Basics of Economics and Indian Economy since Independence

Important Basic Concepts of Economics

Economic and non-economic activities

Economic activities: The activities which give income in return are called economic activities.

Non-economic activities: The activities which do not give any income in return are called non-economic activities.

All the economic activities are broadly divided into three categories:

Primary activities: All the economic activities, which result in the production of goods with the help of land and water are known as primary activities, e.g., agriculture, rearing of animals, hunting, fishing, mining, etc. Some examples of goods produced through primary activities are wheat, vegetables, milk, marble, coal, etc.

Secondary activities: When primary goods are used to produce some other commodity manually or by machines then the activities involved in the conversion are known as secondary activities, e.g., paper from wood, bread from wheat, etc. In other words, we can say that there is interdependence between the primary and secondary activities.

Tertiary activities: For all the primary and secondary activities we need a support system like transportation, postal services, telephones, etc. These support systems are in the form of tangible goods that cannot be measured. In other words, the services are the link between the producer and the customer.

Based on the national income and per capita income, various countries are divided into three categories:

Underdeveloped countries (Ethiopia, Sudan, etc.)

Developing countries (India, China, Pakistan, etc.)

Developed countries (USA, UK, Japan, Singapore, etc.)

In an economically developed country, majority of the people earn an income higher than their requirements. If they lack in a particular segment of goods or food production, they have the ability to buy and import that from other countries.

Profit

It is the reward for the organization in the production of goods and services. According to Taussing, profit is a mixed and vexed income. Hawley referred to profit as a reward for taking risk while Samuelson considered it as the return coming from implicit factors. Professor Knight regarded profits as a reward for bearing uncertainties while Schumpeter interpreted profits as reward for innovative functions of the entrepreneur. Karl Marx criticized profits as a legalised robbery. In other words, profit is equal to the difference between total revenue and total cost of production.

Profits are classified into two types: (i) Gross profits and (ii) Net profits

(i) **Gross profit:** Any profit usually means gross profit as it includes following items.

  (a) Input costs (e.g., maintenance cost, depreciation charges, etc.)

  (b) Implicit returns (e.g., implicit interests, implicit wages, implicit interests, etc.)

  (c) Non-entrepreneurial profit (e.g., windfall gain, monopoly gains, etc.)

  (d) Net profit (pure economic profit)

  So, mathematically gross profit can be calculated by the following formula.

  Gross profit = Net profit + Implicit rent + Implicit wages + Implicit interest + Depreciation charges + Maintenance costs + Non-entrepreneurial profit

(ii) **Net profit:** It is the total revenue of a firm less explicit and implicit cost. Mathematically net profit can be calculated by the following formula.

  Net profit = Gross profit – (Implicit costs + Depreciation charges + Insurance charges)

  Entrepreneurs get net profits for:

  (a) successful coordination between different factors of production;

  (b) taking risks;

  (c) bearing uncertainties in production, and

  (d) making innovations.

Rewards of other factors of production always remain positive but the profit received by the entrepreneur may be either positive or negative. Net profit could be normal (minimum profit that an entrepreneur should get) or super normal (more than the normal profit).

National income

It is the money value of all the goods and services produced in a country in a year. National income can be calculated in following three ways:

- The total value of output in a country in a year
- The total value of all incomes received by the owners of factors of production in a year
- The total expenditure incurred on all goods and services in a year

According to Alfred Marshall, the labour and capital of a country, acting upon its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend. This definition was criticized on the ground of difficulty in the accurate measurement of the value of output of innumerable varieties of goods and services, danger of counting the same good more than once, and goods and services produced, consumed by the producers themselves makes evaluation difficult.

Pigou defined national income as the national dividend, or that part of the objective income of the community including, of course, income derived from abroad, which can be measured in money. This definition was better than Marshall's definition but was criticized on the ground of not being applicable to underdeveloped countries where bartering still prevails and complexities in the calculation of national income because of discontinuation (because of any improbable reasons).

Irving Fisher described it as the national dividend or income consisting solely of services as received by ultimate consumers; whether from their material or from their human environments. Fischer states that national income is determined not by production but by consumption in a year. Fischer's definition seems to be more scientific but is less practical as it is very difficult to measure the money value of consumed goods and services in a year because for that, one must know the life span of the goods which varies from goods to goods and at the same time it is difficult to estimate the value of durable goods when they change hands.

Concepts related to national income

Concept of value added: Value added is defined as the difference between total value of output of a firm and value of inputs bought from other firms. Thus, it is value added in the process of production.

Value of output by a firm = Sales + Change in stock

Value added = Value of output – Intermediate goods cost

Net value added at market price = Gross value added at market price – Consumption of fixed capital (depreciation)

Net value added at factor cost = Net value added at market price – Net indirect taxes (= Indirect taxes – Subsidies) = Total factor income

Gross national product (GNP): It is the money value of all the final goods and services produced by an economy in a year. Since prices vary throughout the year, economists calculate gross national product at constant prices, i.e. the output is multiplied with prices of goods during a stable year. Following are the items that are excluded from the gross national product measurement as they are not production activities but only the exchange of funds:

(i) Purely financial transactions like buying and selling of securities, Government transfer payments and Private transfer payments,

(ii) Transfer of used goods,

(iii) Non-market goods and services,

(iv) Illegal activities like smuggling, gambling, etc., and

(v) The value of leisure.

Real gross national product and nominal gross national product are figured out by taking the value of national product at constant price and current price respectively.

Gross Domestic Product (GDP): It is actual gross product within a country. The only difference between GNP and GDP is that GDP does not include income from abroad.

Net National Product (NNP): It is the money value of net production of goods and services. It facilitates the observation of the change in output from year to year. (sometimes it becomes difficult to estimate it when depreciation of plants and machineries are included).

Net national product =
Gross national product – Depreciation

National income or national income at factor prices: This facilitates in estimating the value of what is produced in a year exactly.

National income = Net national product – Indirect taxes + Depreciation

National disposable income: It is the income from all sources of the residents of a nation for spending on consumption as well as saving during a financial year. It is the maximum available income of a country.

National disposable income = Net national product at market price + Other current transfers from the rest of the world

Personal income: It is the income received by all the people in the country.

Personal income = National income – (Corporate taxes + Undistributed corporate profits + Contribution to social security schemes by employers and employees) + Transfer payments

Transfer payments: These are certain incomes, which are not correctly earned but paid to the individuals like old age pension, widow pension, payment for unemployment and other such welfare expenditures. These payments are made out of the funds of exchequer by the government. These incomes are added to the personal income.

Disposable personal income: It is the income that people can spend as they like. It includes personal consumption and personal saving.

Disposable personal income =

Personal income – Personal taxes (i.e. direct taxes)

Per capita income: It is the average income received by a citizen of a country in a year. It is an indicator of the improvement in the economic position of a person.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Population}}$$

Direct and indirect tax

According to JS Mill, a direct tax is one which is demanded from the very person who it is intended or desired should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another. Dalton defines the direct tax as a tax that is really paid by a person on whom it is legally imposed. While an indirect tax is imposed on a person but paid partly or wholly by another owing to consequential changes in terms of some contract or bargain between them.

In the Indian tax system, following come under direct taxes:

(i) Income tax,

(ii) Corporation tax,

(iii) Wealth tax,

(iv) Gift tax,

(v) Capital gains and

(vi) Estate duty

Goods and Services Tax (GST)

GST is an Indirect Tax which has replaced many Indirect Taxes in India. In order to implement GST, Constitutional (122nd Amendment) Bill (CAB)was introduced in the Parliament and passed by Rajya Sabha on 03rd August, 2016 and Lok Sabha on 08th August, 2016. The CAB was passed by more than 15 states and thereafter Hon'ble President gave assent to "The Constitution (One Hundred And First Amendment) Act, 2016" on 8th of September, 2016. Since then the GST council and been notified bringing into existence the Constitutional body to decide issues relating to GST. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017. The GST would apply to all goods other than alcoholic liquor for human consumption and five petroleum products, viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. It would apply to all services barring a few to be specified.

At the **Central** level, the following taxes are being subsumed:

1. Central Excise Duty,
2. Additional Excise Duty,
3. Service Tax,
4. Additional Customs Duty commonly known as Countervailing Duty, and
5. Special Additional Duty of Customs.

At the **State** level, the following taxes are being subsumed:

1. Subsuming of State Value Added Tax/Sales Tax,
2. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
3. Octroi and Entry tax,
4. Purchase Tax,
5. Luxury tax, and
6. Taxes on lottery, betting and gambling.

GST Council

As per Article 279A (1) of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A. The notification for bringing into force Article 279A with effect from 12th September, 2016 was issued on 10th September, 2016. The Union Cabinet under the Chairmanship of Prime Minister Shri Narendra Modi approved setting up of GST Council on 12th September, 2016.

