H.K.E. SOCIETY'S

SMT. CHINNAMMA BASAPPA PATIL ARTS AND COMMERCE DEGREE COLLEGE, CHINCHOLI

DEPARTMENT OF ECONOMICS

LECTURE NOTE

Academic year -2025-26

Department of Economics

SEP- B.A Ist Semester

Lecture Notes

Paper – Micro Economics -I

✅Module 1: Introduction to Economics

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1. Definitions of Economics

Wealth Definition

Proposed by **Adam Smith**
Economics is the study of wealth.

Welfare Definition

Given by **Alfred Marshall**
Economics studies mankind in the ordinary business of life.

Scarcity Definition

Given by **Lionel Robbins**
Economics is the science which studies human behaviour as a relationship between ends and scarce means having alternative uses.

Growth Definition

Associated with **Paul Samuelson**
Focus on economic growth and development.

2. Nature and Scope of Economics

Nature:

- Social Science
- Positive & Normative
- Micro & Macro

Scope:

- Consumption
- Production
- Exchange
- Distribution
- Public Finance

3. Basic Tools of Economic Analysis

□ Variables

A variable is something that can change.

Types:

- Dependent variable
- Independent variable
- Endogenous
- Exogenous

□ Functional Relationship

Example:
$Qd = f(P, Y)$

□ Equations

Linear:
$Q = a + bP$

Non-linear:
$Q = aP^2$

Static, Dynamic & Comparative Statics

- **Static** – At a point in time
- **Comparative Static** – Comparison between two equilibrium positions
- **Dynamic** – Over time

4. Models in Economics

Meaning:
Simplified representation of reality.

Role:

- Predict behaviour
- Explain relationships
- Policy formulation

Example: Demand & Supply model.

5. Partial and General Equilibrium

Partial Equilibrium

Developed by **Alfred Marshall**
Studies one market at a time.

General Equilibrium

Developed by **Leon Walras**
Studies interrelationship among all markets.

6. Importance of Microeconomics

- Resource allocation
- Price determination
- Business decision-making
- Welfare analysis

Limitations:

- Unrealistic assumptions
- Ignores macro factors
- Static analysis

✅Module 2: Consumer Behaviour

1. Utility – Meaning

Utility is the want-satisfying power of a commodity.

2. Cardinal Utility Analysis

Utility measurable in numbers (utils).

Supported by **Alfred Marshall**

Law of Diminishing Marginal Utility

As consumption increases, marginal utility decreases.

3. Law of Equi-Marginal Utility

Consumer maximizes satisfaction when:

$MUx/Px = MUy/Py$

4. Consumer Surplus

Developed by **Alfred Marshall**

Consumer Surplus = Price willing to pay – Price actually paid.

5. Ordinal Utility Analysis

Utility cannot be measured but ranked.

Developed by:
J. R. Hicks and
R. G. D. Allen

6. Indifference Curve Theory

Assumptions:

- Rational consumer
- Diminishing MRS
- Consistency

Properties:

- Downward sloping
- Convex to origin
- Do not intersect

7. Budget Line

Represents combinations of goods consumer can afford.

8. Consumer Equilibrium

Condition:
$MRSxy = Px/Py$

9. Effects

Income Effect

Change due to income change.

Substitution Effect

Change due to relative price change.

Price Effect

Total effect of price change.

Revealed Preference Theory

Developed by **Paul Samuelson**

Consumer preferences revealed through choices.

✅Module 3: Demand and Supply

☐ Demand

Meaning:
Quantity demanded at different prices.

Law of Demand

Inverse relationship between price and quantity demanded.

Determinants of Demand

- Price
- Income
- Tastes
- Prices of related goods
- Population

Elasticity of Demand

Price Elasticity:

Ed = %ΔQ / %ΔP

Income Elasticity

Cross Elasticity

Exceptions to Law of Demand

- Giffen goods
- Veblen goods
- Speculation

☐ Supply

Meaning:
Quantity supplied at different prices.

Law of Supply

Direct relationship between price and supply.

Elasticity of Supply

$Es = \%\Delta Qs / \%\Delta P$

Short Run & Long Run Supply

Short Run:
At least one factor fixed.

Long Run:
All factors variable.

✅Module 4: Theory of Production

Production Function

$Q = f(L, K)$

Law of Variable Proportions

Three stages:

1. Increasing returns
2. Diminishing returns
3. Negative returns

Returns to Scale

- Increasing

- Constant
- Decreasing

Least Cost Combination

Occurs where:
MRTS = Factor Price Ratio

✅Module 5: Cost and Revenue Analysis

□ Cost Concepts

Money Cost

Actual monetary expenditure.

Real Cost

Effort & sacrifice.

Cost Curves

- Total Cost (TC)
- Average Cost (AC)
- Marginal Cost (MC)

Relationship:
MC cuts AC at minimum point.

Short Run Cost Curves

- U-shaped AC & MC
- AFC falls continuously

Long Run Cost Curves

- Envelope curve
- Economies & diseconomies of scale

□ Revenue Concepts

- Total Revenue (TR)
- Average Revenue (AR)
- Marginal Revenue (MR)

Firm Equilibrium

Condition:
MR = MC

Industry Equilibrium

Occurs when:
Demand = Supply

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Department of Economics

SEP- B.A IInd Semester

Lecture Notes

Paper – Micro Economics -II

✅Module 1: Theory of Price

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1. Elementary Theory of Price Determination

Price is determined by the interaction of demand and supply.

Equilibrium price:
Where Quantity Demanded = Quantity Supplied.

2. Cobweb Theorem

Explains price fluctuations in markets where production responds with a time lag (e.g., agriculture).

Types:

- Convergent Cobweb (stable)
- Divergent Cobweb (unstable)
- Continuous/Neutral Cobweb

Assumption:
Supply depends on previous year's price.

3. The Mark-Up Rule

Used in imperfect competition.

Price = Average Cost + Mark-up

Mark-up depends on:

- Market power
- Elasticity of demand

4. Bain's Limit Pricing Theory

Developed by **Joe S. Bain**

Firms set price below monopoly price to prevent entry of new firms.

Concept:
Limit price = Highest price that deters entry.

5. Average Cost Pricing (Representative Firm Model)

Price equals Average Cost in the long run.

Common in:

- Public utilities
- Regulated industries

6. Price and Output Equilibrium

Firm equilibrium condition:
MR = MC

Industry equilibrium:
Demand = Supply

✅Module 2: Market Structure

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1. Perfect Competition

Characteristics:

- Large number of buyers and sellers
- Homogeneous product

- Free entry and exit
- Perfect knowledge

Price Determination:

Industry determines price; firm is price taker.

Equilibrium:
MR = MC

Long Run:
Normal profit only.

2. Monopoly

Meaning:
Single seller, no close substitutes.

Types:

- Pure monopoly
- Legal monopoly
- Natural monopoly

Equilibrium:

MR = MC
Price > MC

Leads to:

- Supernormal profits
- Deadweight loss

3. Monopolistic Competition

Introduced by **Edward Chamberlin**

Features:

- Many sellers
- Product differentiation
- Free entry

Short Run:
Supernormal profits possible.

Long Run:
Normal profits.

4. Duopoly

Market with two sellers.

Example:
Cournot model (output competition).

5. Oligopoly

Few firms dominate.

Features:

- Interdependence
- Price rigidity
- Non-price competition

Kinked demand curve model explains price rigidity.

