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Pocket Notes

ECONOMICS

For OPSC, OSSC & Other State Level Exams.
Last Minute Revise

Basics of Economics

Economics

- Study of how scarce resources are allocated to satisfy unlimited wants.
- Concerned with **production, distribution, and consumption** of goods & services.

Branches

- **Microeconomics:** Deals with individual units → consumer, firm, market demand & supply, price mechanism.
- **Macroeconomics:** Deals with aggregates → national income, employment, inflation, fiscal & monetary policy.

Role of State in Economy

- Provider of **public goods** (defence, law & order).
- Regulator of markets (SEBI, RBI).
- Redistributor via taxes & subsidies.
- Planner of long-term growth (NITI Aayog, Five-Year Plans earlier).

Structural Composition of Economy

- **Primary Sector:** Agriculture, forestry, mining. (eg. paddy cultivation in Odisha).
- **Secondary Sector:** Industry & manufacturing (eg. steel, textiles).
- **Tertiary Sector:** Services like trade, banking, transport, IT.
- **Quaternary Sector:** Knowledge-based → R&D, consultancy.
- **Quinary Sector:** High-level decision making → top govt & corporate executives.

Formal vs Informal Economy

- **Formal:** Organised, regulated, legal → govt jobs, corporate sector.
- **Informal:** Unorganised, unregulated → street vendors, daily wage labour.

Types of Goods

- **Intermediate Goods:** Used in further production (cotton for textile mill).
- **Final Goods:** Ready for consumption (shirt, bread).
- **Consumer Goods:** Directly used by consumers (milk, mobile).
- **Capital Goods:** Used to produce other goods (machines, tools).
- **Luxury Goods:** High-end, demand rises with income (cars, jewellery).
- **Complementary Goods:** Used together (car & petrol).
- **Substitute Goods:** One replaces the other (tea vs coffee).
- **Veblen Goods:** Demand rises with price (status goods, diamonds).
- **Giffen Goods:** Low-quality staple goods; demand rises when price rises (rare, eg. coarse grain).
- **Public Goods:** Non-excludable & non-rival (defence, street lights).
- **Private Goods:** Exclusively consumed (bread, clothes).
- **Merit Goods:** Socially desirable, under-consumed → govt promotes (education, vaccines).
- **Demerit Goods:** Socially harmful, over-consumed → govt discourages (alcohol, tobacco).

National Income Accounting

Economic Growth vs Economic Development

- **Economic Growth:** Increase in real output (GDP/GNP). Quantitative.
- **Economic Development:** Growth + structural change + social progress (literacy, health, equity). Qualitative.

National Income

- **National Income:** Monetary value of all final goods & services produced in a country in a year.
- **Depreciation:** Wear & tear of capital goods → deducted to find net values.

GDP

- **GDP (Gross Domestic Product):** Value of all final goods & services produced **within domestic territory** in a year.
- **Nominal GDP:** At current prices.
- **Real GDP:** Adjusted for inflation using base year prices.
- **Base Year:** Year chosen for constant prices (India's base year = **2011–12**, revision under process).

GNI / NNP

- **GNI (Gross National Income):** GDP + Income earned by residents from abroad – Income earned by foreigners in India.
- **NNP (Net National Product):** GNP – Depreciation.
- **NDP (Net Domestic Product):** GDP – Depreciation.
- **At Market Price (MP):** Includes indirect taxes – subsidies.
- **At Factor Cost (FC):** True cost of production → excludes taxes, adds subsidies.
- **Transfer Payments:** One-way payments not against goods/services (eg. pensions, scholarships). **Not included** in national income.

Relations (Formulas)

1. **GDP = C + I + G + (X – M)**
   (Consumption + Investment + Govt expenditure + Net exports)
2. **NDP = GDP – Depreciation**
3. **GNP = GDP + (Income from Abroad – Income to Abroad)**
4. **NNP = GNP – Depreciation**
5. **National Income = NNP at Factor Cost**

Methods of National Income Accounting

1. **Production / Output Method:**
   - Value of all goods & services produced in primary, secondary, tertiary sectors.
   - GDP = ∑ (Value of output – Intermediate consumption).
   - Used in agriculture & industry.
2. **Income Method:**
   - Sum of factor incomes → wages + rent + interest + profit.
   - Best for service sector.
3. **Expenditure Method:**
   - Final expenditure on consumption, investment, govt spending, net exports.
   - Used for calculating GDP from demand side.

Gross Value Added (GVA)

- **GVA = Value of output – Value of intermediate consumption.**
- Shows contribution of each sector (agriculture, industry, services) to economy.
- **GDP = GVA + (Taxes – Subsidies).**

Difference: GDP vs GNP

- **GDP:** Measures production within India's territory, regardless of who produces.
- **GNP:** Measures production by Indians, regardless of location (includes abroad earnings).
- Eg: Tata earns in UK → part of India's GNP, not GDP.

GDP vs GVA

- **GDP:** Market price-based, includes tax & subsidy adjustments.
- **GVA:** Pure sectoral value addition, before tax/subsidy adjustment.
- Use: GVA shows sectoral growth, GDP shows overall economy.

Gross Capital Formation (GCF)

- Represents **investment** in economy.
- Components:
    1. Gross Fixed Capital Formation (machinery, buildings).
    2. Inventory (change in stocks).
    3. Valuables (gold, precious items).
- High GCF → higher future growth potential.

Economic Slowdown, Recession & Depression

- **Economic Slowdown:**
    - Decline in growth rate of GDP (still positive).
    - Eg: GDP growth falls from 7% to 5%.
- **Economic Recession:**
    - Negative growth in GDP for **two consecutive quarters**.
    - Symptoms: job losses, fall in demand, credit crunch.
    - Eg: Global recession of 2008.
- **Economic Depression:**
    - Severe, prolonged recession (long-term fall in GDP, deflation, high unemployment).
    - Eg: Great Depression (1929–39).

Economic Growth vs Economic Development

- **Economic Growth:**
    - Quantitative increase in GDP/GNP.
    - Focus on production & income.
    - Narrow measure, doesn't show distribution or quality of life.

- **Economic Development:**
  - Growth + social indicators (literacy, health, HDI, equity).
  - Focus on **inclusive, sustainable progress**.
  - Eg: Kerala's social indicators show development beyond income.

Demand-Side Economics

- Popularised by **Keynes** (after Great Depression).
- Focuses on boosting **aggregate demand** to stimulate growth.
- Tools: Govt spending, tax cuts, monetary easing.
- Idea: "Demand creates jobs → jobs create income → income creates demand."
- Eg: MNREGA, PM-Kisan in India.

Supply-Side Economics

- Popularised by US economists (Reagan era).
- Focuses on boosting **production capacity & efficiency**.
- Tools: Tax incentives for producers, deregulation, infrastructure investment.
- Idea: "More supply creates lower prices, more jobs, higher growth."
- Eg: GST reform, Make in India, corporate tax cuts (India, 2019).

Planning in India

Pre-Independence Planning Experiments

- **National Planning Committee (1938):**
  - Set up by Subhas Chandra Bose (INC President).
  - Chairman: Jawaharlal Nehru.
  - Aim: National planning for economic development.
- **Bombay Plan (1944):**
  - Prepared by 8 leading industrialists (Tata, Birla, etc.).
  - Called for massive public sector role, state-led industrialisation.
- **People's Plan (1944):**
  - By M.N. Roy.
  - Emphasised agriculture & nationalisation of key industries.
- **Gandhian Plan (1944):**
  - By S.N. Agarwal.
  - Village-centric, small-scale industries, self-reliance.
- **Sarvodaya Plan (1950):**
  - By Jaiprakash Narayan, inspired by Gandhi's philosophy.
  - Emphasis on agriculture, rural development, decentralisation.