As per Article 279A of the amended Constitution, the GST Council which will be a joint forum of the Centre and the States shall consist of the following members: -

1. Union Finance Minister - Chairperson
2. The Union Minister of State, in-charge of Revenue of finance - Member
3. The Minister In-charge of finance or taxation or any other Minister nominated by each State Government - Members

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.

Classification of taxation system

Taxes are categorized in the following four types:

Proportional taxes: In this type of taxation system, each income is taxed at a uniform or flat rate. This type of taxation is not suitable to bring about the desired changes in the distribution of wealth in the society and affects poor more. So, this type of taxation system is not preferred much nowadays.

Progressive taxes: In this type of taxation system, higher income groups pay higher percentage of their income as tax. Here, marginal utility of money falls with addition to money income. This helps in better distribution of wealth among different sections of society. This system is preferred by most of the governments.

Regressive taxes: This is opposite form of the progressive taxation system where rich are imposed with less taxes and poor are charged higher taxes because of their vast number. This is just a hypothetical system and does not exist nowadays.

Degressive taxes: It is milder form of progressive taxation system where rate of taxes does not increase in the same proportion as the income rises. Higher income groups make higher sacrifice than smaller income groups.

Budget

Budget is an itemized summary of expected income and expenditure of a country, company, etc., over a specified period, usually a financial year. In economics, the budget is an annual statement of the estimated receipts and expenditures by the government over the fiscal year. (In India, April 1 to March 31)

Objectives of budget: (i) To secure the reallocation of resources, if market fails or performs poorly, (ii) redistribution of income and wealth to reduce inequality, (iii) to maintain economic stability and prevent business fluctuation, i.e. high level of employment and price stability, (iv) management of public sector efficiently in order to achieve maximum social welfare.

Constituents of budget: Budget is primarily divided into two parts, i.e. the revenue budget and capital budget. The revenue budget constitutes revenue receipts of the government and the expenditure of this collected revenue. The capital budget constitutes capital receipts and expenditures.

Receipts

Revenue receipts: It is divided into two classes, i.e. tax revenue and non-tax revenue. Tax revenue consists of all the receipts of taxes (both direct and indirect) and other duties levied by the Union Government (budget also states the proposed changes in the existing taxation policy). Non-tax revenue includes all other receipts like revenue received by the government in the form of prices paid for government supplied goods and services, e.g., postage, tolls, railways, electricity, etc., and also includes interest and dividend earned by the governmental investment and revenue earned on account of the administrative function of the government like licence fee, registration fee (for automobiles, fire arms, etc.), fines and penalties, escheats, etc.

Capital receipts: This includes market loans (loans raised from the public), borrowings from the Reserve Bank of India and other parties through the sale of treasury bills, loans received by the foreign governments and international institutions (World Bank, Asian Development Bank, etc.), recoveries of loans granted to the state governments, Union Territory governments and other parties, small savings and deposits in Public provident fund (PPF), etc.

Expenditures

Revenue and capital expenditures

Revenue expenditure: It includes expenditure incurred for the normal running of the government, payment of interests on the loans taken, subsidies, etc. In other words, all those expenditures, which do not result in the creation of assets, are considered as revenue expenditures.

Capital expenditure: It includes expenditure on acquisition of assets like land, buildings, machinery, equipments, investments, loans and advances given to the state governments, Union Territories, government companies and corporations, and other parties.

Planned and unplanned expenditures

Planned expenditures are all those public expenditures incurred for the current development and investment as in the planned proposals. All other expenditures are known as unplanned expenditure.

Developmental and non-developmental expenditures

Developmental expenditure: It includes plan expenditure of railways, post offices and telecommunications and non-departmental commercial undertakings (financed out of their internal and extra budgetary resources, including market loans and term loans from financial institutions to the state government public enterprises and also the developmental loans to non-departmental undertakings and other parties by the central or state governments).

Non-developmental expenditure: It includes expenditure on defence, interest payment, tax collection, police, judiciary and other expenditures like expenditures on general administration, natural and accidental calamities relief, grant and loans for non-development works to the foreign countries, subsidies, etc.

Balanced, surplus and deficit budget

Size of estimates	Types of budget	Remarks
Revenue less than expenditure	Deficit	Increases the aggregate demand. So, it is a good policy to combat recession but the economy comes in under employment equilibrium because of deficient demand
Revenue is equal to expenditure	Balanced	Slightly increases the aggregate demand and is a good policy to bring the economy near full employment to a full employment equilibrium
Revenue is greater than expenditure	Surplus	Surplus budget lowers the aggregate demand (good for combating inflation but a poor strategy against deflation and recession)

Types of deficit

Following are the four types of deficit.

(i) **Budget deficit:** It is the difference between the total expenditure and current revenue and net internal and external capital receipts of the government put together. This deficit is essentially financed by internal and external capital.

(ii) **Fiscal deficit:** It is the difference between the total expenditure of the government (revenue expenditure, capital expenditure and loans net of repayment) and the revenue receipts and all those capital receipts (not borrowing) which finally accrue to the government. Fiscal deficit indicates more inflation, as more the deficit more will be the government borrowings that will result in more the burden of interest payments.

(iii) **Primary deficit:** It is the difference between fiscal deficit and interest payments. It is an indicator of the situation when to tighten the belt. A zero primary deficit refers to the interest commitments on earlier loan forcing government to borrow. In other words, it is a measure of fiscal irresponsibility.

(iv) **Revenue deficit:** It is the difference between the government's revenue expenditures and revenue receipts. In the same level of fiscal deficit, higher revenue deficit is worse than a lower revenue deficit.

Important Economics Terms

Administered price: The administrative body, e.g., the government, a marketing board or a trading group determines the price. The competitive market force are not entitled to determine this price. The government fixes a price in accordance with demand-supply position in the market.

Ad valorem tax: A type of indirect tax in which goods are taxed by their values. In the case of ad valorem tax, the tax amount is calculated as the proportion of the price of the goods. Value Added Tax (VAT) is an ad valorem tax.

Appreciation: An increase in the value of something, e.g., stock of raw materials or manufactured goods, inclusive of increase in the traded value of a currency. It is the opposite of depreciation. Appreciation may occur when the prices rise due to inflation. It also causes scarcity or increase in earning power. It is opposite of depreciation.

Arbitrage: When the middle man buys and sells goods at a particular time to cash the price differences of two markets, then this action is termed as arbitrage. Purchases are done when prices are low in one market and then sold in another market where the prices are high in order to earn the profit due to price difference in the two markets.

Average cost: Total cost divided by the output.

Balance of payment: A systematic record of all economic transactions completed between the residents of a country and the residents of the remaining world during a year. The balance of payment shows the relationship between total payment of one country to all other countries and its total receipts from them. Balance of payment includes both visible and invisible items. Balance of payment includes visible export and imports along with invisible trade like shipping, banking, insurance, tourism, royalty and payments of interest on foreign debts.

Balance of Trade: The total value of a country's export commodities and total value of import commodities. Thus, balance of trade includes only visible trade, i.e. movement of goods (exports and imports of goods). Balance of trade is a part of balance of payment statement.

Bank Rate: The rate of discount at which the central bank of the country discounts first class bills. It is the rate of interest at which the central bank lends money to the lower banking institutions. Bank rate is a direct quantitative method of credit control in the economy.

Bills of Exchange: Document acknowledging an amount of money owned in consideration for goods received.

Blue Chip: Equity shares whose purchase is extremely safe. It is a safe investment as it does not involve any risk.

Blue Collar Jobs: Jobs concerned with a factory. Persons who are unskilled and depend upon manual jobs that require physical strain on human muscle are said to be engaged in Blue Collar Jobs. Such jobs are on the decline these days with the advancement of technology.

Break-even price: Price at which firms make zero abnormal profits. It is equal to the average cost.

Bridge loan: Loan made by a bank for a short period to make up for a temporary shortage of cash. On the part of borrower, mostly the companies, for example, a business organisation wants to install a new company with new equipments etc. while its present installed company/ equipments etc. are not yet disposed off. Bridge loan covers this period between the buying of the new and disposing of the old one.

Budget deficit: It is the difference between the total expenditure on one hand, and current revenue and net internal and external capital receipts of the government. It has to be financed by net internal and external capital receipts.

Bull: Bull is that type of speculator who gains with the rise in prices of shares and stocks. He buys share or commodities in anticipation of rising prices and sells them later at a profit.

Bull market: A market where the speculators buy shares or commodities in anitcipation of rising prices. This market enables the speculators to resell such shares and make a profit.

Business cycle: Type of fluctuations in the economic activity of organised communities. It is composed of period of good trade characterised by rising prices and low unemployment, alternating with period of bad trade characterised by falling prices and high unemployment. Every trade cycle has five different sub-phases: depression (dip), recovery, full employment, prosperity (boom) and recession.