6. Monopsony

Single buyer market.

Example:
Single employer in labour market.

Buyer has wage-setting power.

✅Module 3: Theory of Distribution – I

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1. Introduction

Distribution refers to pricing of factors of production.

2. Personal Distribution

Distribution of income among individuals.

3. Functional Distribution

Distribution among factors:

- Rent
- Wages
- Interest
- Profit

4. Classical Theory of Distribution

Associated with:
David Ricardo

- Rent determined by fertility
- Wages at subsistence level
- Profit residual

5. Modern Theory of Distribution

Based on Marginal Productivity Theory.

Factor price = Value of Marginal Product (VMP)

6. Factors Affecting Demand for Factors

- Demand for final goods
- Productivity

- Price of substitute factors
- Technology

✅Module 4: Theory of Distribution – II

□ Factors of Production

1. Land
2. Labour
3. Capital
4. Organization

□ Rent

Ricardian Theory of Rent

Proposed by **David Ricardo**

- Rent arises due to differential fertility
- Law of diminishing returns

Modern Theory of Rent

Rent = Surplus over transfer earnings.

Quasi Rent

Temporary surplus earned by man-made factors in short run.

Concept introduced by **Alfred Marshall**

□ Wages

Nominal Wage

Money wage.

Real Wage

Purchasing power of wage.

Marginal Productivity Theory of Wages

Wage = Value of marginal product of labour.

Modern Theory of Wages

Determined by:
Demand and Supply of labour.

□ Interest

Classical Theory

Interest = Reward for saving.

Modern Theory (Liquidity Preference Theory)

Given by **John Maynard Keynes**

Interest determined by:
Demand & Supply of money.

IS-LM Model

Developed by **John Hicks**

IS Curve → Goods market equilibrium
LM Curve → Money market equilibrium

□ Profit

Gross Profit

Includes wages of management, rent, interest.

Net Profit

Pure profit.

Risk & Uncertainty Theory

Given by **Frank H. Knight**

Profit arises due to uncertainty bearing.

✓Module 5: Welfare Economics & Economics of Risk

□ Welfare Economics

Study of economic well-being.

Social Welfare vs Economic Welfare

Economic welfare:
Material welfare.

Social welfare:
Broader concept including non-economic factors.

Pigou’s Welfare Analysis

Developed by **A. C. Pigou**

Focus:

- Externalities
- Government intervention

Pareto Optimality

Proposed by **Vilfredo Pareto**

A situation where no one can be made better off without making someone worse off.

Economics of Risk & Uncertainty

Risk:

Probability known.

Uncertainty:

Probability unknown.

Gambling

Risk-loving behaviour.

Insurance

Risk-averse behaviour.

Economics of Information

Developed by **George Stigler**

Information is costly and affects market efficiency.

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Department of Economics

SEP- B.A IIIrd Semester

Lecture Notes

Paper – Principles of Macro Economics -I

✅Module 1: Introduction to Macroeconomics

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1. Basic Concepts of Macroeconomics

Macroeconomics studies the economy as a whole.

It deals with:

- National Income
- Employment
- Inflation
- Economic Growth
- Balance of Payments

2. Significance of Macroeconomics

- Policy formulation
- Economic planning
- Control of inflation
- Business cycle analysis
- Employment generation

3. Limitations of Macroeconomics

- Ignores individual behaviour
- Aggregation problems
- Assumes homogeneity
- Sometimes unrealistic assumptions

4. Partial and General Equilibrium

Partial Equilibrium

Associated with **Alfred Marshall**
Studies one market at a time.

General Equilibrium

Associated with **Leon Walras**
Studies all markets simultaneously.

5. Static, Comparative Static and Dynamic Analysis

- **Static**: Analysis at a point of time.
- **Comparative Static**: Comparison of two equilibrium positions.
- **Dynamic**: Study of changes over time.

✅Module 2: National Income Accounting

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1. Meaning and Definitions

National Income refers to the total income earned by factors of production in a country during a year.

Definition by:
Alfred Marshall
National dividend = net annual income of the country.

2. Importance of National Income

- Measures economic performance
- Helps in planning
- Indicates standard of living
- International comparison

3. Important Concepts

GDP (Gross Domestic Product)

Value of final goods and services produced within domestic territory.

GVA (Gross Value Added)

Output minus intermediate consumption.

GNP (Gross National Product)

GDP + Net Factor Income from Abroad.

NNP (Net National Product)

GNP – Depreciation.

NI (National Income)

NNP at factor cost.

PCI (Per Capita Income)

NI / Population.

DPI (Disposable Personal Income)

Personal income – Direct taxes.

4. Methods of Measuring National Income

1. Production Method
2. Income Method
3. Expenditure Method

5. Difficulties in Measuring National Income

- Non-monetized sector
- Double counting
- Underground economy
- Transfer payments
- Price changes

6. Green Auditing

Adjusting national income for environmental degradation.

Also called:
Green GDP.

✅Module 3: Classical Theory of Income and Employment

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1. Classical Theory

Assumes:

- Full employment
- Perfect competition
- Flexible wages & prices

Key contributors:
David Ricardo,
A. C. Pigou

2. Say’s Law of Market

Proposed by:
Jean-Baptiste Say

“Supply creates its own demand.”

Meaning:
Production generates income sufficient to purchase output.

3. Pigouvian Wage Cut Policy

Unemployment exists due to high wages.

Solution:
Cut wages → Increase employment.

4. Criticisms of Classical Theory

- Ignores involuntary unemployment
- Assumes full employment
- Ignores demand deficiency
- Unrealistic wage flexibility

✅Module 4: Keynesian Theory of Income and Employment

Developed by:
John Maynard Keynes

1.Effective Demand

Level of demand at which aggregate demand equals aggregate supply.

Determines:
Income & Employment.

2. Aggregate Demand (AD)

AD = C + I

C = Consumption
I = Investment

3. Aggregate Supply (AS)

Total output produced at different employment levels.

4. Equilibrium Level of Income

Occurs where:
AD = AS

At this point:
Income and employment are determined.

5. Key Differences from Classical Theory

Classical	Keynesian
Full employment	Underemployment possible
Wage flexibility	Wage rigidity
Supply creates demand	Demand determines output

✅Module 5: Consumption and Investment Functions

□ Consumption Function

C = a + bY

a = Autonomous consumption
b = Marginal Propensity to Consume (MPC)

Psychological Law of Consumption

Proposed by:
John Maynard Keynes

"As income increases, consumption increases but less than proportionately."

□ Saving Function

S = -a + (1 – b)Y

MPS = 1 – MPC

□ Investment Function

Depends on:

- Marginal efficiency of capital
- Rate of interest

□ Multiplier

k = 1 / (1 – MPC)

Shows how initial investment leads to multiple increase in income.

□ Accelerator

Shows how change in income leads to change in investment.

Investment = v × Change in output

(v = capital-output ratio)

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Department of Economics

SEP- B.A IIIrd Semester

Lecture Notes

Paper – Open Elective - Karnataka Economy

✅Module I: Introduction to Karnataka Economy

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1. Basic Features of Karnataka Economy

Karnataka is one of the fastest-growing states in India.

