately hinders their ability to learn and succeed in life. This can be due to a lack of access to quality education, limited resources, or other factors. Learning poverty disproportionately affects children in low-income and marginalized communities, and can have long-lasting impacts on their ability to succeed in school and beyond. There are a number of factors contributing to learning poverty in India, including inadequate funding for education, a shortage of trained teachers, and a lack of educational resources. Efforts to address learning poverty in India include increasing funding for education, training more teachers, and improving the quality and availability of educational resources.

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Sample Preview
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The Chapter

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INDIAN ECONOMY-I

BLOCK-1 ECONOMIC DEVELOPMENT SINCE INDEPENDENCE

1 Economy at the Time of Independence

INTRODUCTION

Indian economy was underdeveloped. Low per capita income and low national income existed, leading to massive poverty in the country. About 40 per cent of population was living below poverty line. Such rampant poverty led to low standard of living and low human development.

Huge inequalities existed, which led to existence of wide gap between the wealthy and poor. A handful of rich persons, who were serving in the British government or owned some industry, were enjoying relatively larger share of the national income, while the majority of the poor was getting the relatively smaller share of it. Inequalities of income distribution were observed both in the rural and urban sectors of the economy. Situation was so in rural, as well as urban areas. Economy was agrarian as 85% people were dependent on agriculture for occupation. Industrial sector was meagre. Few basic and key industries were existent. The only capital industry was of steel, which could produce about 9 lakh tonnes. The country had a natural advantage and owned abundant stock of natural resources but these resources were either underutilised or unutilised causing widespread unemployment, poverty and hunger. Frequent famine and drought were common, which caused shortage of food and starvation. The vicious circle of poverty continued year after year. Indian economy was stagnant. Health, education and other developmental indicators were disappointing.

By studying each sector thoroughly, we can have better understanding of the economic features of Indian economy in more detail.

CHAPTER AT A GLANCE

ECONOMY AT THE TIME OF INDEPENDENCE

The exploitative colonial rule of the British hampered almost every spheres of Indian economy badly. As an end-result, India faced acute economic challenges at the time of independence.

During the colonial rule, Indian agricultural sector was used by the British to suit to their own interest. Consequently, Indian agricultural sector experienced stagnancy, low level of productivity, lack of investment, poor condition of landless farmers and peasants.

India failed to develop a sound industrial base during the colonial rule. In order to develop the industrial sector, India needed huge capital investments, infrastructure, human skills, technical knowhow and modern technology. Further, due to stiff competition from the British industries, India's domestic industries failed to sustain.

Although there was a significant change in the infrastructural development in the country but this was not sufficient to improve the performance of agricultural and industrial sector.

India was trapped in the vicious circle of poverty and inequality. The colonial rule drained out a significant portion of India's wealth to Britain. Consequently, majority of India's population was poverty trodden. This further exaggerated economic inequalities across the country.

Agriculture

India was an agrarian economy at the time of independence as about 85 per cent of population was dependent on agriculture for their livelihood. But the contribution of agriculture to national income was about 50 per cent, showing low productivity in agriculture. Net sown area was about 127 million hectares, which formed about 43.6 per cent of the total reported land area of the country. Major area was dedicated to food crops, which were cultivated on three-fourth of the total cultivated land, while one-fourth was used for cultivation of cash crops. India accounted for about 32 per cent of world's total production of groundnuts, 41 per cent of jute and 27 per cent of rice. India was the largest producer of groundnuts and sugarcane. It was the third largest producer of cotton, next to USA and China in the world. Agriculture productivity was among one of the lowest in the world. British government offered no support to occupations like artisans and craftsmen due to which, all had to depend on agriculture for their livelihood. The British followed different practices of land revenue system in different states of India. Farmers were supposed to provide high land revenue but the government did nothing to maintain or improve the fertility of land or to provide irrigation facilities to increase the yield.