Five Year Plans in India

- **First Plan (1951–56):**
  - Priority: Agriculture, irrigation, community development.
  - Model: Harrod–Domar.
- **Second Plan (1956–61):**
  - Priority: Industrialisation (heavy industries).
  - Model: Mahalanobis model.
- **Third Plan (1961–66):**
  - Aim: Self-reliant economy, agriculture + industry.
  - Failure due to wars (1962, 1965) & drought.
- **Plan Holiday (1966–69):**
  - 3 Annual Plans due to crisis.

- **Fourth Plan (1969–74):**
    - Growth with stability, self-reliance.
    - Bank nationalisation (1969), Green Revolution.
- **Fifth Plan (1974–79):**
    - Focus: Poverty removal (*Garibi Hatao*), self-reliance.
    - Terminated early by Janata Govt.
- **Rolling Plan (1978–80):**
    - Introduced by Janta Govt (D.T. Lakdawala).
- **Sixth Plan (1980–85):**
    - Priority: Poverty alleviation, employment.
    - Launch of IRDP, TRYSEM.
- **Seventh Plan (1985–90):**
    - Focus: Food, work, productivity.
    - Emphasis on modernisation, IT.
- **Annual Plans (1990–92):**
    - Due to political & economic instability.
- **Eighth Plan (1992–97):**
    - First after LPG reforms.
    - Focus: Human development, employment.
- **Ninth Plan (1997–2002):**
    - Aim: Growth with justice & equity.
- **Tenth Plan (2002–07):**
    - Target: 8% growth, doubled per capita income.
- **Eleventh Plan (2007–12):**
    - Focus: "Inclusive growth."
- **Twelfth Plan (2012–17):**
    - Focus: "Faster, sustainable, more inclusive growth."
    - Last Five Year Plan; replaced by NITI Aayog.

NITI Aayog (est. 1 Jan 2015)

- Replaced **Planning Commission**.
- **Composition:**
    - Chairperson: Prime Minister.
    - Vice-Chairperson: Appointed by PM.
    - Full-time members (experts).
    - Part-time members (universities/researchers).
    - Ex-officio members: 4 Union Ministers.

- CEO: Appointed by PM.

- **Functions:**
  - Policy think-tank, cooperative federalism.
  - 15-year vision, 7-year strategy, 3-year action plans.
  - Replaces top-down planning with bottom-up approach.

Fiscal Policy

- Fiscal policy = Govt's use of **taxation & public expenditure** to influence economic activity, growth, and stability.

Objectives of Fiscal Policy

- Economic growth (raise productive capacity).
- Price stability (control inflation/deflation).
- Employment generation.
- Reduce inequalities (progressive taxation, subsidies).
- Promote investment in priority sectors (infrastructure, agriculture).
- Mobilise resources for development.

Fiscal Policy vs Monetary Policy

- **Fiscal Policy:**
  - Controlled by Govt (Finance Ministry).
  - Tools: Taxes, govt spending, borrowing.
  - Works directly on demand & income distribution.
- **Monetary Policy:**
  - Controlled by RBI.
  - Tools: CRR, Repo Rate, OMO.
  - Works indirectly by influencing credit, liquidity.

Types of Fiscal Policy

1. Expansionary Fiscal Policy

- Applicable when Economy faces slowdown/recession, low demand.

- **Action done in this policy:**
  - Increase govt spending (infrastructure, welfare).
  - Reduce taxes.
  - Raise subsidies.
- **Effect:**
  - Boosts aggregate demand → more output, jobs.
  - May cause **fiscal deficit, inflation** if overdone.
- **Eg:** India's higher capital expenditure in Budget 2023–24 to push growth.

2. Contractionary Fiscal Policy

- Followed when Economy overheats with high inflation.
- **Action done:**
  - Cut govt spending.
  - Increase taxes.
  - Reduce subsidies.
- **Effect:**
  - Reduces demand → controls inflation.
  - May slow growth, increase unemployment.
- **Eg:** Post-1991 reforms, govt reduced expenditure & subsidies to stabilise economy.

Union Budget

Revenue Budget

- Part of budget showing **revenue receipts & revenue expenditure.**
- No asset creation, short-term in nature.

Capital Budget

- Shows **capital receipts & capital expenditure.**
- Related to borrowing, repayment, asset creation, long-term impact.

Revenue Receipts

- Govt income **without creating liability.**
- Two types:
    1. **Tax Revenue:** Income tax, corporate tax, GST, customs, excise.
    2. **Non-Tax Revenue:** Dividends from PSUs, interest, fees, fines.

Revenue Expenditure

- Govt spending **without asset creation.**
- Eg: Salaries, pensions, subsidies, interest payments, grants to states.

Capital Receipts

- Govt income that **creates liability or reduces assets.**
- Eg: Borrowings, recovery of loans, disinvestment proceeds.

Capital Expenditure

- Govt spending that **creates assets or reduces liabilities.**
- Eg: Building roads, railways, irrigation projects, repayment of loans.

Components of Budget (Articles 112–117)

1. **Annual Financial Statement (Art. 112):**
    - Statement of estimated receipts & expenditure of Union Govt.
    - Lays foundation of Union Budget.
2. **Demands for Grants (Art. 113):**
    - Estimates of expenditure presented to Lok Sabha by each ministry.
    - Requires Lok Sabha approval (voting).
3. **Appropriation Bill (Art. 114):**
    - Legalises withdrawal of money from Consolidated Fund of India.
    - Covers both voted & charged expenditures.
4. **Finance Bill (Art. 110):**
    - Introduced with Budget.
    - Deals with taxation proposals & changes in tax laws.

Budget Deficits

Revenue Deficit

- Revenue Expenditure > Revenue Receipts.
- Indicates govt is borrowing **even for routine expenses** (salaries, subsidies).
- Revenue Deficit = Revenue Expenditure – Revenue Receipts.
- **Implication:** Non-productive borrowing → harmful for fiscal health.

Effective Revenue Deficit

- Introduced in **Union Budget 2012–13**.
- **ERD =** Revenue Deficit – Grants given to States/UTs for creation of capital assets.
- Rationale: Such grants, though booked as revenue expenditure, actually create productive assets.
- Better measure of govt's real fiscal imbalance.

Fiscal Deficit

- **FD=** Total expenditure (Revenue + Capital) – (Revenue Receipts + Non-debt Capital Receipts).
- Excludes borrowings (since borrowings = source of financing).
- **Formula:**
  Fiscal Deficit = Total Expenditure – (Revenue Receipts + Non-debt Capital Receipts).
- It Shows govt's dependence on borrowings.
- Fiscal Responsibility and Budget Management (FRBM) Act, 2003 → targeted fiscal deficit at **3% of GDP** (flexibility given for shocks).

Budget Deficit

- **BD:** Total expenditure > Total receipts (including borrowings).
- Rarely used now, as it ignores borrowing vs non-borrowing classification.
- More relevant in pre-reform budgets.

Primary Deficit

- **PD:** Fiscal Deficit – Interest Payments.
- Shows how much govt is borrowing **to meet expenses excluding interest burden.**
- **Implication:** High primary deficit → govt is not just servicing past loans, but also adding fresh debt.

Deficit Financing

- Financing of fiscal deficit through borrowing from RBI, which issues new currency.
- Leads to monetisation of debt.
- It raises inflationary pressures (too much money chasing few goods).
- Eg: India used deficit financing heavily in 1980s → high inflation.