Key Features:

- Mixed economy (Agriculture + Industry + Services)
- Strong IT and biotechnology sector
- Regional imbalances
- High urbanization in Bengaluru region
- Growing service sector contribution

2. Place in the National Economy

- Among top contributors to India's GDP
- Major IT exporter
- Important producer of coffee, silk, and spices
- Leader in biotechnology

Capital city:
Bengaluru

3. Natural Resources of Karnataka

- Iron ore (Ballari region)
- Manganese
- Gold (Kolar Gold Fields – historical importance)

- Forest resources
- Water resources (Krishna, Cauvery rivers)

Karnataka is rich in:

- Minerals
- Hydro power potential
- Agricultural land (though uneven rainfall)

4. State Domestic Product (SDP)

Meaning:

Total value of goods and services produced within the state.

Types:

- GSDP at current prices
- GSDP at constant prices

Sectoral Contribution:

- Primary sector – declining share
- Secondary sector – moderate share
- Tertiary sector – dominant share

5. Per Capita Income

Per Capita Income = GSDP / Population

Karnataka's PCI is generally above the national average.

Indicates:

- Higher urban income
- Regional inequalities

6. Regional Disparity in Karnataka

Major imbalance between:

- Southern region (Bengaluru, Mysuru)
- Hyderabad-Karnataka (Kalyana Karnataka)
- Mumbai-Karnataka region

□ Nanjundappa Committee

Headed by:
D. M. Nanjundappa

Purpose:

- Identify backward regions
- Recommend balanced regional development

Recommendations:

- Special grants for backward districts
- Infrastructure development
- Focus on education and health
- Creation of backward region development fund

✓Module II: Human Resources in Karnataka

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1. Population – Size and Trends

- Steady population growth
- Declining growth rate
- Increasing urbanization

Major urban center:
Bengaluru

2. Composition of Population

- Rural vs Urban distribution
- Age structure (working-age population increasing)
- Gender ratio

Demographic dividend opportunity due to large youth population.

3. Literacy Rate

- Higher than national average
- Male literacy > Female literacy
- Urban literacy higher than rural

Government programs improving:

- Female education
- Primary education access

4. Human Development Index (HDI)

HDI measures:

- Income
- Education
- Life expectancy

Karnataka performs better than many Indian states but faces:

- Inter-district disparity
- Rural-urban gap

✅Module III: Agriculture & Industrial Development

□ Agriculture in Karnataka

Importance:

- Employs significant rural population
- Supplies raw materials to industries
- Supports food security

Agricultural Productivity

Major crops:

- Rice
- Ragi
- Sugarcane
- Coffee
- Cotton

Issues:

- Dependence on monsoon
- Small land holdings
- Price fluctuations
- Farmer indebtedness

Remedial Measures

- Irrigation projects
- Crop insurance
- MSP (Minimum Support Price)
- Technology adoption
- Soil health programs

Land Reforms in Karnataka

Objectives:

- Abolition of intermediaries
- Land to the tiller
- Ceiling on land holdings

Karnataka Land Reforms Act (1974) was significant.

Impact:

- Reduction in absentee landlordism
- Redistribution of land (limited success)

□ Industrial Development in Karnataka

Evaluation of Industrial Sector

- Rapid growth post-1991
- Strong IT hub
- Presence of public sector undertakings

Major industrial areas:

- Bengaluru
- Mangaluru
- Hubballi-Dharwad
- Ballari

Industrial Policy 1991

Aligned with national policy of liberalization.

Promoted:

- Private investment
- FDI
- Industrial corridors

Major Industries

- Iron and steel
- Cement
- Sugar
- Textiles
- Electronics

Small Scale Industries (SSI)

- Generate employment
- Promote rural development
- Handicrafts, silk, food processing

IT and BT Industries

Karnataka is India’s IT capital.

Major IT companies operate from:
Bengaluru

Biotechnology parks established.

Key contributions:

- Software exports
- High-skilled employment
- Global investment attraction

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SEP- B.A IVth Semester

Lecture Notes

Paper – Principles of Macro Economics -II

✅Module 1: Introduction – Money and Money Supply

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1. Evolution of Money

Barter System → Commodity Money → Metallic Money → Paper Money → Credit Money → Digital Money

Problems of barter:

- Double coincidence of wants
- Lack of common measure
- Indivisibility

2. Functions of Money

Primary Functions:

- Medium of exchange
- Measure of value

Secondary Functions:

- Store of value
- Standard of deferred payments

Contingent Functions:

- Basis of credit
- Distribution of income

3. Demand for Money

Meaning:
Desire to hold money instead of other assets.

□ Quantity Theory of Money (QTM)

(A) Fisher’s Transaction Approach

Developed by:
Irving Fisher

Equation:
MV = PT

M = Money supply
V = Velocity
P = Price level
T = Transactions

Conclusion:
Increase in money supply → Increase in price level.

(B) Cambridge Cash Balance Approach

Associated with:
Alfred Marshall and
A. C. Pigou

Equation:
M = kPY

k = Fraction of income held as cash.

4. Concepts of Value of Money

Value of money = Purchasing power.

Inverse relationship:
If prices rise → Value of money falls.

5. Supply of Money

Meaning:
Total stock of money in circulation.

In India measured by:
M1, M2, M3, M4

Controlled by:
Reserve Bank of India

Determinants of Money Supply

- High powered money (H)
- Money multiplier
- Bank credit
- CRR & SLR

✅Module 2: Theories of Money Supply

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1. Classical Theory of Money Supply

Money supply exogenous and controlled by central bank.

Prices proportional to money supply.

2. Milton Friedman’s Theory

Developed by:
Milton Friedman

Key points:

- Money demand stable
- Inflation always monetary phenomenon
- Monetary rule: steady growth in money supply

3. Role of Money in Modern Economy

- Facilitates trade
- Promotes specialization

- Enables credit expansion
- Influences output and employment

4. Digital Payments

- UPI
- Mobile wallets
- Online banking

Impact:

- Reduces cash transactions
- Increases transparency
- Financial inclusion

✅Module 3: Investment and IS-LM Curves

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1. Meaning of Investment

Addition to capital stock.

Types of Investment

- Autonomous investment
- Induced investment
- Gross & Net investment
- Public & Private investment

2. Determinants of Investment

- Rate of interest
- Marginal efficiency of capital
- Business expectations
- Government policy

3.Marginal Efficiency of Capital (MEC)

Concept by:
John Maynard Keynes

MEC = Expected rate of return over cost.

Investment occurs when:
MEC > Rate of Interest.

4. IS-LM Model

Developed by:
John Hicks

IS Curve

Represents equilibrium in goods market.
Downward sloping.

LM Curve

Represents equilibrium in money market.
Upward sloping.

5. IS-LM and Aggregate Demand

Combination of IS-LM gives equilibrium income and interest rate.

Shift in AD curve due to:

- Fiscal policy
- Monetary policy
- Investment changes

✔Module 4: Inflation, Deflation, Depression & Stagflation

Inflation

Meaning:
Sustained rise in general price level.

Types of Inflation

- Demand-pull
- Cost-push
- Creeping
- Galloping
- Hyperinflation

Causes

- Excess demand
- Increase in money supply
- Rising production cost
- Deficit financing

Control Measures

- Monetary policy
- Fiscal policy
- Price control
- Rationing

□ Phillips Curve

Proposed by:
A. W. Phillips

Shows inverse relation between inflation and unemployment (short run).

Long-run Phillips curve:
Vertical (due to expectations).

□ Deflation

Meaning:
Sustained fall in price level.