Major concerns of agriculture sector were as follows:

(a) **Land Revenue Settlement System:** There were three different land revenue systems viz. the Zamindari system, Ryotwari system and Mahalwari system. In the Ryotwari and Mahalwari systems of land revenue, some development was undertaken to revive the fertility of agriculture but in the Zamindari system, the zamindars were only concerned with the collection of land revenue. Farmers had to pay revenue even in the years of crop failure, which made them indebted and ruined their financial position. A canal network was laid down by the government, it was grossly inadequate with only 17 per cent of the area under cultivation, getting the benefit of irrigation. In few states like Punjab, canal irrigation system was initiated but in most of the other states/areas, there was no initiative in this direction. Due to this neglect, Indian agriculture continued to remain backward. Agriculture was the biggest contributor in GDP so its infrastructure should have been focused upon. But it did not happen, except in some states.

(b) **Agriculture Marketing:** Regulated markets for agricultural produce did not exist due to which agricultural intermediaries took undue advantage. Rural areas were not well connected to the nearest railway stations or ports. Farmers had to rely on that informal sources of credit charged heavy interest rate. Sometimes they had to sell land to repay loans. Agriculture was mainly family occupation and hence a massive scale disguised unemployment was also prevalent.

(c) **Low Output Per Hectare:** Extremely high taxes led to low productivity. To make matters worse, government did not take any initiative to improve agriculture infrastructure and farmers themselves were not in a position to do so.

(d) **Primitive Techniques of Production:** There was hardly any technological innovation in agriculture, except for iron plough. Agriculture was predominantly dependent on monsoon for irrigation, though during early 1940s, expansion of wells and canals had started. Only four regions namely, Punjab, Madras, Western U.P and Sind could start using their wasteland into agriculture due to the development of irrigation. Extreme dependence on monsoon led to crop failures and added to lower productivity.

(e) **Lack of Commercialisation of Agriculture:** British forced Indian farmers to shift to cash crops and promoted commercial crops like sugarcane, cotton, jute, opium, etc., but intention was not betterment of farmers but to get raw materials for their industries in Britain. As a side effect, this commercialisation of agriculture somewhat supported its related industries like jute and cotton textile but at the time of independence, due to partition, most fertile area for jute cultivation went to Eastern Pakistan.

Industry

Before the British rule, there were hardly any capital goods industries in India. There was no uniformity in production. Some industries which flourished during the British era included tea, coffee plantation and sugar mills. Before the British rule, exports from India were in surplus. But during their rule, beginning with the second half of the nineteenth century, though machines had been introduced to increase production, Indian goods faced strict competition with cheaper machine-made imported goods. India had abundant natural resources but mining under the British experienced low growth. In the initial years of railways, coal was imported from Britain but extraction from domestic sources began later. Introduction of Railways (in 1853) gave new markets for expansion of Indian industries. By 1947, there were a total of 42 rail systems in India. The beginning of World War I gave boost to the Indian industry. By 1905 modern cotton textile and jute industries developed in India. Consumer goods industries like chemicals, cement, fertilisers, mineral acids, etc., also picked up during the early decades of the 20th century. After Second World War, the general index of output of all large scale manufacturing rose from 100 to 161.6. Factory employment also increased from an index of 100 to 159. Yet, the process of industrialisation could not pick up due to lack of industrial base or capital industries. TISCO (Tata Iron and Steel Company) was established in the year 1907, was the only major capital industry of India, till independence.

The per capita income of India was so low that the Indian economy did not have enough savings/investment to establish basic and capital industries. The technological backwardness of India also played its role in this. Even for the establishment of TISCO, engineers had to be called from Britain to lay down the foundation for the industry. Partition affected Indian industries very badly. The cotton and jute textile industry suffered the most as they depended on agriculture for its raw material. Raw jute producing areas went to Pakistan but mills were located in India. Hence, after partition, these mills could not produce due to lack of raw material. Out of a total, 112 jute mills were operating in India. 85 per cent of the total jute growing region went to Eastern Pakistan i.e., Bangladesh. Cotton Industry also suffered because best cotton growing region became, part of Pakistan (Sind and western Punjab). Due to all this, labour of these mills got unemployed. It led to the increase in poverty. In 1948-49, contribution of secondary sector was just 6.6 per cent of the GDP. Employment in the industries was a mere 1.8 per cent of the total population Therefore, there was a high dependency of India on imports particularly, for capital goods. Due to these factors, when India got freedom, its substantial trade deficit was one of the major challenges faced by the new government in India.