Monetised Deficit

- That part of fiscal deficit which is financed by RBI's printing of new money.
- Earlier called "deficit financing."
- After reforms, RBI directly financing govt is discouraged → replaced by **Ways and Means Advances (WMA).**

Ways and Means Advances (WMA)

- Temporary loans given by RBI to Central & State Govts to meet short-term mismatches between expenditure & receipts.
- **Features:**
  - Statutory under RBI Act, 1934.
  - Short-term (must be repaid within 90 days).
  - Two types:
    1. **Normal WMA** – based on limits fixed by RBI.
    2. **Overdrafts** – if govt exceeds WMA limit, allowed for max 10 consecutive working days.
  - Interest rate: Linked to RBI's repo rate.
- **Significance:** Prevents govt from resorting to inflationary money printing.
- Eg: RBI revises WMA limits periodically (esp. during COVID-19, limits were enhanced).

FRBM Act, 2003

- **Objective:** Institutionalise fiscal discipline, reduce deficits, improve transparency.
- **Targets (original):**
  - Fiscal Deficit → 3% of GDP.
  - Revenue Deficit → eliminated by 2008.
- **Provisions:**
  - Govt to present 3 documents with Budget → Medium-term Fiscal Policy, Fiscal Policy Strategy, Macroeconomic Framework.
  - Banned RBI from directly financing govt deficit.

- **Amendments:** Deadlines extended multiple times.
- **N.K. Singh Committee (2016):** Recommended debt-GDP ratio 60% (40% Centre, 20% States).

Escape Clause (FRBM)

- Govt can deviate from targets (max 0.5% of GDP) under special circumstances:
    1. National security / war.
    2. Natural calamity.
    3. Collapse of agriculture.
    4. Structural reforms.
    5. Sharp fall in real output growth.
- Eg: Invoked during COVID-19 (2020) → higher borrowing allowed.

Fiscal Consolidation

- Policy to reduce fiscal deficit & debt in a sustainable way.
- Instruments:
    - Rationalising subsidies.
    - Expanding tax base (GST).
    - Disinvestment in PSUs.
    - Expenditure control & efficiency.
- India's goal (FRBM/N.K. Singh): fiscal deficit 3% of GDP (Centre) in medium term.

Masala Bonds

- Rupee-denominated bonds issued abroad by Indian entities.
- **Features:**
    - Investors bear currency risk (not issuer).
    - Regulated by RBI.
    - Can be issued by corporates, PSUs, municipalities.
- **Significance:** Diversifies funding, reduces forex risk, internationalises Indian rupee.

Types of Budgeting

1. Zero-Based Budgeting (ZBB)

- Every activity evaluated afresh from "zero" each year.
- No automatic continuation of past expenditure.
- Pros: Cuts waste, improves efficiency.
- Cons: Time-consuming, heavy paperwork.
- Eg: Introduced in India in 1987 (Dept. of Science & Technology).

2. Incremental Budgeting

- Current year's budget = Last year's + Increment.
- Pros: Simple, easy to prepare.
- Cons: Promotes inefficiency, ignores need for review.
- Commonly used in govt departments.

3. Value Proposition Budgeting

- Budget linked to **value delivered to citizens**.
- Key questions:
  - Why is the money spent?
  - What value does it deliver?
  - Is it worth the cost?
- More result-oriented than incremental.

Gender Budget

- First introduced in India: **2005–06 Union Budget.**
- Objective: Allocate resources for women's empowerment & gender equity.
- Not a separate budget, but a **statement showing women-related allocations** across ministries.
- Examples:
  - Beti Bachao Beti Padhao.
  - Pradhan Mantri Matru Vandana Yojana.
  - Women-centric health, education, skill schemes.
- Significance: Makes women visible in policy, ensures inclusive development.

Fiscal Drag

- Slowdown in demand caused by taxation/withholding more than economy's capacity.
- Eg: Higher income tax during inflation → reduces disposable income → curbs demand.
- Seen as a built-in stabiliser.

Fiscal Neutrality

- Govt's revenue = expenditure (balanced budget).
- No effect on aggregate demand.
- Rarely possible in practice; used for stability, not growth.

Crowding Out Effect

- Govt borrows heavily → raises interest rates → private investment declines.
- Eg: India's high fiscal deficit in 1990s → private credit squeezed.

Twin Deficit

- Co-existence of **fiscal deficit + current account deficit (CAD).**
- Fiscal deficit → higher imports (oil, gold) → widens CAD.
- Eg: India in 2012–13 had both deficits high.

Fiscal Cliff

- Sharp reduction in govt spending + higher taxes at once → sudden economic slowdown.
- Term popularised in **US (2012)** debates.

Economic Stimulus

- Broad policy package (fiscal + monetary) to boost demand and growth.
- Eg: India's Atmanirbhar Bharat (2020) → mix of credit, infra, reforms.

Fiscal Stimulus

- Govt-driven → higher spending, tax cuts, subsidies to boost demand.
- Eg: India's stimulus packages post-2008 global crisis.

Monetary Stimulus

- RBI-driven → lower interest rates, liquidity injection (repo cuts, OMO, LTRO).
- Eg: RBI's rate cuts during COVID-19 pandemic.

Sovereign Debt Crisis

- When a govt cannot repay its debt (domestic/foreign).
- Eg: Greece (2010), Argentina (2001).
- Caused by high borrowing, low growth, weak currency.

Off-Budget Financing

- Govt raises resources **outside budget** → not shown in fiscal deficit.
- Tools: Food/Fertiliser bonds, borrowings by PSUs, oil bonds.
- Criticism: Lacks transparency, hides true fiscal deficit.

General Budget & Railway Budget

- **General Budget:** Union Budget presented annually (Art. 112). Covers all ministries.
- **Railway Budget (separate till 2016):**
  - Introduced in 1924 (on recommendations of Acworth Committee).
  - Presented separately for 92 years.
  - Merged with General Budget in 2017 (to end duplication, allow integrated planning).
- **Now:** Single **Union Budget** presented in Parliament every February.

Monetary Policy

- Monetary Policy is the process by which the **Reserve Bank of India (RBI)** manages money supply, interest rates, and credit flow to achieve objectives like price stability, growth, and financial stability.
- In India, RBI uses it as a **counter-cyclical tool** → tighten policy in inflation, loosen during slowdown.

Objectives

1. **Price Stability:** Keep inflation within target (2–6%).
2. **Economic Growth:** Ensure adequate credit to productive sectors.
3. **Control Inflation/Deflation:** Balance demand & supply of money.
4. **Employment Generation:** By stimulating investment & consumption.
5. **Exchange Rate Stability:** Avoid wild fluctuations of Rupee.
6. **Financial Stability:** Prevent banking/market crises.

Types of Monetary Policy

1. **Expansionary Policy (Easy Money):**
   - Used when economy slows, unemployment rises.
   - Actions: Lower repo rate, reduce CRR/SLR, RBI buys govt securities.
   - Effect: Cheaper loans → demand rises → growth improves.
   - Risk: Too much may cause inflation.
   - Eg: During COVID-19, RBI cut repo rate to 4%.
2. **Contractionary Policy (Tight Money):**
   - Used when inflation is high.
   - Actions: Raise repo, raise CRR/SLR, RBI sells govt securities.
   - Effect: Loans costly → demand falls → inflation controlled.
   - Risk: May slow growth, jobs lost.
   - Eg: In 2022, RBI raised repo repeatedly to control inflation.

Instruments of Monetary Policy

Quantitative Tools (affect money supply in general)

- **Repo Rate:** Rate at which RBI lends to commercial banks (short-term, against collateral).
  - If repo ↓ → loans cheaper → growth ↑.
  - If repo ↑ → loans costly → inflation ↓.
- **Reverse Repo Rate:** Rate RBI pays banks for depositing surplus funds.
  - Used to absorb liquidity.
- **Bank Rate:** Long-term lending rate by RBI (no collateral). Rarely used now.
- **MSF (Marginal Standing Facility):** Overnight emergency borrowing by banks, costlier than repo.
- **CRR (Cash Reserve Ratio):** Portion of deposits kept with RBI in cash (0% interest).
  - ↑ CRR → less lending capacity.
  - ↓ CRR → more lending capacity.
- **SLR (Statutory Liquidity Ratio):** Portion of deposits to be invested in liquid assets (gold, govt securities).
- **OMO (Open Market Operations):** RBI buys/sells govt securities.
  - Buys → injects money.
  - Sells → absorbs money.
- **MSS (Market Stabilisation Scheme):** Bonds issued to absorb excess inflow of foreign capital.