Causes:

- Low demand
- Decrease in money supply

Measures:

- Increase public spending
- Reduce taxes
- Lower interest rates

□ Stagflation

Combination of:

- Inflation
- Unemployment

Occurred during 1970s oil crisis.

□ Supply-Side Economics

Associated with:
Arthur Laffer

Focus:
Tax cuts → Increase supply → Growth.

□ Rational Expectations Theory

Associated with:
Robert Lucas Jr.

People form expectations using all available information.

□ Business Cycles

Meaning:
Fluctuations in economic activity.

Stages:

1. Expansion
2. Boom
3. Recession
4. Depression
5. Recovery

Control:

- Fiscal policy
- Monetary policy

✅Module 5: Macroeconomic Policies

□ Monetary Policy

Controlled by:
Reserve Bank of India

Objectives

- Control inflation
- Ensure price stability
- Promote growth
- Financial stability

Instruments

- Repo rate
- Reverse repo rate
- CRR
- SLR
- Open Market Operations

□ Fiscal Policy

Government policy of taxation & expenditure.

Objectives

- Economic growth
- Full employment
- Reduce inequality
- Stabilize economy

Instruments

- Taxation
- Public expenditure
- Public debt
- Budgetary policy

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Department of Economics

SEP- B.A IVth Semester

Lecture Notes

Paper – Open Elective - Rural Development

✅Module I: Introduction to Rural Development

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1. Meaning of Rural Development

Rural Development refers to the process of improving the **economic, social, and institutional conditions** of rural areas to enhance quality of life and reduce poverty.

It includes:

- Agricultural development
- Infrastructure development
- Employment generation
- Education & health improvement
- Social justice

2. Nature of Rural Development

- Multi-dimensional
- Dynamic process
- Area-specific
- Participatory
- Long-term strategy

3. Scope of Rural Development

Covers:

- Agriculture and allied activities
- Rural industries

- Rural infrastructure (roads, electricity, water)
- Poverty alleviation
- Human resource development
- Financial inclusion

4. Objectives of Rural Development

- Reduce rural poverty
- Increase employment opportunities
- Improve standard of living
- Reduce regional disparities
- Promote sustainable development
- Empower weaker sections

5. Need for Rural Development

- Majority population lives in rural areas
- High poverty and unemployment
- Low productivity in agriculture
- Lack of infrastructure
- Regional imbalance

In India, rural development is crucial because a large portion of the population depends on agriculture.

6. Characteristics of Rural Economy

- Predominance of agriculture
- Low per capita income
- Disguised unemployment
- Low literacy rate
- Traditional technology
- Poor infrastructure
- Dependence on monsoon

7. Indicators of Rural Development

Economic Indicators:

- Per capita income
- Employment rate
- Agricultural productivity

Social Indicators:

- Literacy rate
- Life expectancy
- Access to health services

Infrastructure Indicators:

- Road connectivity
- Electrification
- Drinking water

Human Development Index (HDI) components also reflect rural development.

8. Rural–Urban Linkages

Rural and urban areas are interdependent:

Rural → Urban:

- Supply of food
- Raw materials
- Labour

Urban → Rural:

- Industrial goods
- Services
- Technology
- Investment

9. Rural–Urban Disparities

Differences exist in:

- Income levels
- Education
- Health facilities
- Infrastructure
- Employment opportunities

Reducing disparities is a major policy goal.

✅Module II: Issues in Rural Development

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1. Rural Indebtedness

Meaning:
Heavy dependence on borrowed funds for agriculture and consumption.

Causes:

- Low income
- Crop failure
- High interest rates
- Social customs

Consequences:

- Poverty trap
- Farmer distress
- Migration

Solutions:

- Institutional credit
- Self Help Groups (SHGs)
- Crop insurance

2. Poverty and Unemployment

Types of Rural Unemployment:

- Seasonal
- Disguised
- Open unemployment

Causes:

- Low agricultural productivity
- Rapid population growth
- Lack of rural industries

Anti-poverty programs aim to generate employment and income.

3. Rural–Urban Migration

Meaning:
Movement of people from villages to cities.

Causes:

- Lack of employment
- Better wages in cities
- Education opportunities

Effects:

- Urban congestion
- Brain drain from villages
- Remittance income to rural families

4. Globalization and Its Impact on Rural Economy

Globalization increased:

- Export opportunities
- Access to technology
- Competition

Negative impacts:

- Vulnerability to price fluctuations
- Marginalization of small farmers
- Dependence on global markets

✅Module III: Approaches to Rural Development in India

□ Gandhian Approach

Based on ideas of:
Mahatma Gandhi

1. Gram Swaraj

Meaning:
Self-sufficient village republics.

Features:

- Local self-governance
- Decentralization
- Village industries

2. Sarvodaya

Meaning:
Welfare of all.

Promoted by:
Vinoba Bhave

Focus:

- Social justice
- Land redistribution (Bhoodan movement)

3. Swadeshi

Meaning:
Use of locally produced goods.

Objective:
Promote rural industries and reduce dependence on imports.

Community Development Programme (1952)

Launched after independence.

Objectives:

- Agricultural development

- Infrastructure development
- Community participation

Limitations:

- Bureaucratic approach
- Lack of people's involvement

□ IRDP (Integrated Rural Development Programme)

Launched in 1978–80.

Objective:
Provide income-generating assets to rural poor.

Target groups:

- Small farmers
- Agricultural labourers
- SC/ST

□ MGNREGA

Full name:
Mahatma Gandhi National Rural Employment Guarantee Act

Guarantees:
100 days of wage employment per rural household.

Objectives:

- Reduce rural unemployment
- Create durable assets
- Ensure livelihood security

□ PURA

Full form:
Providing Urban Amenities in Rural Areas.

Concept proposed by:
A. P. J. Abdul Kalam

Focus:

- Physical connectivity
- Electronic connectivity
- Knowledge connectivity

□ Sustainable Development Goals (SDGs)

Adopted by:
United Nations

Relevant goals for rural development:

- No Poverty
- Zero Hunger
- Quality Education
- Clean Water
- Decent Work
- Reduced Inequalities

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DEPARTMENT OF ECONOMICS

NEP- B.A Vth semester

Lecture Notes

Paper – ECO -C9 Public Economics

✓MODULE I

Introduction to Public Economics

---

1. Meaning of Public Economics

Public Economics studies:

- Role of government in the economy
- Taxation and public expenditure
- Public debt and budget
- Market failures and welfare

It is also known as **Public Finance**.

2. Definitions

According to **Hugh Dalton**:

Public Finance is concerned with income and expenditure of public authorities and adjustment of one to the other.

According to **Richard Musgrave**:

Public finance studies the allocation, distribution, and stabilization functions of government.

3. Scope of Public Economics

- Public revenue (tax & non-tax)

- Public expenditure
- Public debt
- Budget
- Fiscal policy
- Federal finance

4. Public Finance vs Private Finance

Basis	Public Finance	Private Finance
Objective	Social welfare	Profit maximization
Compulsion	Tax is compulsory	Income voluntary
Transparency	Publicly accountable	Private
Borrowing	Large scale	Limited

5. Public Goods vs Private Goods

Public Goods

Examples:

- National defense
- Street lighting

Characteristics:

- Non-rivalry
- Non-excludability

Private Goods

Examples:

- Food
- Clothing

Characteristics:

- Rivalry
- Excludability

6.Principle of Maximum Social Advantage

Given by:
Hugh Dalton

Government should:

Maximize social benefit – social sacrifice.