Currency and Financial Sector

Introduction of currency in India: Before the British rule, different provinces of India had their own currencies. British needed common currency so that they can facilitate trade and collect land revenue. Before that, India was on a monometallic silver standard from 1835 to 1893. Monometallic silver standard means that only silver coins were in circulation, which implied, high demand for silver. It led to increase in import of silver and caused BOP deficit. Then there was a sudden extraordinary rise in the price of silver in February 1920, which made it extremely difficult to maintain exchange stability. In midst of all this, in the 19th century, the British introduced paper money in the subcontinent. British gained monopoly over note issue through The Paper Currency Act of 1861. At that time, the Indian rupee was linked to the British pound and its value was at par with the American dollar. It boosted Indian domestic, as well as foreign trade.

Financial Sector: The financial system consists of three components:

(i) Financial institution, which includes non-banking and banking

(ii) Financial markets including stock exchange

(iii) Instruments and services which help in the mobilisation of savings and increase the capital formation.

Only few banks existed and hence they were hardly available for the masses. For them, source of finance continued to remain moneylenders. First bank in India was set up in 1786 but the development of the sector was slow. Later on, three banks were established in three different presidencies namely Bengal, Calcutta and Madras. Original Companies Act (1913) contained a few sections relating to joint-stock banks without any special legislation for commercial banking, so it was amended and the amended Indian Companies Act of 1936 added many provisions relating to minimum capital, cash reserve requirements and other operating conditions. But this was not sufficient and hence, we needed an integrated statutory regulation of commercial banks in India. Reserve Bank of India was established in the year 1935 as a private company. During World War II, the authority of the RBI (Reserve Bank of India) was extended to frame the monetary policy. It was not an independent body till then, as rather, it was just a dummy figure and forced to pursue a government-initiated low interest rate policy to keep the cost of financing the war low and to expand money supply through accumulation of sterling balances. During 1913 and 1948, there existed approximately 1100 small banks in India. After getting independence, Government of India enacted the Banking Companies Act, 1949 which was later changed to Banking Regulation Act, 1949. Banking sector was regulated. Another problem with the sector was neglect of rural areas for which NABARD (National Bank for Agricultural and Rural Development) was setup in 1982.

In order to mobilise savings and promote capital promotion, well developed stock exchanges were also required. During the British era, there were only three stock exchanges namely. Bombay Stock Exchange, 1877; Ahmedabad Stock Exchange, 1894; and Calcutta Stock Exchange, 1908 and even these were not regulated by the government. After independence, Government of India took a number of measures to promote financial markets and thereby, boost capital formation. At present, there are 23 stock exchanges in India.

STATE OF INFRASTRUCTURE

One of the most important contribution of British is considered to be infrastructure development. However, they had no intention for development of India but they developed infrastructure for their own selfish motives. For promoting trade to Britain, they developed railways, ports, communication facilities and during the First and Second World Wars, also air transport was developed.

Energy is an important infrastructure. Industries could not be developed without increasing electricity generation capacity. But the power generation capacity in India was almost negligible. Road and port connectivity was also not there. British developed all this but limited to the routes used for the movement of manufactured goods and raw materials from the source of their origin to the ports and from ports to major commercial centres. Another purpose was movement of army for which railways were expanded. With development of infrastructure, it became easier to export raw materials from India to Britain and contributed to their industrial development. Overall, infrastructure is a backbone of an economy and India was not having sufficient infrastructure. Infrastructural deficit at the time of Independence proved to be a big challenge for policy-makers in the post-independence era.

Social Infrastructure

It includes all those facilities, which help in social/human development. It includes schools, universities, hospitals, housing and others. It is a basic need for human development. British government never gave importance to human development. It was not in their priority. Health infrastructure can be judged from IMR, MMR and life expectancy. Life expectancy was hardy, 32 years. Number of universities was 17 and accordingly, literacy rate was as low as 16 per cent among males and 7 per cent among females.

Economic Infrastructure

Economic infrastructure refers to all those basic facilities, which have a direct impact on GDP growth. It is also known as demand-inducing service. It includes roads, airports, railways, communication networks, water supply, irrigation systems and electric power.