Qualitative Tools (affect specific sectors)

- Credit rationing, moral suasion, priority sector lending, margin requirements.

New Tools

- **LAF (Liquidity Adjustment Facility):** Repo + Reverse Repo system.
- **SDF (Standing Deposit Facility, 2022):** Absorbs liquidity without collateral.

- **LCR (Liquidity Coverage Ratio):** Banks must hold enough liquid assets to survive 30 days of stress.
- **HQLA (High Quality Liquid Assets):** Govt securities, reserves counted for LCR.

Policy Stances

- **Hawkish:** Focus on fighting inflation → higher rates.
- **Dovish:** Focus on growth → lower rates.

Lending Benchmark Evolution in India

- **BPLR (Benchmark Prime Lending Rate):** Banks had discretion, lacked transparency.
- **Base Rate (2010):** Minimum lending rate → more uniform.
- **MCLR (Marginal Cost Lending Rate, 2016):** Linked to banks' cost of funds.
- **External Benchmark (2019):** Loans linked to repo or market benchmarks → transparent, quick transmission.

Inflation Targeting in India

- Adopted in **2016** (RBI Act amended).
- **Target:** 4% CPI inflation (±2%).
- **Monetary Policy Committee (MPC):**
  - 6 members (3 RBI including Governor, 3 Govt nominees).
  - Decides repo rate bi-monthly.
  - Ensures accountability of RBI.

Impact of Interest Rate Changes

- **High Interest Rates:**
  - Rupee strengthens (capital inflows).
  - Inflation falls (less borrowing).
  - Growth slows, exports costlier, imports cheaper.

- **Low Interest Rates:**
  - Rupee weakens (capital outflows).
  - Inflation rises (more borrowing, demand ↑).
  - Growth rises, exports gain, imports costly.

Other Concepts

- **Twin Balance Sheet Problem:**
  - Corporates: Heavy debt, low repayment.
  - Banks: High NPAs.
  - Both weaken credit cycle → slow investment.
- **Helicopter Money:**
  - Central bank prints money & directly transfers to people.
  - Like money dropped from helicopter.
  - Pro: Boosts demand fast.
  - Con: High inflation risk.
- **Liquidity Trap:**
  - Even with near-zero rates, people hoard cash, don't borrow.
  - Monetary policy becomes ineffective.
  - Eg: Japan 1990s, global 2008 crisis.

RBI – Role & Functions

1. **Monetary Authority:** Controls inflation, liquidity (via MPC).
2. **Currency Issuer:** Issues notes (₹2 and above). Coins & ₹1 issued by Govt.
3. **Regulator of Banks:** Licensing, supervision, NPA rules.
4. **Debt Manager:** Manages Govt borrowings.
5. **Forex Manager:** Controls foreign reserves & Rupee stability.
6. **Financial Stability:** Monitors banks, NBFCs, markets.
7. **Development Role:** Financial inclusion (Jan Dhan, UPI, RuPay).

Banking System in India

Classification of Banks

Scheduled Banks

- Defined under **2nd Schedule of RBI Act, 1934**.
- Criteria: Paid-up capital ≥ ₹5 lakh + RBI satisfaction of operations.
- Eligible for:
  - RBI refinance.
  - Clearing house membership.
- Example: SBI, PNB, ICICI, HDFC.

Non-Scheduled Banks

- Not listed in 2nd Schedule of RBI Act.
- Smaller in size, limited area of operation.
- Cannot access RBI refinance.
- Eg: Local area banks (few remain).

Commercial Banks

- Banks engaged in **profit-making activities** like deposits, loans, and other financial services.
- Two categories:
  - **Public Sector Banks (PSBs):**
    - Majority stake (>50%) held by Govt.
    - Eg: SBI, Punjab National Bank, Bank of Baroda.
    - 1969 & 1980 → 20 banks nationalised (now consolidated).
    - Presently 12 PSBs (after mergers).
  - **Private Sector Banks:**
    - Majority stake by private individuals/corporates.
    - Eg: HDFC Bank, ICICI, Axis Bank, Kotak.

- **Foreign Banks:**
  - Headquartered abroad, branches in India.
  - Eg: HSBC, Citi, Standard Chartered.

Regional Rural Banks (RRBs)

- Established under **RRB Act, 1976**.
- Objective: Provide credit & banking to rural/agricultural sector.
- Ownership: 50% Central Govt, 15% State Govt, 35% Sponsoring bank.
- Features:
  - Focus on small farmers, rural artisans, weaker sections.
  - Offer both deposit & credit services.
- Example: Odisha Gramya Bank (sponsored by Indian Overseas Bank).

Cooperative Banks

- Operate on **cooperative principles** (member-owned).
- Regulated by RBI + respective State Cooperative Registrars.
- Types:
  1. **Urban Cooperative Banks (UCBs):**
     - Located in towns/cities.
     - Provide loans to small businesses, self-employed.
  2. **State Cooperative Banks:** Apex bank in a state.
  3. **District Central Cooperative Banks (DCCBs):** Middle-tier, link between state coop bank & primary societies.
  4. **Primary Agricultural Credit Societies (PACS):** Grassroot-level, provide crop loans & short-term credit.
- Features:
  - Democratic control (one member = one vote).
  - Significant in rural credit delivery.

Specialized Banks

Payment Banks (introduced 2015, Nachiket Mor Committee)

- Objective: Financial inclusion for small savers, migrant workers.
- Features:
    - Can accept deposits (up to ₹2 lakh per customer).
    - Cannot lend.
    - Issue ATM/debit cards, provide payments/remittances.
- Examples: Airtel Payments Bank, India Post Payments Bank, Paytm Payments Bank.

Small Finance Banks (SFBs)

- Objective: Serve small businesses, unorganised sector, farmers, SMEs.
- Features:
    - Accept deposits (no cap like payment banks).
    - Can lend (priority to small borrowers).
    - Must maintain CRR, SLR like other commercial banks.
- Examples: Ujjivan SFB, Jana SFB, AU SFB, Equitas SFB.

Other Banks / Institutions

- **Development Banks:** Provide long-term industrial/agri credit (SIDBI, NABARD, EXIM Bank).
- **Local Area Banks:** Small, privately owned, operate in limited districts.
- **DFIs (Development Finance Institutions):** Initially ICICI, IDBI (later converted into commercial banks).

Banking Sector Reforms

Post-1991 Banking Reforms

- Triggered by **Balance of Payments crisis (1991)**.
- Aimed to liberalise, improve efficiency, reduce NPAs.
- Key steps:
  - Deregulation of interest rates.
  - Reduction of SLR/CRR (to release credit for private sector).
  - Entry of new private banks (ICICI, HDFC, Axis).
  - Strengthening prudential norms (capital adequacy, provisioning).

Narasimham Committee Reports

Narasimham Committee I (1991)

- Recommendations:
  - Reduce SLR from 38.5% → 25%.
  - Reduce CRR.
  - Allow new private banks.
  - Transparency in interest rates.
  - Establish ARCs for bad loans.

Narasimham Committee II (1998)

- Recommendations:
  - Lower govt equity in PSBs to 33%.
  - Create asset reconstruction funds.
  - Merge strong banks, close weak ones.
  - Higher capital adequacy ratio.
  - Strengthen RBI as regulator.