Call Money: It is a form of loans and advances which is payable on demand or within the number of days specified for the purpose.

Capital expenditure: Consists mainly of expenditure on acquisition of assets like land, buildings, machinery, equipment; investments in shares, etc. and loans and advances granted by the central government to state and union territory governments, government companies, corporations and other parties.

Capital market: Capital market is the market that gives medium term and long term loans. It is different from money market that deals only in short term loans.

Capitalism: It is an economic system in which all means of production are owned by private individuals. Self profit motive is the guiding feature for all economic activates under capitalism. Under pure capitalism system, economic conditions are regulated solely by free market forces. This system is based on 'Laissez-faire system', i.e. no state intervention. Sovereignty of consumer prevails in this system. Consumer behaves like a king under capitalism.

Capital receipts: Items included in capital receipts are loans raised by the government from the public (also called market loans), borrowings by the government from the Reserve Bank of India and other parties through the sale of treasury bills, loans received from foreign governments and other international bodies (For example, World Bank, Asian Development Bank etc.), recoveries of loans granted to state and union territory governments and other parties, small savings and deposits in the public provident fund (PPF), etc.

Cash credit: Credit which is advanced against the value of the borrower's current assets, which comprise mainly stocks of goods — raw materials, semi-manufactured or finished goods, and bills receivable (dues) from others.

Cash Reserve Ratio (CRR): The portion of net demand and time liabilities every bank is required to deposit with the RBI.

Closed Economy: Closed economy refers to an economy having no foreign trade (i.e. export and import). Such economies depend exclusively on their own internal domestic resources and have no dependence on outside world.

Control price: A product price fixed by the government, which is below the equilibrium price.

Core sector: Economy needs basic infrastructure for accelerating development. Development of infrastructure industries like cement, iron and steel, petroleum, heavy machinery etc. can only ensure the development of the economy as a whole. Such industries are core sector industries.

Corporation tax: It is a tax on company's profit. It is a direct tax which is calculated on profits after interest payments and allowance (i.e. Capital allowance) have been deducted but before dividends are allowed for.

Credit money: This refers to money, whose value is greater than the commodity value of the material from which the money is made.

Custom duty: A duty that is imposed on the products received from exporting nations of the world. It is also called protective duty as it protects the home industries.

Dear money: This is a condition in which loans or money are very difficult to obtain.

Death rate: Death rate signifies the number of deaths in a year per thousand of the population. It is mostly known as crude death rate. Life expectancy is an important determinant of death rate.

Deficit financing: It is a practice resorted to by modern governments of spending more money than they it receives in revenue. It is a policy of bridging a deficit between government expenditure and revenue. Deliberately budgeting for a deficit is called deficit financing. This practice was popularised by Prof. JM Keynes to deal with depression and unemployment situations and to stimulate economic activity. Deficit financing, though having inflationary effects, has now become a common practice in all countries.

Deflation: Deflation is the opposite case of inflation. Deflation is that state of falling prices which occurs at that time when the output of goods and services increases more rapidly than the volume of money in the economy. During deflation, the general price level falls and the value of money rises.

Depreciation: The value of the existing capital stock that has been consumed or used up in the process of producing output.

Devaluation: The loss of value of currency of a country relative to other foreign currencies is known as devaluation. Devaluation is a process in which the government deliberately cheapens the exchange value of its own currency in terms of other currencies by giving it a lower exchange value. Devaluation is used for improving the balance of payment situation in the country.

Direct tax: Those taxes that are levied immediately on the property and income of persons, and those that are paid directly by the consumers to the state. Income tax, interest tax, wealth tax, corporation tax are all examples of direct taxes.

Disinflation: It refers to a process of bringing down prices moderately from their high level without any adverse impact on production and employment. Thus, disinflation is an anti-inflationary measure.

Dividend: Dividend is the amount which the company distributes to share holders when the profits of the company are calculated by the board of directors.

Excise duty/Excise tax: It is a tax imposed on total cost incurred by a firm. It is a tax which is imposed on certain indigenous production (e.g., petroleum products, cigarettes, etc.) of the country. Excise duty may be imposed either to raise revenue or to check the consumption of the commodities on which they are imposed. Excise duty is progressive in nature.

Fiscal policy: It is that part of government economic policy which deals with taxation, expenditure, borrowing, and the management of public debt in the economy. Fiscal policy primarily concerns itself with the flow of funds in the economy. It exerts a very powerful influence on the working of economy as a whole.

Fiscal deficit: The difference between the total expenditure of the government and the revenue receipts plus those capital receipts which are not in the nature of borrowing, but which finally accrue to the government.

Fiscal policy: Government's expenditure and tax policy together is known as its fiscal policy.

Fiscal Year: The fiscal year runs from April 1 to March 31.

Import duty: Import duty is a tax on imports imposed on an ad valorem basis, i.e. fixed in the form of a percentage on the value of the commodity imported.

Imports: These are equal to consumption of a good minus its production.

Inflation: A situation of a steady and sustained rise in general prices is usually known as inflation. Inflation is a state in which the value of money is falling, i.e. prices are rising.

Joint sector: When a sector is jointly owned, managed and run by both public and private sectors, it is called joint sector. This sector indicates the partnership between the two, i.e. public and private sector.

Laissez Faire: It is a French word meaning 'non-interference'. This doctrine was popularised by classical economists who gave the view that government should interfere as little as possible in the economic activities of the individuals.

Liquidation: It refers to the termination (or winding up) of a registered company. Liquidation takes place because of company's insolvency. In liquidation, assets are turned into cash for settling outstanding debts and for apportioning the balance, if any, amongst the owners.

Liquidity: Assets which can easily be converted into cash money are said to have liquidity. Land does not possess liquidity at it takes longer time to get it converted into cash.

Marginal cost: It is the increase in total cost or total variable cost incurred when an extra unit of output is produced.

Monetary policy: Monetary policy comprises all measures applied by the monetary authorities with a view to produce a deliberate impact on the nature and volume of money so as to achieve the objectives of general economic policy. It aims at regulating the flow of currency, credit and other money substitutes in an economy with a view to affect the total stock of such assets as well as to influence the demand of the community for such assets.

Monopolistic competition: It is a market in which there are many sellers, they produce a differentiated product and there is free entry and exist.

Multinational company: It is a large scale company which has its production base in several countries and the bulk of the production is done in outside nations. This company produces more overseas than it does in its parent country. Increased trade and economies of scale have encouraged such type of companies in the recent years.

Oligopoly: It is that form of imperfect competition in which there are only a few firms in the industry (or group) producing either homogeneous products or may be having product differentiation in a given line of production.

Open economy: It is that economy which is left free and the government imposes no restrictions on trade with areas outside that economy.

Open market operations: Buying and selling of securities by the RBI in the open market. This is a tool of the Central Bank for monetary control.

Overhead costs: It is the total of all costs that are independent of the level of output.

Parity value: In a fixed exchange rate system, the value of a currency will be fixed in terms of another currency or in terms of gold. This value is known as the parity value of the currency.

Price index: An index number that shows how the average price of a bundle of goods has changed over a period of time.

Primary deficit: Fiscal deficit minus interest payments. It indicates how much of the government borrowing is going to meet expenses other than interest payments.

Private Sector: Private Sector is that part of the economy which is not owned by the government and is in the hands of private enterprise. In other words, private sector is not under direct government control. Private sector includes the personal as well as the corporate sector.

Privatisation: Privatisation is the antithesis of nationalisation. When the government owned public industries are denationalised and the disinvestment process is initiated, it is called privatisation.

Profit: Total revenue minus total cost.

Public sector: It signifies those undertakings which are owned, managed and run by public authorities. Public sector includes direct government enterprise, the nationalised industries and public corporations. In this sector of the economy, the government acts as an entrepreneur.

Revolving credit: It is a bank credit that is renewed automatically until notice of cancellation is received. Revolving credits may be sanctioned for an unlimited amount in total but with a limit on the amount that may be drawn at any one time or within a specified period, e.g., one month.

Seasonal unemployment: It is the unemployment which is caused by seasonal variation in demand for labour by various industries, such as agriculture, construction and tourism. Seasonal unemployment normally declines in spring as more outdoor work can be undertaken.

Security: Security refers to a share, bond or government stock that can be bought and sold, usually on the stock exchange or on a secondary market, and carries a right to some form of income, either in the form of a fixed rate of interest or dividends.

Selling costs: It is same as advertising costs.

Share capital: It is the amount of money raised by a company by issuing shares. The authorized share capital is the amount that a company is allowed to issue as laid down in its Articles of Association. The issued share capital is the amount actually issued i.e. the number of issued shares multiplied by their par value. Fully paid share capital is the amount raised by payment of the full par value of the issued shares.