Equilibrium occurs when:
Marginal Social Benefit = Marginal Social Sacrifice.

7. Market Failure

Meaning:

When free market fails to allocate resources efficiently.

Causes:

- Externalities
- Public goods
- Monopoly
- Information asymmetry

Externalities

Positive (e.g., education)
Negative (e.g., pollution)

8. Role of Government

- Tax/subsidy
- Regulation
- Public production
- Anti-monopoly laws

✓MODULE II

Public Revenue and Public Expenditure

---

1. Public Revenue

Sources of Revenue

(A) Tax Revenue

- Income tax
- GST
- Corporate tax

(B) Non-Tax Revenue

- Fees
- Fines
- Profits from public enterprises

2. Canons of Taxation

Given by:
Adam Smith

1. Equality
2. Certainty
3. Convenience
4. Economy

3. Characteristics of Sound Tax System

- Equity
- Elasticity
- Simplicity
- Productivity

4. Impact and Incidence of Tax

- Impact: On whom tax is imposed
- Incidence: Who actually bears tax

5. Shifting of Tax

Forward shifting (to consumers)
Backward shifting (to producers)

6. Types of Taxes

(A) Progressive Tax

Tax rate increases with income.

(B) Proportional Tax

Constant rate.

(C) Regressive Tax

Tax rate decreases as income increases.

7. Direct vs Indirect Taxes

Direct Tax	Indirect Tax
Paid directly	Shifted
Example: Income tax	GST

Merits & Demerits to be explained in exams.

8.Taxable Capacity

Meaning:
Ability of people to pay tax.

Determinants:

- Income level
- Distribution of income
- Population

- Economic development

9. Public Expenditure

Meaning:

Government spending for public welfare.

Classification:

- Developmental
- Non-developmental
- Revenue & Capital
- Plan & Non-plan (earlier classification)

Principles / Canons

- Benefit principle
- Economy
- Sanction
- Maximum social advantage

Reasons for Growth of Public Expenditure

Wagner's Law

Given by:
Adolph Wagner

As economy grows, public expenditure increases.

Peacock-Wiseman Hypothesis

Proposed by:
Alan Peacock and
Jack Wiseman

Displacement effect:
During crisis, government spending increases permanently.

Effects of Public Expenditure

- Production effect
- Distribution effect
- Stabilization effect
- Employment effect

✅MODULE III

Public Debt

---

1. Meaning of Public Debt

Borrowing by government to meet deficit.

2. Purpose

- Development projects
- War
- Budget deficit

3. Types of Public Debt

- Internal & External
- Short-term & Long-term
- Productive & Unproductive

4. Burden of Public Debt

Classical / Ricardian View

Associated with:
David Ricardo

Public debt is burden on society.

Keynesian View

Associated with:
John Maynard Keynes

Internal debt is not burden; it is transfer within society.

5. Intergenerational Equity

Future generations may bear tax burden of current debt.

6. Causes of Rise in Public Debt

- Fiscal deficit
- Wars
- Development expenditure
- Welfare schemes

7. Methods of Debt Redemption

- Sinking fund
- Conversion
- Refunding
- Budget surplus

8. Debt Management

- Maintain sustainable level
- Control interest burden
- Ensure productive use

✅MODULE IV

Public Budget, Fiscal Policy & Fiscal Deficit

---

1. Budget

Meaning:
Annual financial statement of government.

Budget Process

- Preparation
- Presentation
- Approval
- Implementation
- Audit

Types of Budget

- Balanced budget
- Surplus budget
- Deficit budget
- Revenue & Capital budget
- Zero-based budget

2. Budget Deficits

- Revenue deficit
- Fiscal deficit
- Primary deficit

3. Fiscal Policy

Meaning:
Government policy relating to taxation and expenditure.

Objectives:

- Economic growth
- Price stability
- Employment
- Income equality

Tools:

- Taxation
- Public expenditure
- Public debt

4. Fiscal Deficit

Fiscal Deficit =
Total Expenditure – Total Receipts (excluding borrowings)

5. Deficit Financing

Meaning:
Government finances deficit by printing money or borrowing.

Advantages:

- Promotes growth
- Useful during recession

Disadvantages:

- Inflation
- Debt burden

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DEPARTMENT OF ECONOMICS

NEP-B.A Vth semester

Lecture Notes

Paper – ECO -C9-Development Economics

✓MODULE 1

Introduction to Economic Development

1.Concept and Definitions

Economic Growth

Economic growth refers to:

Increase in real national income or output over time.

It is **quantitative** in nature.

Economic Development

Economic development refers to:

Increase in income along with structural, institutional and social changes.

It is **quantitative + qualitative**.

2.Distinction between Growth and Development

Basis	Economic Growth	Economic Development
Nature	Quantitative	Quantitative + Qualitative
Focus	Increase in income	Improvement in living standards
Scope	Narrow	Broad

Basis	Economic Growth	Economic Development
Includes structural change	No	Yes

3. Indicators of Growth and Development

- GDP / GNP growth rate
- Per capita income
- Literacy rate
- Life expectancy
- Infant mortality rate
- Employment level

4. Measures of Economic Development

(A) Gross National Product (GNP)

Total value of goods and services produced by nationals of a country.

Limitation:
Does not measure income distribution or welfare.

(B) Physical Quality of Life Index (PQLI)

Developed by:
Morris D. Morris

Includes:

- Infant mortality rate
- Life expectancy
- Literacy rate

(C) Human Development Index (HDI)

Developed by:
United Nations Development Programme

Measures:

- Life expectancy
- Education
- Per capita income

Ranges from 0 to 1.

(D) Happiness Index

Measures:

- Life satisfaction
- Social support
- Freedom
- Corruption perception

Published by:
United Nations Sustainable Development Solutions Network

5. Inequality and Poverty

Meaning of Poverty

Inability to meet basic needs.

Causes of Poverty

- Low productivity
- Unemployment
- Inequality
- Population growth

Gini Coefficient

Measures income inequality.

Value ranges:
0 (perfect equality)
1 (perfect inequality)

Human Poverty Index (HPI)

Measures:

- Deprivation in life expectancy
- Knowledge
- Standard of living

✅MODULE 2

General Theories of Growth and Development

1. Adam Smith’s Theory

- Division of labour
- Capital accumulation
- Invisible hand
- Laissez-faire

Growth driven by specialization.

2. David Ricardo’s Theory

- Diminishing returns in agriculture
- Rent theory
- Stationary state

3. Thomas Robert Malthus’s Theory

- Population grows geometrically
- Food supply grows arithmetically
- Leads to poverty

4. Karl Marx’s Theory

- Surplus value
- Exploitation of labour
- Capitalism leads to crisis

5. Joseph Schumpeter’s Theory

- Innovation is engine of growth
- Role of entrepreneur
- Creative destruction

6. Walt W. Rostow’s Stages of Growth

1. Traditional society
2. Pre-conditions for take-off
3. Take-off
4. Drive to maturity
5. Age of high mass consumption

7. Harrod-Domar Model

Developed by:
Roy F. Harrod and
Evsey Domar

Growth rate depends on:

Savings rate / Capital-output ratio

$g = s / v$

✅MODULE 3

Partial Theories of Development

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1. W. Arthur Lewis Labour Surplus Model

- Dual economy
- Surplus labour in agriculture
- Transfer to industrial sector

2. Paul Rosenstein-Rodan Big Push Theory

- Large-scale investment needed
- Coordinated development

3.Harvey Leibenstein Critical Minimum Effort

- Minimum level of investment needed

- To break poverty trap

4. Balanced vs Unbalanced Growth

Balanced Growth

Simultaneous investment in many sectors.