SARFAESI Act, 2002

- **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act.**
- Empowered banks to recover NPAs **without court intervention.**
- Banks can:
  - Take possession of collateral.
  - Sell assets.
  - Manage borrower's business.
- Applies to secured loans > ₹1 lakh and NPA > 90 days.

Insolvency and Bankruptcy Code (IBC), 2016

- Consolidated laws relating to insolvency of companies, partnerships, individuals.
- **Timeline:** Insolvency resolution within **180 days (extendable to 330 days).**
- **Institutional framework:**
  - Insolvency and Bankruptcy Board of India (IBBI).
  - National Company Law Tribunal (NCLT).
- Impact: Faster NPA resolution, better recovery.

Bank Recapitalisation

- Infusion of capital into PSBs by Govt.
- Reasons: High NPAs reduce lending capacity.
- Methods: Budgetary support, bonds, market borrowings.
- Eg: ₹2.11 lakh crore recapitalisation plan (2017).

Prompt Corrective Action (PCA) Framework

- Introduced by RBI (1998, revised 2017).
- Applies to banks breaching thresholds on:
  - Capital adequacy.
  - Asset quality (NPAs).
  - Profitability.
- Actions:
  - Restrictions on dividend, branch expansion.
  - Lending curbs.
  - Management changes.

Priority Sector Lending (PSL)

- RBI mandate: Commercial banks must lend **40% of Adjusted Net Bank Credit (ANBC)** to priority sectors.
- Priority Sectors: Agriculture, MSMEs, education, housing, weaker sections, export credit, renewable energy, start-ups.
- For RRBs & SFBs → target is 75%.

Basel Norms

Basel I (1988)

- Introduced **Capital Adequacy Ratio (CAR)** = Capital / Risk-Weighted Assets.
- Minimum: 8% (India adopted 9%).

Basel II (2004)

- 3 Pillars:
  1. Minimum capital requirement.
  2. Supervisory review.
  3. Market discipline.

Basel III (2008–09, post financial crisis)

- Higher capital requirements.
- Capital Conservation Buffer.
- Leverage Ratio.
- Liquidity Coverage Ratio (LCR).

Several Ratios

- **Capital Adequacy Ratio (CAR):**
  - Ensures banks have enough capital to absorb risks.
  - Formula: (Tier 1 + Tier 2 Capital) ÷ Risk-Weighted Assets.
  - India: Minimum 9%.
- **Leverage Ratio:**
  - Tier 1 Capital ÷ Bank's total exposure.
  - Prevents excessive borrowing.
  - Basel III: ≥ 3%.
- **Liquidity Coverage Ratio (LCR):**
  - Banks must hold enough High-Quality Liquid Assets (HQLA) to cover net cash outflows for 30 days of stress.
  - Target: 100%.

Money Aggregates

- **M0 (Reserve Money):** Currency in circulation + bankers' deposits with RBI + other deposits with RBI.
  - Called "high-powered money" or "base money."

- **M1 (Narrow Money):** Currency with public + demand deposits with banks + other deposits with RBI.
  - Represents highly liquid money.
- **M2:** M1 + savings deposits with Post Office savings banks.
- **M3 (Broad Money):** M1 + time deposits with banks.
  - Most commonly used aggregate in India.
- **M4:** M3 + total deposits with Post Office savings organisations (excluding National Savings Certificates).

Banking & Finance

High Powered Money (M0)

- Also called **Reserve Money / Monetary Base / Base Money.**
- Issued by **RBI + Govt of India.**
- Components:
  1. Currency in circulation (notes & coins).
  2. Bankers' deposits with RBI (CRR).
  3. Other deposits with RBI (Govt deposits, foreign central banks, etc.).
- Called "high powered" because banks create **multiple credit** based on it (credit multiplier effect).

Labels on ATMs

- **White Label ATMs (WLAs):**
  - Owned & operated by private non-bank entities.
  - Eg: Tata Communications Payment Solutions.
  - Customer can use cards of any bank.
- **Brown Label ATMs:**
  - Owned by third party, but bank provides licence & cash management.
  - Shared responsibility.
- **Green Label ATMs:** Focus on agriculture transactions.
- **Orange Label ATMs:** Focus on share/stock transactions.
- **Pink Label ATMs:** Dedicated for women.
- **Yellow Label ATMs:** Used for e-commerce.

Asset Classification of Banks (as per RBI)

- **Standard Asset:** Performing, regular repayment.
- **Substandard Asset:** NPA for ≤ 12 months.
- **Doubtful Asset:** NPA > 12 months.
- **Loss Asset:** Identified as uncollectible by bank/auditor/RBI, but not yet fully written off.

- **Written-off Asset:** Removed from bank balance sheet, though recovery efforts may continue.

Payment Bank vs Small Finance Bank

Feature	Payment Bank	Small Finance Bank
Deposits	Max ₹2 lakh/customer	No limit
Lending	Not allowed	Allowed (focus on small borrowers)
CRR/SLR	Must maintain	Must maintain
Services	Remittances, payments, debit cards	Full banking services (loans, deposits)
Examples	Paytm PB, Airtel PB, India Post PB	Ujjivan SFB, Jana SFB, AU SFB

NBFC vs Bank

Feature	NBFC	Bank
Regulator	RBI (some with dual regulation)	RBI (full regulation)
Deposits	Cannot accept demand deposits	Can accept demand & time deposits
Payment system	Cannot issue cheques, part of RTGS?	Full participation in payment system
CRR/SLR	Not required	Required
Coverage under DICGC	No	Yes (deposit insurance ₹5 lakh)
Examples	Bajaj Finance, Muthoot Finance	SBI, HDFC, PNB

Development Financial Institutions

EXIM Bank (Export-Import Bank of India, 1982)

- Objective: Promote Indian exports/imports.
- Functions:
  - Export credit, overseas investment finance.
  - Lines of credit to foreign institutions.
- Example: Supports Indian companies in Africa/Asia projects.

NABARD (National Bank for Agriculture & Rural Development, 1982)

- Apex body for rural credit & agriculture development.
- Functions:
  - Refinancing to rural banks.
  - Supervises RRBs & Cooperative Banks.
  - Promotes rural infrastructure & SHGs.

SIDBI (Small Industries Development Bank of India, 1990)

- Apex bank for MSMEs & small industries.
- Functions:
  - Refinance to banks lending to MSMEs.
  - Promotes start-ups, innovation, cluster development.
  - SIDBI Ventures for venture funding.

NHB (National Housing Bank, 1988)

- Wholly owned subsidiary of RBI (later transferred to Govt).
- Apex bank for housing finance.
- Functions:
  - Refinances housing finance companies (HFCs).
  - Regulates HFCs.
  - Promotes affordable housing schemes.

Taxation

Types of Taxes

Direct Tax

- Tax **borne and paid by the same person.**
- Eg: Income Tax, Corporate Tax, Capital Gains Tax, Wealth Tax (abolished 2015).

Indirect Tax

- Tax **collected by intermediaries but passed to govt.**
- Incidence & burden fall on different persons.
- Eg: GST, Customs Duty, Excise (merged into GST except petroleum, alcohol, tobacco).

Tax Rate Structures

- **Progressive Tax:** Rate ↑ as income ↑ (Income Tax slabs). Promotes equity.
- **Regressive Tax:** Rate ↓ as income ↑ (eg: GST on essentials vs luxury hits poor harder).
- **Proportional Tax:** Same rate for all income levels (corporate tax flat rate).
- **Ad Valorem Tax:** Levied as % of value of good/service (eg: GST 18% on electronics).

Direct Taxes in India

- **Income Tax:** On individual income (slabs).
- **Corporate Tax:** On company profits.
- **Capital Gains Tax:** On sale of assets (short-term/long-term).
- **Dividend Distribution Tax (DDT):** Abolished in 2020 → now taxed in investor's hand.