Soft currency: A currency with limited convertibility into gold and other currencies, either because it is depreciating due to balance of payments difficulties or because controls have been placed on it to prevent the exchange rate from falling.

Special Drawing Rights (SDRs): It is a reserve asset (known as ‘Paper Gold’) created within the framework of the International Monetary Fund in an attempt to increase international liquidity, and now forming a part of countries’ official reserves along with gold, reserve positions in the IMF and convertible foreign currencies.

Statutory Liquidity Ratio (SLR): The SLR requires the banks to maintain a specified percentage of their net total demand and time liabilities in the form of designated liquid assets.

Subsidies: Payments by government to firms or households that provide or consume a commodity. For example, government may subsidize food by paying for a part of the food expenditures of low-income households.

Tariff: Tax or a duty on imports, which can be levied either on physical units, e.g., per tonne (specific), or on value (advalorem). It could be imposed for a variety of reasons including; to raise government revenue, to protect domestic industry from subsidized or low-wage imports, to boost domestic employment, or to ease a deficit on the balance of payments.

Tax revenue: Revenue received from taxes and other duties levied by the Central Government.

Trade gap: Size of the deficit (or surplus) in the balance of trade (the difference in value between visible imports and exports).

Wealth tax: Tax imposed on the value of total assets but wealth up to a certain limit is exempted from such tax.

Stock Market Glossary

Bear: A person who expects prices to fall and sells securities hoping to make a profit by subsequently repurchasing at a lower price.

Bid: The price at which someone is prepared to buy shares.

Bull: A person who buys securities in the expectation that prices will rise and so give him an opportunity to resell at a profit.

Call option: An option giving the taker the right, but not the obligation, to buy the underlying shares at a specified price on or before a specified date.

Capital gains: The profit made by selling a security that has increased in value during the time you owned it. If the security has decreased in value since you purchased it, the difference between the purchase price and the selling price is called a capital loss.

Capitalisation: In stock market terms, the value of a company, that is, share price multiplied by the number of shares on issue.

Cash Balance: The cash balance is the credit or debit balance in the account. The credit cash balance usually invested in an interest paying money market account.

Equity: The general term for ownership in securities. In a margin account, equity represents the excess of securities value over debit balance.

Futures: A futures contract is an agreement between two parties to buy or sell an underlying asset at a certain time in the future at a certain price. It has standardised date and month of delivery, quantity and price.

Liabilities: Items owed by a person or company.

Mutual fund: Type of investment operated by an investment company that raises money from shareholders and invests it in a portfolio of stocks, bonds, or other securities. These funds offer investors the advantages of diversification and professional management. For these services they typically charge a management fee, which must be disclosed in the prospectus. Each mutual fund has its own investment objectives and strategies.

NASDAQ: (National Association of Securities Dealers Automated Quotations) Owned and operated by the NASD, NASDAQ is the computerized network that provides price quotations for securities traded over the counter as well as many listed securities.

Net Asset Value (NAV): The per share price of a mutual fund. NAV is calculated by subtracting a fund's liabilities from its total assets, then dividing the result by the number of fund shares currently outstanding. A mutual fund calculates its NAV at the end of every market day.

Net Tangible Asset (NTA) backing: Refers to the net assets owned by shareholders of a company at balance date. It expresses the asset value per share, i.e. shareholders' funds less intangibles, less preference capital, divided by the number of ordinary shares.

Over the Counter (OTC): The market in which securities transactions are conducted through a telephone and computer network connecting dealers in stocks and bonds, rather than on the floor of an exchange.

Premium: The amount by which a security is quoted or issued above its par value. The opposite to 'discount'.

Price/Earnings ratio: Shows the number of times the price covers the earnings per share.

Put-call ratio: Put-call ratio is the proportion of puts traded to calls traded. Puts would be bought if investors are bearish while calls would be bought if investors are bullish. Thus, this proportion is an index of investor sentiment.

Put option: An option giving the taker the right, but not the obligation, to sell the underlying shares at a specified price on or before a specified date. The taker is only required to deliver the shares if the option is exercised.

Rally: Short, spirited price rise.

Security: An instrument that represents an ownership interest in a corporation (stock), a creditor relationship with a corporation or governmental body (bond), or rights to ownership through such investment vehicles as options, rights, and warrants.

Secondary market: The national exchanges and over the counter markets where securities are bought and sold after their original issuance.

Share price index: Measures the level of share prices at any given time. The All Ordinaries Index is calculated using the current prices of companies listed on the Stock Exchange.

Stock split: An increase in the number of outstanding shares of a corporation's stock. In a split, the number of shares increases and the price per share decreases proportionately.

Important Economics Abbreviations

ADB: Asian Development Bank

ADR: American Depository Receipts

AGMARK: Agricultural Marketing Department

AITUC: All-India Trade Union Congress

AMCs: Asset Management Companies

APM: Administered Pricing Mechanism

ARF: Assets Reconstruction Fund

ASSOCHAM: Associated Chamber of Commerce and Industry

BIFR: Board of Industrial and Financial Reconstruction

BIMARU states: Bihar, Madhya Pradesh, Rajasthan and UP

BOP: Balance of Payment

BPL: Below Poverty Line

BSE: Bombay Stock Exchange

CAC: Capital Account Convertibility

CAD: Current Account Deficit

CAG: Comptroller and Auditor General

CBR: Crude Birth Rate

CCBs: Central Cooperative Banks

CII: Confederation of Indian Industry

CIS: Commonwealth of Independent States

CMIE: Centre for Monitoring Indian Economy

COFEPOSA: Conservation of Foreign Exchange and Prevention of Smuggling Activities

CPI: Consumer Price Index

CRISIL: Credit Rating Information Services of India Ltd.

CRR: Cash Reserve Requirements / Cash Reserve Ratio

CSIR: Council of Scientific and Industrial Research

CSO: Central Statistical Organisation

DFHI: Discount and Finance House of India Ltd.

DFIs: Development Financial Institutions

ECB: External Commercial Borrowing

EFTA: European Free Trade Area

EGS: Employment Guarantee Scheme

EOUs: Export Oriented Units

EPCG: Export Promotion Capital Goods

EPF: Employees Provident Fund

EPZs: Export Processing Zones/Export Promotion Zones

ESCAP: Economic and Social Commission for Asia and Pacific

EWS: Economically Weaker Sections

EXIM Bank: Export and Import Bank

FAO: Food and Agriculture Organisation

FCCBs: Foreign Currency Convertible Bonds

FCI: Food Corporation of India

FCNR(B): Foreign Currency Non-residents Accounts (Bank)

FDI: Foreign Direct Investment

FEMA: Foreign Exchange Management Act

FERA: Foreign Exchange Regulation Act

FBI: Federal Bureau of Investigation

FICCI: Federation of Indian Chamber of Commerce & Industry

FIIs: Foreign Institutional Investors

FIPB: Foreign Investment Promotion Board

FIPC: Foreign Investment Promotion Council

FTZ: Free Trade Zones

GATT: General Agreement on Tariff and Trade

GDP: Gross Domestic Product

GDRs: Global Depository Receipts

HDFC: Housing Development Finance Corporation

HDI: Human Development Index

HUDCO: Housing and Urban Development Corporation of India

HYVP: High Yielding Varieties Programme

IBM: International Business Machines

IBRD: International Bank for Reconstruction and Development

ICAR: Indian Council of Agricultural Research

ICDS: Integrated Child Development Services Scheme

ICICI: Industrial Credit and Investment Corporation of India

ICRA: Investment Information and Credit Rating Agency of India

IDA: International Development Association

IDBI: Industrial Development Bank of India

IFCI: Industrial Finance Corporation of India

IIP: Index of Industrial Production

IISCO: Indian Iron and Steel Company

IL&FS: Infrastructure Leasing and Financial Services Ltd.

ILO: International Labour Organisation

IMF: International Monetary Fund

IMR: Infant Mortality Rate

INTUC: Indian National Trade Union Congress

IPCL: Indian Petrochemicals Corporation Ltd.

IPO: Initial Public Offers

IRDA: Insurance Regulation and Development Authority

IRDP: Integrated Rural Development Programme

ISPs: Internet Service Providers

ISRO: Indian Space Research Organisation

JPC: Joint Plant Committee/Joint Parliamentary Committee

LIBOR: London Inter-bank Borrowing Rate

MAT: Minimum Alternate Tax

MIS: Management Information System

MISA: Maintenance of Internal Security Act

MNCs: Multi-national Corporations/Companies

MODVAT: Modified Value Added Tax

MOU: Memorandum of Understanding

NABARD: National Bank for Agriculture and Rural Development

NAFED: National Agricultural Cooperative Marketing Federation

NASSCOM: National Association of Software and Services Companies

NAV: Net Asset Value

NBFCs: Non-banking Finance Companies

NCAER: National Council of Applied Economic Research

NDC: National Development Council

NDDB: National Dairy Development Board

NDP: Net Domestic Product

NELP: New Exploration Licensing Policy

NGOs: Non-Government Organisations

NHAI: National Highways Authority of India Ltd.