Supported by:
Ragnar Nurkse

Unbalanced Growth

Investment in key sectors first.

Supported by:
Albert O. Hirschman

5. Factors in Development Process

- Capital accumulation
- Human capital
- Technology
- Institutions
- Infrastructure

Capital-Output Ratio

Measures efficiency of capital.

Lower ratio → Higher efficiency.

Technology & Development

Improves:

- Productivity
- Efficiency
- Global competitiveness

✅MODULE 4

Sustainable Development

---

1. Inclusive Development

Growth with equity.

Focus on:

- Poverty reduction
- Gender equality
- Regional balance

2. Millennium Development Goals (MDGs)

Adopted by:
United Nations in 2000.

8 goals:

- Eradicate extreme poverty
- Universal primary education
- Gender equality
- Reduce child mortality
- Improve maternal health
- Combat diseases
- Environmental sustainability
- Global partnership

(2000–2015)

3. Sustainable Development Goals (SDGs)

Adopted in 2015 by:
United Nations

17 Goals:

- No poverty
- Zero hunger
- Good health
- Quality education
- Gender equality
- Climate action
- etc.

Time frame: 2015–2030

4. SDGs in India

India’s progress:

- Poverty reduction
- Improved sanitation
- Digital inclusion
- Renewable energy expansion

Challenges:

- Unemployment
- Climate change
- Inequality

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DEPARTMENT OF ECONOMICS

NEP-B.A Vth semester

Lecture Notes

Paper – ECO –C11- Indian Banking and Finance

✅MODULE I

Introduction to Banking in India

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1. Evolution of Indian Banking

Indian banking evolved through three phases:

1. **Pre-Independence Era** – Presidency banks
2. **Nationalisation Phase (1969 & 1980)**
3. **Liberalisation Phase (Post-1991 reforms)**

Major reforms were influenced by economic liberalization policies.

2. Structure of Indian Banking System

At the top:

Reserve Bank of India (RBI)

Below RBI:

- Commercial Banks
- Cooperative Banks
- Regional Rural Banks
- Small Finance Banks
- Payment Banks

3. Types of Banks in India

□ Public Sector Banks

Majority owned by Government of India.

Examples:

- **State Bank of India**
- **Punjab National Bank**

Strengths: Large network, trust
Weaknesses: High NPAs, slower decision-making

□ Private Sector Banks

Examples:

- **HDFC Bank**
- **ICICI Bank**

Strengths: Technology-driven, efficient
Weaknesses: Urban concentration

□ Foreign Banks

Examples:

- **HSBC**
- **Citibank**

Operate mainly in metro cities.

□ Regional Rural Banks (RRBs)

Example:

- **Karnataka Gramin Bank**

Focus on rural development.

□ Cooperative Banks

Owned by members.

Serve small borrowers & farmers.

□ Small Finance Banks

Serve small businesses & underserved sectors.

Example:

- **Ujjivan Small Finance Bank**

□ Payment Banks

Limited banking services.

Example:

- **Airtel Payments Bank**

Cannot give loans.

4. Role of Banks in Indian Economy

- Mobilize savings
- Provide credit
- Facilitate trade
- Promote financial inclusion
- Support economic development

5. Credit Creation

Banks create money through:

Deposit → Loan → Deposit cycle

Money Multiplier = 1 / CRR

6. Central Bank & Regulation

RBI regulates banking through:

- Licensing
- Inspection
- Monetary policy
- Prudential norms

7. Monetary Policy Tools

Policy Rates

- Repo Rate
- Reverse Repo Rate
- Bank Rate
- Marginal Standing Facility (MSF)

Reserve Ratios

- CRR (Cash Reserve Ratio)
- SLR (Statutory Liquidity Ratio)

MCLR

Marginal Cost of Funds Based Lending Rate.

8. Issues in Banking Sector

- Rising NPAs
- Capital adequacy issues
- Cyber fraud
- Impact of global crises (e.g., 2008 financial crisis, pandemic shocks)

✅MODULE II

Banking Services

---

1. Bank Deposits

Types:

- Savings Account
- Current Account
- Fixed Deposit
- Recurring Deposit

2. Account Opening & KYC

KYC = Know Your Customer

Documents:

- Aadhaar
- PAN
- Address proof

Prevents money laundering.

3. Bank Loans

Types:

- Home loan
- Education loan
- Personal loan
- Business loan
- Gold loan

Loan Features:

- Interest rate
- Tenure
- EMI
- Collateral

Loan Default Consequences:

- Penalty charges
- Legal action
- CIBIL score impact

4. Other Banking Services

- Locker facility
- Remittance services (NEFT, RTGS, IMPS)
- Currency exchange
- Debit & Credit cards
- ATMs
- Internet banking
- Mobile banking

5.Modern Banking Products

- Insurance on deposits (via **Deposit Insurance and Credit Guarantee Corporation**)
- Mutual fund investments
- Retirement products
- Advisory services

✅MODULE III

Modern Banking

---

1. Digital Banking

- Online account opening
- E-KYC
- UPI payments
- QR code payments

2. Digital Wallets

Examples:

- **Paytm**
- **PhonePe**

3. Contactless Payments

- NFC cards
- Tap-and-pay

4. Artificial Intelligence in Banking

Used for:

- Fraud detection
- Chatbots
- Credit scoring

5. Cybersecurity

Banks use:

- Encryption
- Two-factor authentication
- Firewalls

6. Corporate & Investment Banking

Corporate Banking:
Large-scale loans & project finance

Investment Banking:
IPO management, mergers

✅MODULE IV

Financial Markets

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1. Indian Financial Markets

Regulated by:

- **Reserve Bank of India**
- **Securities and Exchange Board of India**

2. Equity Markets

Stock exchanges:

- **Bombay Stock Exchange**
- **National Stock Exchange of India**

3. Debt Markets

- Government bonds
- Corporate bonds

4.Currency & Forex Markets

Currency trading regulated by RBI.

5. Commodity Markets

- Gold
- Silver
- Oil

Exchange:

- **Multi Commodity Exchange of India**

6. Derivatives Market

- Futures
- Options

Used for hedging & speculation.

7. Mutual Funds

Regulated by:
Securities and Exchange Board of India

8. Insurance Products

Regulated by:
Insurance Regulatory and Development Authority of India

9. Risks in Capital Markets

- Market risk
- Liquidity risk
- Credit risk
- Systemic risk

Fintech & Innovation

- Robo-advisory
- Blockchain
- Online IPO platforms.

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DEPARTMENT OF ECONOMICS

NEP- B.A VIth semester

Lecture Notes

Paper – ECO –C13 International Economics

✓MODULE I

International Trade Theories

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1. Meaning of International Trade

International trade refers to the exchange of goods and services between countries.

Example:
India exporting software services to the USA.