- **Securities Transaction Tax (STT, 2004):** On purchase/sale of securities via stock exchanges.
- **Minimum Alternate Tax (MAT, 1996):**
    - Ensures companies pay a minimum tax even if using exemptions.
    - Current rate ~15% of book profits.

GST (Goods & Services Tax, 2017)

- **One Nation, One Tax:** Unified indirect tax replacing excise, VAT, service tax, etc.
- **Types:**
    - CGST (Centre share), SGST (State share), IGST (Interstate).
- **Rates:** Multiple slabs – 0%, 5%, 12%, 18%, 28%.
- **Exemptions:** Petroleum, alcohol, electricity (still under old taxes).

GST Council (Art. 279A)

- Chairperson: Union Finance Minister.
- Members: MoS Finance + Finance Ministers of all states/UTs.
- Decisions: 1/3rd weight to Centre, 2/3rd to States.
- Quorum: 3/4th majority required.

Significance:

- Ensures cooperative federalism.
- Decides tax rates, exemptions, model laws.

Tax Management

- **Tax Planning:** Legal arrangement to minimise tax liability (using deductions, exemptions).
- **Tax Avoidance:** Exploiting loopholes, technically legal but against spirit of law.
- **Tax Evasion:** Illegal non-payment of tax (fraud, concealment). Punishable.

International Taxation

- **DTAA (Double Taxation Avoidance Agreement):**
  - Bilateral treaty to avoid taxing same income twice.
  - Eg: India–Mauritius DTAA (used by investors earlier).
- **Advance Pricing Agreement (APA):**
  - Agreement between taxpayer & CBDT on acceptable transfer pricing for future years.
  - Reduces disputes for MNCs.
- **General Anti-Avoidance Rules (GAAR, 2017):**
  - Empower tax authorities to deny tax benefits from transactions made to avoid tax.
  - Targets aggressive tax planning.
- **BEPS (Base Erosion and Profit Shifting):**
  - OECD–G20 initiative.
  - Prevents MNCs from shifting profits to low/no-tax countries (tax havens).
  - Eg: Tech giants routing profits via Ireland/Luxembourg.

Taxation – Terminologies

Tax Incidence

- **Who ultimately bears the tax burden.**
- Eg: GST on restaurant food is paid by consumer (incidence), though collected by restaurant.

Tax Burden

- Actual economic impact of a tax on an individual/group.
- May differ from legal liability (eg: indirect taxes shift burden).

Tax Base

- The item on which tax is imposed.
- Eg: Income → base for income tax, consumption → base for GST.

Tax Buoyancy

- Responsiveness of tax revenue growth to GDP growth.
- Eg: If GDP ↑ 10% but tax revenue ↑ 15%, buoyancy > 1.

Tax Elasticity

- Tax revenue growth due to **automatic response** of system without policy changes.
- Eg: More income pushes people into higher tax slabs → elastic tax system.

Transfer Pricing

- Pricing of goods/services between related entities of MNCs across borders.
- Often manipulated to shift profits to tax havens.
- Controlled in India by **Income Tax Act provisions** + **APA framework.**

Cess

- Tax levied for a **specific purpose**, over & above existing tax.
- Eg: Education Cess, Health Cess.

Surcharge

- Additional tax on **existing tax liability**, usually on higher income slabs.
- Eg: 10% surcharge on income above ₹50 lakh.

Tax-to-GDP Ratio

- Tax revenue ÷ GDP.
- Indicator of govt's tax collection efficiency.
- India ~11–12% (lower than OECD avg of 30–35%).

Capital Gains Tax

- Tax on profit from sale of capital asset.
- **Short-term:** Held < 36 months (for shares < 12 months).
- **Long-term:** Held ≥ 36 months (shares ≥ 12 months).

Inverted Duty Structure

- When import duty on raw materials > duty on finished goods.
- Hurts domestic manufacturing (eg: electronics assembly).

Tax Planning

- Legitimate use of provisions (exemptions, deductions) to reduce tax.
- Eg: Using Section 80C for savings.

Tax Shelter

- Investment/tactic to reduce taxable income.
- Eg: Provident Fund, life insurance, municipal bonds.

Tax Haven

- Country with low/no taxes, secrecy laws.
- Eg: Cayman Islands, Mauritius, Singapore.

Tobin Tax

- Proposed tax on short-term currency transactions (speculative forex trade).
- Idea: Reduce volatility of capital flows.

Pigouvian Tax

- Tax imposed to correct **negative externalities**.
- Eg: Carbon tax on polluting industries.

Fringe Benefit Tax (FBT)

- Tax on non-salary benefits given to employees (travel, cars, club fees).
- Introduced 2005, abolished 2009.

Implicit Tax

- Loss of potential return due to tax preferences/exemptions.
- Eg: Lower return on tax-free bonds vs taxable bonds.

Negative Income Tax

- Govt pays money to people earning below threshold (reverse of income tax).
- Similar to **Universal Basic Income** concept.

Financial Markets

Financial Market

- Mechanism where buyers & sellers exchange financial assets (money, securities).
- Divided into:
    1. **Money Market** → Short-term funds (<1 year).
    2. **Capital Market** → Long-term funds (>1 year).

Money Market

Features

- Tenure: Less than 1 year.
- High liquidity, low risk.
- Instruments are **near money** (not physical goods).
- Regulated by **RBI.**

Instruments

1. **Call Money Market:**
    - Overnight borrowing between banks.
    - Rate = Call Money Rate.
    - Used to maintain CRR/SLR.
2. **Government Securities (G-Secs):**
    - Issued by Central/State Govts.
    - Tenure varies → short, medium, long.
    - Risk-free, backed by sovereign guarantee.
3. **Treasury Bills (T-Bills):**
    - Issued by Central Govt only.
    - Maturity: 91, 182, 364 days.
    - Zero-coupon, issued at discount, redeemed at par.
4. **Cash Management Bills (CMBs):**
    - Shorter maturity than T-bills (<91 days).
    - Issued to meet temporary mismatches.

5. **Certificate of Deposit (CD):**
   - Negotiable instrument issued by banks/NBFCs.
   - Minimum size ₹1 lakh.
   - Short-term fixed maturity.
6. **Commercial Paper (CP):**
   - Unsecured promissory note issued by corporates with high rating.
   - Maturity: 7 days to 1 year.
7. **Commercial Bill:**
   - Bill of exchange used in trade.
   - Can be discounted with bank.
   - Provides working capital finance.

Capital Market

Features

- Tenure: More than 1 year.
- Mobilises savings for long-term investment.
- Higher returns but higher risk.
- Regulated by **SEBI (since 1992).**

Instruments

1. **Shares:** Unit of ownership in a company. Voting rights + dividends.
2. **Stocks:** Consolidated shares (used loosely as synonym).
3. **Debentures:** Debt instrument; fixed interest; no ownership rights.
4. **Bonds:** Long-term debt issued by govt/corporates.
5. **Derivatives:** Financial contracts whose value depends on underlying asset (stocks, commodities, currency).

   Types of Derivatives:

   - **Forward Contract:** Private agreement for future delivery.
   - **Futures Contract:** Standardised, traded on exchange.
   - **Options:** Right (not obligation) to buy/sell.
   - **Swaps:** Exchange of cash flows (eg: fixed vs floating interest).

6. **Public Issues:** New shares issued through IPO (Initial Public Offer).
7. **Rights Issue:** Existing shareholders offered new shares at discount.
8. **Government Securities (long-term):** Bonds issued by govt to finance deficit.