NHB: National Housing Bank

NHPC: National Hydel Power Corporation

NLM: National Literacy Mission

NPAs: Non-performing Assets

NREP: National Rural Employment Programme

NREGS: National Rural Employment Guarantee Scheme

NRIs: Non-Resident Indians

NSIC: National Small-scale Industries Corporation

NSSO: National Sample Survey Organization

OCBs: Overseas Corporation Bodies

OECD: Organisation for Economic Cooperation and Development

OPEC: Organisation of Petroleum Exporting Countries

OTCEI: Over the Counter Exchange of India

PBT: Profit Before Tax

PDS: Public Distribution System

PFC: Power Finance Corporation

PHDCCI: Pubjab, Haryana and Delhi Chamber of Commerce and Industry

PIO: Persons of Indian Origin

PLF: Plant Load Factor

PPPs: Purchasing Power Parities

PSE: Public Sector Enterprises

PSU: Public Sector Undertakings

RBI: Reserve Bank of India

REC: Rural Electrification Corporation

RIBs: Resurgent India Bonds

RRBs: Regional Rural Banks

SAARC: South Asian Association for Regional Cooperation

SAIL: Steel Authority of India Ltd.

SCBs: State Cooperative Banks

SCI: Shipping Corporation of India

SCOPE: Standing Conference of Public Enterprises

SEBI: Securities and Exchange Board of India

SEBs: State Electricity Boards

SEZs: Special Economic Zones

SHCIL: Stock Holding Corporation of India Ltd.

SIDBI: Small Industries Development Bank of India

SIL: Special Import Licence

SLR: Statutory Liquidity Requirements / Ratio

SSIs: Small Scale Industries

STC: State Trading Corporation

STCI: Securities Trading Corporation of India Ltd.

TISCO: Tata Iron and Steel Co.

TLM: Total Literacy Mission

UNDP: United Nations Development Programme

UNESCO: United Nations Educational, Scientific and Cultural Organisation

UTI: Unit Trust of India

VAT: Value Added Taxation / Tax

VDIS: Voluntary Disclosure Income Scheme

VDS: Voluntary Disclosure Scheme

VRS: Voluntary Retirement Scheme

WHO: World Health Organisation

WILL: Wireless in Local Loop

WPI: Wholesale Price Index

WTO: World Trade Organisation

ZBB: Zero-Base Budgeting

Important Financial Institutions

International

1. **World Bank :** World Bank is not a bank in true sense but a specialised UN agency made of its 186 member countries. Initially, the World Bank was known as International Bank of Reconstruction and Development (IBRD) and International Development Association (IDA). The World Bank group comprises five closely associated institutions: International Bank of Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Centre for Settlement of Investments Disputes (ICSID). The term 'World Bank' refers specifically to two of the five, IBRD and IDA. The World Bank was founded in 1944 and incorporated in the UN system in 1947.

   The World Bank functions like a corporate body. The member countries are shareholders of the bank and the number of shares to each country is distributed according to the size of its economy. The United States is the largest single shareholder, with 16.41 percent of votes, followed by Japan (7.87 per cent), Germany (4.49 per cent), the United Kingdom (4.31 per cent), France (4.31 per cent), China (2.55 per cent) and India (2.55 per cent). The rest of the shares are divided among the other member countries. A Board of Governors represents the World Bank's government shareholders. Generally, these governors are ministers, such as Ministers of Finance or Ministers of Development of the respective countries. The governors are the ultimate policy-makers in the World Bank. They meet once a year at the Bank's Annual Meetings. **The current President of the World Bank Group is David Malpass. The headquarter of the World Bank is based in Washington DC.**

2. **International Bank for Reconstruction and Development (IBRD) :** It was formulated in 1944 and established in December 1945 on the eve of the end of Second World War at a time when most of the countries, participated directly and indirectly, were passing through economic crisis. IBRD headquarter is in Washington DC. It started functioning in June 1946. The basic objectives of World Bank are: (i) To provide long-term loans to member countries for economic reconstruction and development, (ii) to extend long-run capital investment for balance of payment equilibrium and balanced development of international trade, (iii) to promote capital investment in member countries, (iv) to provide guarantee for loans granted and to ensure the implementation of development projects. Presently, it has membership of 186 countries. As the World Bank and IMF are interrelated any member country get membership to both or to none.

3. **International Development Association (IDA) :** It was established on September 24, 1960 as a soft loan window of the World Bank. IDA provides interest-free long-term loans to the member countries. The capital resources include net income transferred by IBRD, subscribed capital by member countries, general replenishments by developed countries, etc. IDA helps provide access to better basic services (such as education, healthcare, and clean water and sanitation) and supports reforms and investments aimed at productivity growth and employment creation. Its headquarter is based in Washington DC.

4. **International Financial Corporation (IFC) :** IFC is a member of World Bank Group. It was established in July 1956. Its main objectives are to provide loans to private sector, coordinate capital and management and induce capitalist countries to invest in developing countries. This institution provides loans to private industries of developing nations without any government guarantee and thus promotes capital investment in order to ensure the financial support to private sector in the developing countries. It also provides advice and technical assistance to promote sustainable development. Presently, it has 181 member countries. The authorised capital of IFC is US $2.45 billion. Its headquarter is in Washington DC.

5. **International Monetary Fund (IMF) :** International Monetary Fund was established on December 27, 1945, headquartered at Washington DC, USA, on the recommendation of Bretton Woods Conference and also known as one of the Bretton Wood twins, the other being the World Bank (IBRD and its associate financial institutions). It started its operation on March 1, 1947. It was established to promote international monetary cooperation and system of multilateral payments, and to ensure balanced international trade, stable exchange rate, etc., and also to provide economic assistance to the member countries. The value of Special Drawing Right (SDR) is determined by the currencies of five largest exporting member countries (US Dollar, Deutsche Mark, Yen, Franc and Pound Sterling). USA is the largest quota holder with quota of 17.52 percent of the total. **Kristalina Ivanova Georgieva-**

Kinova (Kristalina Georgieva) is a Bulgarian economist, who is the **current managing director** of the International Monetary Fund.

6. **United Nations Development Programme (UNDP) :** At the United Nations Millennium Summit, world leaders put development at the heart of the global agenda by adopting the Millennium Development Goals (MDGs), which set clear targets for reducing poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women by 2015. On the ground in 166 countries, UNDP uses its global network to help the UN system and its partners to raise awareness and track progress, while it connects countries to the knowledge and resources needed to achieve these goals. UNDP headquarter locations are in New York, Geneva, Copenhagen and Bonn.

   UNDP is basically engaged in building democratic governance, poverty reduction, crisis prevention and recovery in case of crisis along with the preparation of world development report. **Achim Steiner is the head of UNDP**.

7. **Asian Development Bank (ADB) :** It was established in 1966 with an aim to reduce poverty in the Asia-Pacific region. It is a multilateral development financial institution. Its headquarter is in Manila, Philippines. **Presently, it has 67 members. The current President of the ADB is Masatsugu Asakawa.** The headquarters of the bank is at 6 ADB Avenue, Mandaluyong City, Metro Manila, Philippines. Its basic functions are to extend loans and equity investments to the member developing countries and to provide the necessary technical assistance for the various projects and it also promotes and facilitates investment of public and private capital for development. Asian Development Bank is managed by a Board of Governors, a Board of Directors, a President, three Vice-Presidents and the head of departments and offices. India is a founding member of Asian Development Bank.

National

1. **Federation of Indian Chamber of Commerce and Industry (FICCI) :** The Federation of Indian Chambers of Commerce and Industry (FICCI) was established in 1927, on the advice of Mahatma Gandhi, to garner support for India's independence and to further the interests of the Indian business community. Starting with 24 members, the number rose to 103 by 1947. Today, with a membership of over 500 Chambers of Commerce, Trade Associations and Industry bodies, it speaks directly and indirectly for over 2,50,000 business units – small, medium and large – employing around 20 million people. FICCI's annual sessions are major economic landmarks where policy issues are spelt out and a two-way communication between the Government and Industry is fostered. This high profile event is addressed by the Prime Minister of India each year. Various sessions take place which analyse the past business trends and offer suggestions for the future. FICCI's 'Think Tank' consists of eminent economists, planners, civil servants and industrialists who meet regularly in structured monthly meetings to discuss important macro level issues confronting the nation. **Uday Shankar is the current President of the Federation of Indian Chambers of Commerce & Industry (FICCI) for the year 2020-21. He succeeded the Sangita Reddy and its headquarter is in New Delhi.**

2. **Finance Commission :** The First Finance Commission was constituted under Art. 280 by a Presidential Order dated November 22, 1951, under the chairmanship of KC Neogy. The Finance Commission is appointed by the President for a period of five years having five members in all. It shall be the duty of the Commission to make recommendations to the President as to: (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds; (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.