2. Importance of International Trade

- Efficient allocation of resources
- Specialization
- Access to foreign markets
- Technology transfer
- Economic growth

3. Differences between Internal and International Trade

Basis	Internal Trade	International Trade
Currency	Same currency	Different currencies
Mobility	Free mobility of factors	Restricted mobility
Laws	Same legal system	Different laws
Language	Usually same	May differ

4.Trade Theories

1. Mercantilist View

(16th–18th century)

- Wealth measured in gold & silver
- Encourage exports
- Discourage imports
- Favourable balance of trade

Criticism:
Ignores mutual benefits of trade.

2. Absolute Cost Advantage Theory

Proposed by:
Adam Smith

A country should specialize in producing goods where it has absolute cost advantage.

Limitation:
Fails if one country has advantage in all goods.

3.Comparative Cost Advantage Theory

Proposed by:
David Ricardo

Even if a country has absolute advantage in all goods, trade is beneficial if it has comparative advantage.

□ Based on relative cost differences.

4. Opportunity Cost Theory

Developed by:
Gottfried Haberler

Trade based on opportunity cost rather than labour cost.

More realistic and general theory.

5. Heckscher–Ohlin Theory

Developed by:
Eli Heckscher and
Bertil Ohlin

Countries export goods that use abundant factors intensively.

Example:
Labour-abundant countries export labour-intensive goods.

6. Leontief Paradox

Observed by:
Wassily Leontief

USA (capital abundant country) exported labour-intensive goods.

Contradicted Heckscher–Ohlin theory.

✓MODULE II

Terms of Trade & Commercial Policy

1.Terms of Trade (TOT)

Meaning:
Rate at which exports exchange for imports.

□ Types of Terms of Trade

1. Net Barter TOT
2. Gross Barter TOT
3. Income TOT
4. Single & Double Factorial TOT

□ Factors Determining TOT

- Demand elasticity
- Exchange rate
- Productivity
- Trade policies

2. Commercial Policy

Free Trade vs Protection

Free Trade

No restrictions on imports/exports.

Supported by classical economists.

Protection

Government restricts trade to protect domestic industries.

Tariffs

Tax on imports.

Types:

- Specific tariff
- Ad valorem tariff
- Protective tariff
- Revenue tariff

Effects:

- Raise prices
- Protect domestic producers
- Reduce imports

Quotas

Physical restriction on quantity of imports.

Anti-Dumping

Imposing duty on goods sold below cost.

□ Economic Integration

Meaning:
Agreement between countries to reduce trade barriers.

Stages of Integration

1. Free Trade Area
2. Customs Union
3. Common Market
4. Economic Union
5. Political Union

Example:
European Union

✓MODULE III

Balance of Payments & Capital Flow

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1. Balance of Payments (BOP)

Systematic record of all economic transactions between residents of a country and rest of world.

□ Components of BOP

1. Current Account
   - Trade balance
   - Services
   - Income
   - Transfers
2. Capital Account
   - FDI
   - Portfolio investment
   - Loans

□ Disequilibrium in BOP

Causes:

- Excess imports
- Inflation
- Capital outflow
- Exchange rate fluctuations

Measures to Correct BOP

- Devaluation
- Import restrictions
- Export promotion
- Monetary & fiscal policy

□ Foreign Exchange Rate

Price of one currency in terms of another.

Types:

- Fixed exchange rate
- Flexible exchange rate
- Managed float

□ Determination of Exchange Rate

Based on:

Demand for forex
Supply of forex

□ Purchasing Power Parity (PPP) Theory

Associated with:
Gustav Cassel

Exchange rate determined by relative price levels.

□ Capital Flow

Movement of capital across borders.

□ Forms of FDI

- Greenfield investment
- Brownfield investment
- Joint ventures

Advantages of FDI

- Technology transfer
- Employment
- Capital inflow

Disadvantages

- Profit repatriation
- Market domination
- Cultural influence

✓MODULE IV

International Finance & Trade Institutions

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1. Bretton Woods Institutions

Established in 1944.

International Monetary Fund (IMF)

International Monetary Fund

Objectives:

- Exchange rate stability
- BOP support
- Financial stability

World Bank (IBRD)

World Bank

Provides loans for development projects.

IDA

International Development Association

Provides concessional loans to poor countries.

IFC

International Finance Corporation

Promotes private sector development.

2. Evolution of WTO

Predecessor:
General Agreement on Tariffs and Trade (GATT)

Established in 1947.

World Trade Organization (WTO)

Established in 1995.

World Trade Organization

Objectives:

- Promote free trade
- Reduce tariffs
- Settle trade disputes

Main Agreements:

- Agriculture
- TRIPS
- TRIMS
- GATS

WTO & Developing Countries

Benefits:

- Market access
- Dispute settlement

Challenges:

- Agricultural subsidies
- Unequal bargaining power

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DEPARTMENT OF ECONOMICS

NEP-B.A VIth semester

Lecture Notes

Paper – ECO –C14 - Indian Public Finance

✓MODULE I

Public Revenue

□ Meaning of Public Revenue

Public Revenue refers to the income earned by the government to finance its expenditure.

□ Sources of Public Revenue

1. Tax Revenue

2. Non-Tax Revenue

1. Tax Revenue

Compulsory payment made by citizens to the government without direct benefit.

Classification:

- Direct Taxes
- Indirect Taxes

□ Trends and Patterns of Tax Revenue in India

- Increasing share of direct taxes in recent years
- GST has become major indirect tax source

- Digitalization improved compliance
- Rise in corporate and income tax collections post reforms

Tax collection administered by:
Central Board of Direct Taxes (CBDT)
Central Board of Indirect Taxes and Customs (CBIC)

□ Direct Taxes in India

Tax burden cannot be shifted.

Examples:

- Personal Income Tax
- Corporate Tax

□ Personal Income Tax

Tax paid by individuals on income.

Administered under Income Tax Act, 1961.

Features:

- Progressive tax system
- Different slabs
- Deductions under various sections

□ Corporate Tax

Tax on profits of companies.

Features:

- Different rates for domestic and foreign companies
- Concessional tax regime introduced in 2019
- Encourages investment and manufacturing

□ Indirect Taxes in India

Tax burden can be shifted.

Earlier Indirect Taxes

VAT (Value Added Tax)

Introduced before GST at state level.

MODVAT

Modified VAT system for excise duties.

□ Goods and Services Tax (GST)

Introduced in 2017.

Administered by:
Goods and Services Tax Council

Objectives of GST

- One Nation One Tax
- Eliminate cascading effect
- Improve tax compliance
- Boost economic growth

Classification of GST

- CGST
- SGST
- IGST
- UTGST

GST Tax Rates

- 0%
- 5%
- 12%
- 18%
- 28%

Impact of GST on Indian Economy

Positive:

- Formalization of economy
- Increased transparency

- Improved logistics

Challenges:

- Initial compliance burden
- Technical issues
- Revenue fluctuations

Tax Reform Commissions

Example:
Raja Chelliah Tax Reforms Committee (1991)

✅MODULE II

Public Expenditure

□ Meaning of Public Expenditure

Spending made by government for public welfare.

□ Classification of Public Expenditure

1. Revenue Expenditure
2. Capital Expenditure

□ Revenue Account Expenditure

- Salaries
- Subsidies
- Interest payments
- Defence revenue expenses

Trend: Increasing due to welfare schemes.

Capital Account Expenditure

- Infrastructure
- Roads
- Railways
- Defence capital

Promotes long-term growth.

FRBM Act

Fiscal Responsibility and Budget Management Act

Objectives:

- Reduce fiscal deficit
- Ensure fiscal discipline
- Improve transparency

Expenditure Reforms Commission (ERC)

Set up to rationalize government expenditure.