Modern Investment Vehicles

1. **ETF (Exchange Traded Fund):**
    - Basket of securities (like index fund) traded on stock exchanges.
    - Combines features of mutual funds + stocks.
    - Eg: Nifty 50 ETF, Gold ETF.
2. **Hedge Fund:**
    - Private investment pool using aggressive strategies (short-selling, derivatives).
    - For high-net-worth investors, lightly regulated.
3. **Venture Capital (VC):**
    - Investment in **early-stage start-ups** with high growth potential.
    - Provided by VC firms.
4. **Angel Investor:**
    - Wealthy individuals investing in start-ups at seed/early stage.
    - Eg: Ratan Tata's start-up investments.
5. **AIF (Alternative Investment Funds):**
    - Privately pooled investment funds in India.
    - Regulated by SEBI.
    - Types:
        - Category I (start-ups, VC funds, infrastructure).
        - Category II (private equity, debt funds).
        - Category III (hedge funds).
6. **Foreign Portfolio Investor (FPI):**
    - Overseas investors investing in Indian securities (stocks, bonds).
    - Short-term, easily reversible.
7. **Qualified Foreign Investor (QFI):**
    - Now merged into FPI category.
    - Earlier allowed individuals, groups, associations to directly invest in India.

External Commercial Borrowings (ECBs)

- Loans taken by Indian entities from **non-resident lenders** in foreign currency.
- Routes: Automatic (no RBI approval) & Approval route.
- Uses: Infrastructure, manufacturing, refinancing.
- Risks: Currency risk, repayment burden if rupee depreciates.
- Regulated by **RBI**.

Sustainable Stock Exchange (SSE)

- UN initiative (2009).
- Promotes **environmental, social, governance (ESG)** standards.
- Encourages stock exchanges to adopt sustainability reporting.
- India: BSE & NSE are members of SSE initiative.

Stock Exchanges in India

- **Oldest:** Bombay Stock Exchange (BSE, 1875).
- **NSE (1992):** Introduced electronic trading.
- **Others:** Calcutta SE, Madras SE, Delhi SE (less active now).
- **Indices:**
  - Sensex (BSE-30).
  - Nifty (NSE-50).

International Stock Exchanges

- **NYSE (New York Stock Exchange):** Largest globally.
- **NASDAQ (USA):** Tech-heavy.
- **LSE (London Stock Exchange).**
- **Tokyo Stock Exchange.**
- **Shanghai, Hong Kong, Singapore exchanges.**

Commodity Exchanges

- Platforms for trading commodities & derivatives.

- India:
  - **MCX (Multi Commodity Exchange).**
  - **NCDEX (National Commodity & Derivatives Exchange).**
- Commodities: Metals, energy, agri products.

Stock Market Terms

- **Bull:** Investor expects prices ↑, buys shares.
- **Bear:** Investor expects prices ↓, sells shares.
- **Bull Market:** Prolonged rising prices, optimism.
- **Bear Market:** Prolonged falling prices, pessimism.
- **Gilt-Edged Securities (G-Secs):** Govt securities considered risk-free.
- **Blue Chip Company:** Large, financially strong, stable company (eg: Reliance, TCS).
- **Short Selling:** Selling borrowed shares, hoping price falls, then repurchasing cheaper.
- **NSDL (National Securities Depository Ltd.):** India's first depository (1996), holds securities in **demat form.**

Financial Regulators

SEBI (Securities and Exchange Board of India, 1992)

- Regulates **capital markets, stock exchanges, mutual funds, FIIs.**
- Functions:
  - Protect investors.
  - Regulate intermediaries (brokers, merchant bankers).
  - Promote fair practices & transparency.
  - Powers: Civil + quasi-judicial.

IRDAI (Insurance Regulatory and Development Authority of India, 1999)

- Regulates insurance industry (life + general).
- Functions:
  - Protect policyholders.
  - Regulate premium rates, solvency margins.

- Promote insurance penetration.
- HQ: Hyderabad.

PFRDA (Pension Fund Regulatory and Development Authority, 2003)

- Regulates **pension sector**.
- Key product: **NPS (National Pension System).**
- Role: Protect subscribers, regulate pension funds, promote old-age income security.

Inflation & Business Cycle

Causes of Inflation

1. **Demand-side factors:**
   - Excess govt spending (fiscal deficit).
   - Rise in consumption demand.
   - Credit expansion by banks.
   - Rise in exports.
2. **Supply-side factors:**
   - Poor monsoon → low food output.
   - Rise in wages, fuel, raw material costs.
   - Supply chain bottlenecks.

Demand-Pull vs Cost-Push

- **Demand-Pull Inflation:**
  - Too much money chasing too few goods.
  - Eg: Festivals → demand surge → prices rise.
- **Cost-Push Inflation:**
  - Increase in production costs passed on to consumers.
  - Eg: Oil price hike → transport & goods cost ↑.

Types of Inflation

- **Creeping Inflation:** Mild, <3% yearly.
- **Walking Inflation:** 3–10% yearly.
- **Galloping Inflation:** >10% yearly, harmful.
- **Hyperinflation:** Extremely high, >100% (eg: Zimbabwe 2008).
- **Open Inflation:** Visible in market prices.
- **Suppressed Inflation:** Prices controlled artificially by govt.
- **Headline Inflation:** Measured using all goods (CPI/WPI).
- **Core Inflation:** Excludes food & fuel (volatile items).
- **Sectoral Inflation:** Price rise in specific sector (eg: food, fuel).

Terms

- **Stagflation:** Inflation + stagnant growth + unemployment (eg: 1970s oil shock).
- **Disinflation:** Fall in rate of inflation (eg: 7% → 5%), still positive.
- **Deflation:** Continuous fall in general price level (negative inflation).
- **Reflation:** Policy-induced rise in prices after deflation.
- **Skewflation:** Inflation concentrated in few commodities (eg: food inflation in India).
- **Inflationary Gap:** Excess demand over supply at full employment.
- **Inflation Tax:** Govt gains when inflation reduces real value of currency.
- **Inflationary Spiral:** Wage-price spiral → wages rise → costs rise → prices rise further.

Effect of Inflation

- **On Creditors/Debtors:**
  - Debtors gain (repay in cheaper money).
  - Creditors lose.
- **On Demand:** High inflation → demand for essentials remains, luxury demand falls.
- **On Savings:** Value of savings eroded unless invested in inflation-protected assets.
- **On Taxation:** Higher nominal income → higher tax burden (bracket creep).
- **On Imports/Exports:**
  - Domestic goods costly → imports ↑.
  - Exports become less competitive.
- **On Exchange Rate:** High inflation → currency depreciates.
- **On Bonds:** Fixed interest bonds lose value in real terms.
- **On Trade Balance:** Inflation → imports ↑, trade deficit widens.
- **On Wages:** Often lags behind inflation → real wages fall.

Recession & Depression

- **Recession:** Decline in economic activity for 2 consecutive quarters (negative GDP growth).
- **Depression:** Severe, prolonged recession with very high unemployment & fall in output.

Business Cycle – 4 Stages

1. **Expansion:** Growth, jobs ↑, income ↑.
2. **Peak:** Maximum output, inflation pressure.
3. **Recession:** Decline in demand, investment ↓.
4. **Trough:** Lowest point, recovery begins.

Inflation Measurement in India

- **WPI (Wholesale Price Index):**
  - Base 2011–12.
  - Covers wholesale prices of goods only (no services).
  - Published monthly by **Office of Economic Adviser, Ministry of Commerce & Industry.**
- **CPI (Consumer Price Index):**
  - Measures retail inflation.
  - Types: CPI-Combined, CPI-Rural, CPI-Urban, CPI-AL (Agricultural Labour), CPI-RL (Rural Labour).
  - Base 2012.
  - Published monthly by **NSO (MoSPI).**
- **GDP Deflator:**
  - Ratio of Nominal GDP to Real GDP.
  - Broad measure → covers all goods & services.
  - No fixed base year.
- **Producer Price Index (PPI):**
  - Tracks prices from producers' perspective.
  - India plans to introduce (WPI is currently proxy).