   15th Finance Commission

   Former Planning Commission member N.K. Singh was appointed chairman of the 15th Finance Commission, which, among other things, has been asked to look into the impact of the goods and services tax (GST) on finances of both the centre and states, said a government notification.

   The other members of the commission, which is required to submit its report by October 2019, are former economic affairs secretary Shaktikanta Das and former chief economic adviser Ashok Lahiri, Niti Aayog member Ramesh Chand and Georgetown University professor Anoop Singh. The commission will review the current status of the finance, deficit, debt levels, cash balances and fiscal discipline efforts of the union and the states.

It will also recommend a fiscal consolidation road map for sound fiscal management. As per Article 280 of the Constitution, the commission is required to make recommendations on the distribution of the net proceeds of taxes between the centre and the states. The commission also suggests the principles which should govern the grants in aid of the revenues of the states out of the consolidated fund of India.

3. **Securities and Exchange Board of India (SEBI):** Securities and Exchange Board of India (SEBI) was established in 1988 to regulate and develop the growth of the capital market. SEBI regulates the working of stock exchanges and intermediaries such as stockbrokers and merchant bankers, accords approval for mutual funds, and registers Foreign Institutional Investors who wish to trade in Indian scrips. Section 11(1) of the SEBI Act propounds that it shall be the duty of the Board to protect the interests of investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit. **The present Chairman of the SEBI is Ajay Tyagi and SEBI is headquartered in Mumbai.**

4. **National Association of Software and Service Companies (NASSCOM) :** It represents some 700 Indian companies. In a decade, the non-profit group has become the single voice of India's IT sector, guiding the government, sponsoring seminars and conferences, and churning out rosy forecasts for Indian technologists. **Ms. Debjani Ghosh, former MD, Intel South Asia, is the current and first women President of NASSCOM, succeeding Mr. R Chandrashekhar, President, NASSCOM on completion of his term in March, 2018.** The group has offices in Delhi, Mumbai, Bangalore and Hyderabad.

5. **National Stock Exchange (NSE) :** The National Stock Exchange of India Limited has genesis in the report of the High Powered Study Group on Establishment of New Stock Exchanges, which recommended promotion of a National Stock Exchange by financial institutions (FIs) to provide access to investors from all across the country on an equal footing. Based on the recommendations, NSE was promoted by leading financial institutions at the behest of the Government of India and was incorporated in November 1992 as a tax-paying company unlike other stock exchanges in the country with its headquarter in Mumbai. **Presently, Vikram Limaye is the Managing Director and CEO of NSE.**

   On its recognition as a stock exchange under the Securities Contracts (Regulation) Act, 1956, in April 1993, NSE commenced operations in the Wholesale Debt Market (WDM) segment in June 1994. The Capital Market (Equities) segment commenced operations in November 1994 and operations in Derivatives segment commenced in June 2000.

6. **Bombay Stock Exchange (BSE) :** The Stock Exchange, Mumbai, popularly known as 'BSE' was established in 1875 as 'The Native Share and Stock Brokers Association'. It is the oldest one in Asia, even older than the Tokyo Stock Exchange, which was established in 1878. It is the first Stock Exchange in the Country to have obtained permanent recognition in 1956 from the Government of India under the Securities Contracts (Regulation) Act, 1956. BSE is now a corporatised and demutualised entity and is now known as BSE Ltd.

   The Exchange, while providing an efficient and transparent market for trading in securities, debt and derivatives upholds the interests of the investors and ensures redressal of their grievances whether against the companies or its own member-brokers. It also strives to educate and enlighten the investors by conducting investor education programmes and making available to them necessary informative inputs. It has more than 4700 companies listed on it thus making its the World's no. 1 stock exchange in terms of numbers of listed companies on the stock exchanges throughout the world. **The Present MD and CEO of BSE Ltd. is Mr. Ashish Chauhan.**

7. **National Bank for Agriculture and Rural Development (NABARD) :** National Bank for Agriculture and Rural Development Act, 1981, was passed by the Indian Parliament and NABARD was established on July 12, 1982 with an initial capital of Rs. 100 crore. The capital is enhanced to Rs. 2,000 crore subscribed by Government of India and Reserve Bank of India. NABARD is established as a development Bank, in terms of the Preamble of the Act, 'for providing and regulating credit and other facilities for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto.

   NABARD took over the functions of the erstwhile Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of RBI and

Agricultural Refinance and Development Corporation (ARDC). Its subscribed and paid-up capital was Rs.100 crore which was enhanced to Rs. 500 crore, contributed by the Government of India (GoI) and RBI in equal proportions. It is now enhanced to Rs. 2,000 crore. **Govinda Rajulu Chintala is the Chairman of National Bank for Agriculture and Rural Development (NABARD)** with effect from 27 May 2020.

8. **Industrial Finance Corporation of India (IFCI) :** At the time of independence in 1947, India's capital market was relatively under-developed. Although there was significant demand for new capital, there was a dearth of providers. Merchant bankers and underwriting firms were almost non-existent. And, commercial banks were not equipped to provide long-term industrial finance in any significant manner.

   It is against this backdrop that the government established the Industrial Finance Corporation of India (IFCI) on July 1, 1948, as the first development financial institution in the country to cater to the long-term finance needs of the industrial sector. The newly-established DFI was provided access to low-cost funds through the central bank's Statutory Liquidity Ratio or SLR which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates.

   This arrangement continued until the early 1990s when it was recognized that there was need for greater flexibility to respond to the changing financial system. It was also felt that IFCI should directly access the capital markets for its funds needs. It is with this objective that the constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the name of the company was also changed to 'IFCI Limited' with effect from October 1999.

   IFCI has fulfilled its original mandate as a DFI by providing long-term financial support to all segments of Indian industry. It has also been chiefly instrumental in translating the government's development priorities into reality. Until the establishment of ICICI in 1956 and IDBI in 1964, IFCI remained solely responsible for implementation of the government's industrial policy initiatives. Its contribution to the modernization of Indian industry, export promotion, import substitution, entrepreneurship development, pollution control, energy conservation and generation of both direct and indirect employment is noteworthy. **Presently Dr. Emandi Sankara Rao is the MD and CEO of IFCI and its headquarter is in Delhi.**

9. **Confederation of Indian Industry (CII) :** The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

   CII is a non-government, not-for-profit, industry-led and industry-managed organisation, playing a proactive role in India's development process. Founded over 107 years ago, it is India's premier business association, with a direct membership of over 4,800 companies from the private as well as public sectors, including SMEs and MNCs and indirect membership of over 50,000 companies from 226 national and regional sectoral associations.

   CII helps in changing trends by working closely with government on policy issues, boosting efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry identify and execute corporate citizenship programmes.

   With 37 offices in India, 13 overseas in Afghanistan, Australia, Austria, Belgium, China, France, Israel, Italy, Malaysia, Singapore, South Africa, UK, USA and institutional partnerships with 216 counterpart organisations in 94 countries, CII serves as a reference point for Indian Industry and the international business community. **Uday Kotak, Managing Director & CEO of Kotak Mahindra Bank Limited is the President of Confederation of Indian Industry (CII);** T. V. Narendran, MD and CEO of Tata Steel is the President-Designate; and Sanjiv Bajaj, Chairman and Managing Director of Bajaj Finserv is the Vice-President. **Its headquarter is in Delhi.**

Performance of Indian Economy under various Plans

Planning Commission

The Planning Commission was set up by a Resolution of the Government of India in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilisation of resources and determining priorities. Jawaharlal Nehru was the first Chairman of the Planning Commission. Planning Commission was replaced by National Institution for Transforming India, also called NITI Aayog on January 1, 2015.

National Institution for Transforming India (NITI Aayog)

The National Institution for Transforming India, also called NITI Aayog, was formed via a resolution of the Union Cabinet on January 1, 2015. NITI Aayog is the premier policy 'Think Tank' of the Government of India, providing both directional and policy inputs. While designing strategic and long term policies and programmes for the Government of India, NITI Aayog also provides relevant technical advice to the Centre and States.

The Government of India, in keeping with its reform agenda, constituted the NITI Aayog to replace the Planning Commission instituted in 1950. This was done in order to better serve the needs and aspirations of the people of India. An important evolutionary change from the past, NITI Aayog acts as the quintessential platform of the Government of India to bring States to act together in national interest, and thereby fosters Cooperative Federalism.