Condition of infrastructure during colonial rule was miserable. If we talk of transportation, the most popular mode of long-distance transportation of cargo was through navigable rivers. People used bullock carts and small river craft for short distances. It was time consuming and tiring. Railways took shorter time in long-distance travel and hence, attracted people. During 1850-1870, construction of railways occurred at massive scale. In 1870, when government found the construction of railways a profitable business, Calcutta, Bombay, Madras and Delhi were interconnected by the 'broad-gauge' system. Finally, all railways in India were brought under government management by 1920 and it made Indian railway system one of the largest networks in the world. Railway construction stimulated the engineering industry in India. It also stimulated financial and labour markets. It increased mobility of labour. Coal mining was started in India to fulfil the need of railways. The role of the railways as a major source of demand for the basic metal industries in India was thus, significant.

Another important aspect of infrastructure was roads. Roads are required for the movement of raw-material and finished goods, as well as labour. But only such routes which were given importance and priority were required for the movement of raw material to railways and ports. The length of 'metalled' roads per 1,000 persons was just 0.4 kms by 1931, which was above 1.5 in other colonies of British, including Ceylon and Malaya. British gave more importance to the long coast line, which was used for trade and commerce during British rule. Bombay, Madras, Calcutta, Karachi and Rangoon developed as major ports. Each of these ports served as an export outlet for the products of a vast hinterland. At the time of independence, rapid industrial development was hindered due to the lack of economic infrastructure.

Postal services were started in 1858 but only for official purposes. It was made available for public use in the late nineteenth century. It was required due to absence of banks, post offices worked as the agency for sending internal remittances. Post offices were present in almost all populated villages. Indian government after independence used it for mobilising savings in rural India.

In a nutshell, we can say that infrastructure during colonial rule had inherent inequalities; irrigation systems remained primitive; railways de-prioritised roads; electricity generation was limited to important cities; communication and local transportation thus, had high-regional variation.

Administrative Infrastructure

Administrative infrastructure is a combination of physical and human infrastructure, which helps in running a successful administration for any government. Without it good governance is not possible in any country. Before independence, each province of India had its own administrative set up. But British government had to administer entire India as one province, which called for a reason to develop administrative infrastructure to rule such a vast area. Land revenue department had been set up in each province. General public was certainly not happy with British policies so frequent revolts and rebellions from masses were common. To handle this, law and order was required. So British government set up local police stations; Postal and telegraph departments for faster movement of information. The process of elections too began during the British rule only and hence, necessary infrastructure was set up to conduct elections. But this infrastructure was far below the requirements, still it provided some base.

MACROECONOMIC AGGREGATES

The GDP is the most widely accepted indicator to evaluate performance of an economy. It refers to the value of all the final goods and services produced in an economy in a financial year. When it is measured on the prices of the same year, it is called nominal GDP and when it is measured on the prices of base year, it is called real GDP. The PCI, which is arrived by dividing the national income by the total population is another macro-economic indicator of an economy's performance. No sincere efforts were made by the government officials before independence, for estimating India's national income and growth rates but some Indian economists made an effort in this direction. It included Dada Bhai Naoroji, William Digby, Shindlay Shirras, V.K.R.V. Rao and R.C. Desai. Among these, V.K. R.V. Rao's estimates are most reliable, which claim that Indian economy grew @ 2% p.a. and per capita income increased at a meagre rate of 0.5% p.a. It indicates that Indian economy was developing at an extremely low rate.

Table 1.1: National Income and PCI (1900-1947) (in 1948 Prices)

Year	National Income (in Billions)	Per Capita Income (PCI) (in Rupees)
1900	43.4	228
1947	51.5	239

Table 1.2: Sectoral Share (%) in National Income

Year	Primary	Secondary	Tertiary	Net Income from Abroad
1900-1904	66	12	23.5	-1.5
1942-1946	53.3	14.5	32.3	-0.2
Growth Rate Per Annum	**0.4**	**1.4**	**1.7**	

Primary sector consists of agriculture and related activities. Secondary sector consisted of mining, large scale industries and small-scale industries. Large-scale industry grew at a rate of over 4 per cent per annum. But the much larger segment viz., the small scale industries grew at less than 1 per cent per annum. Within the tertiary sector, the contribution of government undertaking grew at 2 per cent per annum,