Union Budget

Presented annually by Finance Minister.

Prepared by:
Ministry of Finance

Meaning of Budget

Statement of estimated revenue and expenditure for financial year.

Types of Budgets

- Balanced Budget
- Surplus Budget
- Deficit Budget
- Zero-Based Budget

Composition of Union Budget

1. Revenue Budget
2. Capital Budget

Concepts of Deficits

1. Revenue Deficit
2. Fiscal Deficit
3. Primary Deficit

✅MODULE III

Public Debt and Its Management

□ Meaning of Public Debt

Borrowings by government to meet expenditure.

Sources of Public Borrowings

- Internal debt (bonds, treasury bills)
- External debt (foreign loans)

Classification of Public Debt

- Short-term
- Long-term
- Internal
- External
- Productive & Unproductive

Main Characteristics of Indian Public Debt

- High internal debt component
- Market borrowings dominant
- Rising interest burden

□ Crowding Out Effect

Government borrowing reduces private investment due to higher interest rates.

Causes of Public Debt in India

- Fiscal deficit
- Defence expenditure
- Welfare schemes
- Infrastructure projects

Burden of Public Debt

Internal Debt Burden

Transfer within country.

External Debt Burden

Repayment in foreign currency.

Principles of Public Debt Management

- Low cost borrowing
- Risk minimization
- Debt sustainability

Debt management handled by:
Reserve Bank of India

Finance Commission in India

Constitutional body under Article 280.

Recommends:

- Tax sharing between Centre and States
- Grants-in-aid

Recent example:
Fifteenth Finance Commission

✅MODULE IV

Fiscal & Monetary Policy and Federal Finance

Fiscal Policy in India

Meaning:
Government policy relating to revenue and expenditure.

Objectives

- Economic growth
- Price stability
- Employment generation
- Income redistribution

Tools of Fiscal Policy

- Taxation
- Public expenditure
- Public debt

Monetary Policy in India

Controlled by:
Reserve Bank of India

Objectives

- Control inflation
- Maintain financial stability
- Promote growth

Tools of Monetary Policy

- Repo rate
- Reverse repo rate
- CRR
- SLR
- Open Market Operations

□ Indian Federal Finance

Meaning

Financial relations between Centre and States.

Allocation of Resources

Based on:

- Union List
- State List
- Concurrent List

(As per Constitution of India – Seventh Schedule)

Principles of Federal Finance

- Equity
- Efficiency
- Adequacy
- Elasticity

Shortcomings

- Vertical imbalance
- Horizontal imbalance
- Dependence on central transfers

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DEPARTMENT OF ECONOMICS

NEP-B.A VIth semester

Lecture Notes

Paper – ECO –C15 - Economic Thought of Dr. B.R. Ambedkar

✓MODULE I

Ambedkar's Views on Economy, Society and Equity

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1. Socio-Economic-Political Context of India during Ambedkar's Period

- British colonial rule
- Land revenue exploitation
- Zamindari system
- Extreme caste discrimination
- Industrial backwardness
- Low literacy and poverty

India was characterized by:

- Social hierarchy
- Economic inequality
- Political exclusion

2. Brief Outline of Ambedkar's Life and Career

B. R. Ambedkar (1891–1956)

- Economist, jurist, social reformer

- Architect of the Indian Constitution
- Chairman of the Drafting Committee
- First Law Minister of India
- Educated at Columbia University & London School of Economics

Major works:

- *The Problem of the Rupee*
- *Annihilation of Caste*
- *States and Minorities*

3. Ambedkar's Views on Economy and Society

- Economy cannot be separated from social structure
- Caste system causes economic inefficiency
- Social inequality leads to poverty and underdevelopment
- Economic democracy must accompany political democracy

He believed:

"Political democracy cannot last unless there lies at the base of it social democracy."

4.Role of the State

- Strong and active state
- State must ensure social justice
- Regulation of economy
- Protection of labour and weaker sections

Ambedkar supported **state intervention** to correct market failures.

5. Socialism and State Socialism

Ambedkar proposed **State Socialism** in *States and Minorities* (1947).

Key features:

- Nationalization of land
- Collective farming
- State ownership of key industries
- Insurance as state monopoly

Unlike Marxism, his socialism was constitutional and democratic.

6. Women Empowerment

- Advocated equal property rights
- Supported maternity benefits
- Opposed child marriage
- Promoted female education

He introduced reforms through the **Hindu Code Bill** to improve women's rights.

7. Objectives of Economy: Growth & Equity

Ambedkar emphasized:

- Economic growth
- Equitable distribution
- Social justice
- Removal of caste discrimination

8. Economics of Caste

- Caste restricts labour mobility
- Division of labour becomes division of labourers
- Results in inefficiency
- Leads to discrimination and deprivation

9. Constitutional Provisions for Equality

Under the **Constitution of India**:

- Article 14 – Equality before law
- Article 15 – Prohibition of discrimination
- Article 17 – Abolition of untouchability
- Reservation policy (affirmative action)

✅MODULE II

Ambedkar’s Thoughts on Agriculture

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1. Agrarian Economy

Ambedkar viewed Indian agriculture as:

- Fragmented
- Overcrowded
- Low productivity
- Disguised unemployment

2. Consolidation of Land Holdings

- Fragmented holdings reduce productivity
- Supported consolidation for efficiency

3. Comparison with Ricardo

David Ricardo

Ricardo:

- Emphasized rent theory

Ambedkar:

- Focused on structural reforms
- Highlighted social aspects of land ownership

4. Collective Farming

- Proposed state ownership of land
- Farmers to work collectively
- Ensure fair distribution of output

5. Nationalization of Land

- Land to belong to state
- Lease to cultivators
- Prevent concentration of land

6. Landlessness

- Major cause of poverty
- Supported land ceiling

7. Surplus Labour & Capital Formation

- Surplus labour in agriculture should move to industry
- Industrialization essential for capital formation

✅MODULE III

Ambedkar on Industrialisation and Planning

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1. Ideas on Industrialisation

Ambedkar strongly supported rapid industrialization.

He stated:

"Industrialize or perish."

Reasons:

- Absorb surplus labour
- Reduce pressure on agriculture
- Increase productivity

2. Types of Industries

- Heavy industries
- Public sector industries
- Basic industries

Favoured large-scale industries for faster development.

3. Labour Reforms

As Labour Member of Viceroy’s Council:

Reforms introduced:

- 8-hour working day
- Maternity benefits
- Minimum wages
- Employees’ insurance

He opposed labour exploitation.

4. Social Security

- Provident fund
- Insurance
- Protection for workers

5. Planning

Supported economic planning.

Key focus areas:

- Irrigation
- Power sector
- Water resource management
- River linking

✅MODULE IV

Ambedkar’s Contribution to Fiscal and Monetary Economics

□ Fiscal Economics

Ambedkar studied:

- Provincial finance
- Centre-State financial relations
- Public revenue systems

Canons of Expenditure

- Equity
- Economy
- Efficiency
- Public welfare

□ Monetary Economics

Major work:
The Problem of the Rupee

Price Stability

- Criticized Gold Exchange Standard
- Emphasized stable currency

Exchange Rate Stability

- Opposed arbitrary currency expansion
- Supported strong central banking

Currency Reform

His recommendations influenced establishment of:

Reserve Bank of India (1935)

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