The current Team Members of **NITI Aayog**

Chairperson

Shri Narendra Modi, Hon'ble Prime Minister

Vice Chairperson

Dr. Rajiv Kumar

Full-Time Members

Dr. Bibek Debroy

Shri V.K. Saraswat

Prof. Ramesh Chand

Chief Executive Officer

Shri Amitabh Kant

First five-year plan (1951–56)

During the first five-year plan, India was facing severe food shortage and a climbing inflation rate. Keeping in view these problems, the agriculture sector including irrigation and power projects, was given the higher priority. India also had to bring some sort of equilibrium in the distribution of income. The total outlay allocated was Rs. 2,069 crore (later revised to Rs. 2,378 crore) in which about 45 per cent was to be spent on public sector. Most of the targets were met successfully and the price level lowered. The main aim of rise in the rate of investment also gained moderate success.

Second five-year plan (1956–61)

In the background of the success of first five-year plan, it was felt that Indian economy had reached a stage where more priority should be given to heavy and basic industries of the economy. The main goal was to promote a pattern of development that would result in the establishment of a defined socialistic pattern. The main objectives of this plan were to increase national income by 25 per cent, rapid industrialisation and more even distribution of economic power. Total proposed outlay was Rs. 7,900 crore which was just double of the previous five-year plan with the aim to increase the rate of investment to 11 per cent.

Third five-year plan (1961–66)

This plan was aimed at securing self-sustaining growth as the planners felt that the Indian economy had reached the take-off stage. The main objectives of this plan were to achieve self-sufficiency in the production of food grains, expand basic industries and employment opportunities and reduction in the disparities of income, wealth and economic power. This plan was aimed at the increase in the national income by 30 per cent and per capita income by 17 per cent. Due to the conflict with China in 1962 and with Pakistan in 1965, major shift towards defence expenditure occurred. The proposed outlay for this plan was Rs. 11,600 crore in which the actual public sector outlay was Rs. 8,500 crore.

Annual Plans

Because of conflicts and two successive years of severe drought, the fourth plan was delayed by three years. During the war period, India also faced reduction in foreign aid for consistent economic development. This period also witnessed the devaluation of currency, inflationary recession, general rise in price level and erosion of available resources. So in-between 1966 and 1969, three annual plans were formulated and these were termed as 'plan holiday'.

Fourth five-year plan (1969–74)

This plan was aimed at stable growth and self-reliance with reduction in fluctuation in agricultural production and the dependency on foreign aids. This plan also gave emphasis on improving the condition of less privileged and weaker sections by reduction of concentration of wealth and income. This plan was aimed at the growth of national income by 5,5 per cent and increasing net domestic product from Rs. 29,071 crore to Rs. 38,306 crore. The proposed outlay for this plan was Rs. 24,880 crore.

Fifth five-year plan (1974–79)

This plan was introduced against the backdrop of severe economic crisis because of heavy inflation and hike in oil price in the international market. The plan was aimed at growth with social justice and to bring inflation under control along with stability in the economic status with targeted annual growth rate of 5.5 per cent in the national income. This plan also gave emphasis on the increasing the rate of domestic saving. However, the Janta Party terminated this plan in the fourth year (1978) when it came to power. The proposed outlay for this plan was Rs. 53,410 crore in which the actual public sector outlay was Rs. 39,430 crore.

Sixth five-year plan (1978–83 and 1980–85)

There were two sixth five-year plans because of change of the government at the centre. One was made by the Janta Party government (1978-83) and was terminated by reinstated Congress government which introduced another plan (1980-85). Janta Party's plan stressed at higher production with greater employment opportunities for people living below poverty line. Congress government rejected the Janta Party's plan and brought back the Nehru model of planned growth with an objective of reducing poverty by expanding the economy. 'Garibi Hatao' and strengthening the infrastructure of both the primary and secondary sectors were the main objectives. Extra stress was laid on tackling the interrelated problems through a systematic approach. The sixth five-year plan succeeded in achieving reasonable rate of economic growth. The actual expenditure in the public sector was Rs. 1,09,290 crore (proposed public sector outlay was Rs. 97,500 crore). The total proposed outlay for this plan was Rs. 1,58,710 crore. Average annual growth rate of the plan was 5.2 per cent.

Seventh five-year plan (1985–90)

This plan stressed on such policies and programmes which aimed at rapid growth in food grain production, increased employment opportunities and productivity within the defined parameters of the plan like self-reliance, modernisation, social justice, etc. Due to consistent favourable weather conditions, food grain production growth was 3.23 per cent while GDP grew at an average rate of 5.8 per cent, 0.8 per cent more than the targeted growth rate. The total expenditure of the seventh plan was Rs. 2,18,729.62 crore (21.52 per cent more than the proposed outlay of Rs. 1,80,000 crore) in the public sector. The total proposed outlay was Rs. 3,48,150 crore.

Annual plans (1990-91, 1991-92)

The eighth plan could not be launched as per schedule because of a series of changes in the governments at the Centre. This led to two annual plans based on the same objectives as those of the eighth plan and major thrust was given to employment and social transformation.

Eighth five-year plan (1992-97)

After discussion on a series of approaches, the fourth version of the five-year plan was finally approved as the country was going through severe economic crisis caused by worsening balance of payment situation, heavy external debts, very high budget deficits, growing inflation rate and recession of industries. In order to pursue higher growth rate, several structural adjustment policies were introduced gradually. The government introduced the process of fiscal reforms for the first time with a vision of bringing dynamism to the economy. The main objectives were accelerated economic growth and improvement in the quality of life of the common man. The plan was aimed at an average annual growth rate of 5.6 per cent with average industrial growth rate of 7.5 per cent. The total expenditure during the eighth plan was Rs. 4,95,669 crore (revised) at current prices while the proposed public sector outlay was Rs. 4,34,100 crore. In this plan, the average annual growth rate of 6.8 per cent was achieved against the targeted 5.6 per cent.

Ninth five-year plan (1997-2002)

This plan was aimed at growth with social justice and equality. In this plan, priority was given to accelerating the growth rate of economy with stable price, agricultural and rural development with emphasis on the provision of basic minimum services like drinking water, education, health care, shelter, etc. and control over population growth. The targeted GDP growth rate was envisaged at 7 per cent per annum, then was revised to 6.5 per cent due to change in the national and global economic scenario, but the ninth plan achieved GDP growth rate of 5.35 per cent only because of decline in the growth rate in agriculture and manufacturing sector. The ninth plan also failed to achieve target rate of growth of saving and investment and to check the growth of unemployment. The public sector outlay for the ninth five-year plan was placed at Rs. 8,59,200 crore (33 per cent more than the eighth plan) while the outlay actually realised was Rs. 7,05,818 crore (seen as the failure of both the Centre and the state).

10th five-year plan (2002-2007)

The 10th plan targeted an average annual growth rate of GDP by 8.1 per cent for the plan period to be achieved by a steady acceleration in the course of the plan period from around 6.7 per cent targeted in 2002-2003, to 9.3 per cent in the terminal year 2006-2007. This was expected to lay the basis for a growth rate of above nine per cent during the eleventh plan period.

Sectorally, the 10th plan targeted growth of agricultural GDP at four per cent per year, aiming to reverse the deceleration in the second half of the 1990s – from 3.2 per cent in the period 1980-1996 to 2.6 per cent in the period 1996-2002. GDP growth of around 8 per cent was to require industrial sector growth of over 10 per cent.

India's Vision for the 11th Five Year Plan :

The 11th Plan provides an opportunity to restructure policies to achieve a new vision based on faster, more broad - based and inclusive growth. It is designed to reduce poverty and focus on bridging the various divides that continue to fragment our society. The 11th Plan must aim at putting the economy on a sustainable growth trajectory with a growth rate of approximately 10 per cent by the end of the Plan period. It will create productive employment at a faster pace than before, and target robust agriculture growth at 4% per Year.

It must seek to reduce disparities across regions and communities by ensuring access to basic physical infrastructure as well as health and education services to all. It must recognize gender as a cross - cutting theme across all sectors and commit to respect and promote the rights of the common person. Rapid growth is an essential part of our strategy for two reasons. Firstly, it is only in a rapidly growing economy that we can expect to sufficiently raise the incomes of the mass of our population to bring about a general improvement in living conditions. Secondly, rapid growth is necessary to generate the resources needed to provide basic services to all. Work done within the Planning Commission and elsewhere suggests that the economy can accelerate from 8 per cent per Year to an average of around 9% over the 11th Plan period, provided appropriate policies are put in place.

With population growing at 1.5% per Year, 9% growth in GDP would double the real per capita income in 10 Years. This must be combined with policies that will ensure that this per capita income growth is broad based, benefiting all sections of the population, especially those who have thus far remained deprived. A key element of the strategy for inclusive growth must be an all out effort to provide the mass of our people the access to basic facilities such as health, education, clean drinking water etc. While in the short run these essential public services impact directly on welfare, in the longer run they determine economic opportunities for the future.

The private sector, including farming, micro, small and medium enterprises (MSMEs) and the corporate sector, has a critical role to play in achieving the objective of faster and more inclusive growth. This sector accounts for 76% of the total investment in the economy and an even larger share in employment and output. MSMEs, in particular, have a vital role in expanding production in a regionally balanced manner and generating widely dispersed off - farm employment. Our policies must aim at creating an environment in which entrepreneurship can flourish at all levels, not just at the top.

Twelfth five year plan (2012-2017):

The basic objectives for the Twelfth plan is "faster,more inclusive and sustainable growth".Its aim to renew Indian economy and use the funds from government in improving the facilities of education, sanitation and health. The plan would infuse a huge fund of 47.7 lakh crore rupees that will help to accomplish the economic growth to an average level of 8.2 percent. 12th five-year plan is guided by the policy guidelines and principles to revive the following Indian economy, which registered a growth rate of meager 5.5 percent in the first quarter of the financial year 2012-13. The plan aims towards the betterment of the infrastructural projects of the nation avoiding all types of bottlenecks. The UID (Unique Identification Number) will act as a platform for cash transfer of the subsidies in the plan. The plan aims towards achieving a growth of 4 percent in agriculture and to reduce poverty by 10 percentage points, by 2017.

This plan also proposes a growth target of 8 percent. As far as infrastructure sector is concerned, there is a proposal of increasing the investment in this sector to 9 per cent of the GDP by the end of the Plan period. Niti Aayog has launched three-year action plan from April 1 after the end of 12th Five Year Plan on March 31. Niti Aayog has also been entrusted the work on the 15-year Vision Document and a seven year strategy, which would guide the government's development works till 2030.

Some other major targets are:

- Increasing green cover by one million hectare every year and adding 30,000 MW of renewable energy generation capacity in the Plan period.
- To reduce emission intensity of the GDP in line with the target of 20-25 reduction by 2020 over 2005 levels.
- Raising agriculture output to 4 per cent for the full Plan.
- manufacturing sector growth to 10 per cent for the full Plan.
- Target of adding over 100,000 MW of power generation capacity in the 12th five year plan.

Stock Exchanges in India

S. No	Name of the Stock Exchange	Addresses
1	OTC Exchange of India	92, Maker Towers F, Cuffe Parade, Mumbai - 400005
2	The Uttar Pradesh Stock Exchange Association Ltd.	Padam Towers, 14/113, Civil Lines, Kanpur - 208001
3	Jaipur Stock Exchange Ltd.	Stock Exchange Building, JLN Marg, Malviya Nagar, Jaipur - 302017
4	Madras Stock Exchange Ltd.	P O Box no 183, New No: 30, (old no:11), Second Line Beach, Chennai - 600001
5	Cochin Stock Exchange Ltd.	MES Dr P K Abdul Gafoor Memorial Cultural Complex, 36/1565, 4th Floor, Judges Avenue, Kaloor, Cochin - 682017
6	Bangalore Stock Exchange Ltd.	Stock Exchange Towers, 51, 1st Cross, J C Road, Bangalore - 560027
7	National Stock Exchange of India Ltd.	Exchange Plaza, Bandra-Kurla Complex, Bandra(E), Mumbai - 400051
8	Gauhati Stock Exchange Ltd.	H/NO, 57 2A, 2nd Floor, Shine Tower, Sati Jaymati Road, Arya Chowk, Rehabari, Guwahati - 781 008.
9	The Ludhiana Stock Exchange Ltd.	Feroze Gandhi Market, Ludhiana - 141001
10	The Calcutta Stock Exchange Association Ltd.	7, Lyons Range, Kolkata - 700001
11	Bhubaneshwar Stock Exchange Ltd.	Stock Exchange Bhavan, P-2, Jayadev Vihar,P.O. – Chandrasekharpur, Bhubaneswar – 751 023”
12	The Delhi Stock Exchange Ltd.	DSE House, 3/1, Asaf Ali Road, New Delhi - 110002
13	Vadodara Stock Exchange Ltd.	Fortune Tower, Sayajigunj, Vadodara - 390005
14	Ahmedabad Stock Exchange Ltd.	Kamdhenu Complex, Opp, Sahajanand College, Panjarapole, Ambawadi, Ahmedabad - 380001
15	Madhya Pradesh Stock Exchange Ltd.	Palika Plaza, Phase II, 201, 2nd Floor, MTH Compound, Indore - 452001
16	Pune Stock Exchange Ltd.	Shivleela Chambers, 752, Sadashiv Peth, RB Kumthekar Marg, Pune - 411030
17	Bombay Stock Exchange Ltd.	Phiroze Jeejeebhoy Towers , Dalal Street, Mumbai - 400023
18	Inter connected Stock Exchange of India Ltd.	International Infotech Park, Tower 7, 5th Floor, Sector 30, Vashi, Navi Mumbai - 400703
19	MCX Stock Exchange Ltd	Exchange Square, 3rd Floor, Suren Road, Chakala, Andheri (East) Mumbai - 400 093.

The last two exchanges formed and their role

National Stock Exchange

In the 1990's when the Indian economy was moving in too many directions the country was facing severe shortage of resources in the form of investment despite a healthy saving rate. India was looking for strong financial infrastructure through widening the investor base within the country for which it had to institute some sort of remedies to reduce the structural weakness and inefficiencies prevailing in the stock market, primary market and other financial sectors like banking and insurance. The newly formed Securities and Exchange Board of India under GV Ramakrishna brought various malpractices prevailed in the existing stock markets like benami possessions, outdated trading, settlement mechanism, lack of transparency in transactions, time gap between actual purchasing and physical delivery, improper disclosure, price manipulation, inside trading, lack of liquidity, etc., into the limelight. Prior to this Narsimhan Committee, formed to recommend the implemental measures to strengthen the financial sector, had been in favour of more powers to SEBI in order to bring about transparency. It was also required for attracting more Non-resident Indians and Foreign Institutional Investors. This led to the formation of Pherwani Committee to explore the various stock exchange reforms. Pherwani Committee suggested the establishment of central depository trust, scripless trading supplemented by increased use of technology, a national market system, efficient and uniform settlement cycle, etc. This led to the formation of National Stock Exchange.

The existing pioneer Bombay Stock Exchange, which had dominated the market because of its hitherto unassailable position, being an exclusive broker's association, did not support the concept of Stock

Exchange regulations. They did not like the regulations coming in their way, which could harm their interest. They also tried to create hurdles through strike and law suits. Eventually, the National Stock Exchange came into existence in 1994, promoted by Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India, all Insurance Corporations, selected commercial banks and others in response to the Government of India's request to bring more transparency and efficiency in the stock trade. It was because of National Stock Exchange the market saw the elimination of existing traditional fish market style of floor trading. The National Stock Exchange has been instrumental in introducing a nationwide network of computerised trading with more than 280-odd interconnected centres and automated screen-based trading for foreign institutional investors. It also had shortened the settlement period and made it efficient and transparent.

Trading at the National Stock Exchange can be categorized into Wholesale Debt Market and Capital Market. The former mode of trading is similar to money market but here the transactions related to government securities, treasury bills, public sector unit bonds, commercial paper, etc. In National Stock Exchange, both recognised trading members (representing themselves and clients), and participants like banks can trade.

Thus, the National Stock Exchange introduced an integrated and more professional stock market trade into the country, where investors could now trade on an equal footing. Increasing Internet use and dematerialised form of trade now attracted more and more people aware of the stock market practices and attracted by its user-friendliness. Since capital market is a major resource of capital coming through small, institutional and foreign investors, National Stock Exchange has a vital role to play in the growth of Indian economy.

Over The Counter Exchange of India (OTCEI)

The exposed functional inefficiencies and lack of transparency of the traditional trading system created a demand for an organisation, that was capable of providing better and more efficient services. In response to this need, the Over The Counter Exchange of India came into the picture. Incorporated in 1990, under the Securities Contracts Regulation Act, 1956, OTCEI was set-up to help promoters to raise finance for new projects in a cost effective manner while providing transparency in the trading operations. OTCEI introduced many new concepts to the Indian capital markets like screen-based nationwide trading, sponsorship of companies, market making and scripless trading.

Starting its business in 1992, OTCEI was the country's first electronic exchange, was supported by the country's premier financial institutions - Unit Trust of India, Industrial Credit and Investment Corporation of India, Industrial Development Bank of India, SBI Capital Markets, Industrial Finance Corporation of India, General Insurance Corporation and its subsidiaries and CanBank Financial Services, which practically assured its success.

Some of the unique features of OTCEI are: only receipts of actual share certificates are issued (These receipts can be used for other types of transaction) which remain with the custodian; the investor gets the actual rate and amount of trading made by him/her instantly; and faster settlement and transfer process in comparison to other exchanges is the inevitable outcome.