Other Terms

- **Base Effect:** Inflation appears high/low depending on last year's base prices.
- **Inflation Targeting in India (2016):**
    - Target = 4% CPI ± 2%.
    - **MPC (Monetary Policy Committee):**
        - 6 members: 3 RBI (Governor + 2), 3 Govt nominees.
        - Decides repo rate bi-monthly.

Poverty

- A situation where a person is unable to meet **minimum standard of living** (food, clothing, shelter, health, education).

- Measured in terms of **income/consumption** required for basic needs.

Types of Poverty

- **Absolute Poverty:**
    - Minimum physical subsistence level of income required to maintain life.
    - Eg: Poverty line based on calories/consumption basket.
- **Relative Poverty:**
    - Compares income of poor with richer section of society.
    - Eg: OECD defines poverty as income <50% of median household income.

Poverty Line

- Minimum level of income/expenditure required to meet basic needs.
- Fixed differently for **rural & urban** (due to cost-of-living differences).
- In India, based mainly on **monthly per capita consumption expenditure.**

Poverty Measures

- **Headcount Ratio (HCR):**
    - % of population below poverty line.
    - Simple but ignores depth of poverty.
- **Poverty Gap:**
    - Average shortfall of poor's income from poverty line.
    - Shows intensity of poverty.

Committees in India on Poverty Estimation

(A) Y.K. Alagh Committee (1979)

- First official attempt to define poverty line.
- Based on **nutritional requirement → 2400 calories (rural), 2100 calories (urban).**
- Poverty line linked to calorie consumption converted into monetary terms.

(B) Lakdawala Committee (1993)

- Poverty line based on **calorie intake (Alagh's method)** but updated.
- Used **National Sample Survey (NSS) consumption data.**
- Criticism: Did not account for health, education, sanitation.

(C) Tendulkar Committee (2009)

- Shifted away from calorie-based norm → **broader consumption basket.**
- Included **expenditure on health, education, clothing, rent, transport.**
- Poverty line:
  - Rural: ₹27/day.
  - Urban: ₹33/day (2011–12).
- Poverty estimated: 21.9% (2011–12).
- Widely accepted today (basis for official poverty estimates).

(D) Rangarajan Committee (2012, report 2014)

- Criticised Tendulkar line as "too low."
- Recommended higher threshold:
  - Rural: ₹32/day.
  - Urban: ₹47/day.
- Poverty ratio (2011–12): 29.5% (vs Tendulkar's 21.9%).

Rural vs Urban Poverty

- **Rural Poverty:** Due to dependence on agriculture, low productivity, disguised unemployment, lack of infrastructure.
- **Urban Poverty:** Slums, informal jobs, migration pressure, high cost of living.

Unemployment

Indicators

- **Labour Force Participation Rate (LFPR):**
  - % of working-age population (15–59 yrs) that is either employed or actively seeking work.
  - Formula: (Labour Force ÷ Working-age population) × 100.
- **Worker Population Ratio (WPR):**
  - % of employed persons in the population.
  - Formula: (Employed persons ÷ Total population) × 100.
- **Proportion Unemployed:**
  - Share of unemployed in labour force.
- **Unemployment Rate (UR):**
  - % of labour force without work but seeking employment.
  - Formula: (Unemployed ÷ Labour Force) × 100.
- **Activity Status (NSSO terms):**
  - **Usual Status (US):** Long-term (past 365 days).
  - **Current Weekly Status (CWS):** At least 1 hr in last 7 days.
  - **Current Daily Status (CDS):** Person-days of work in last 7 days.

Types of Unemployment

(A) By Nature of Economy

- **Disguised Unemployment:**
  - More workers employed than required. Marginal productivity = 0.
  - Common in Indian agriculture.
- **Seasonal Unemployment:**
  - Occurs in agriculture or seasonal industries (sugarcane, tourism).
  - Workers jobless in off-season.
- **Structural Unemployment:**
  - Mismatch between skills and available jobs.
  - Eg: Rural workers can't fit in modern industries.
- **Cyclical Unemployment:**
  - Linked to business cycle downturns.
  - Eg: Job losses during 2008 global financial crisis.
- **Frictional Unemployment:**
  - Short-term, when workers shift between jobs.
  - Considered natural.

(B) Special Categories

- **Educated Unemployment:**
  - Increasing in India due to mismatch of skills & market needs.
  - Eg: Engineering graduates not finding jobs.
- **Technological Unemployment:**
  - Replacement of labour with machines, automation, AI.
- **Underemployment:**
  - Workers employed below their skill level or capacity.
  - Eg: Engineer working as daily wage worker.
- **Open Unemployment:**
  - Workers willing but no jobs available at all.
- **Casual Unemployment:**
  - Jobless due to casual nature of work (construction, daily-wage).
- **Vulnerable Employment:**
  - Self-employed/informal workers without security or benefits.

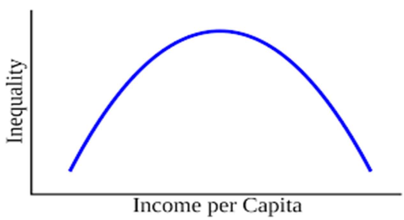
Important Economic Curves

1. Phillips Curve

- Shows **inverse relationship** between inflation & unemployment (short run).
- Lower unemployment → higher inflation, and vice versa.
- In long run → relationship breaks down (stagflation of 1970s).
- Policy Use: Explains trade-off between growth & inflation.

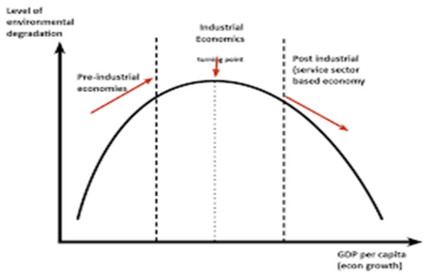
2. Kuznets Curve

- Inverted “U-shaped” curve between **economic growth & income inequality.**
- At early growth → inequality ↑ (rich benefit first).
- Later → inequality ↓ (redistribution, welfare, jobs).
- Indian Context: Rising inequality despite growth → debate on validity.



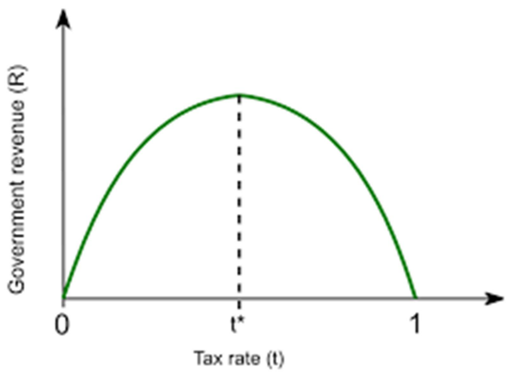
3. Environmental Kuznets Curve (EKC)

- Inverted U-shape between **economic growth & environmental degradation.**
- At low growth: Pollution ↑ with income.
- After threshold income: Pollution ↓ (clean tech, regulation).
- Eg: Developed countries reduce emissions after industrialisation peak.



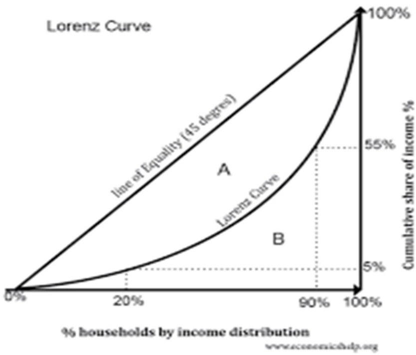
4. Laffer Curve

- Shows relation between **tax rate & tax revenue.**
- At 0% tax → no revenue.
- At 100% tax → no incentive to work → zero revenue.
- Optimal tax rate lies between → maximises revenue.
- India: Debate on corporate tax cuts (2019) using Laffer logic.



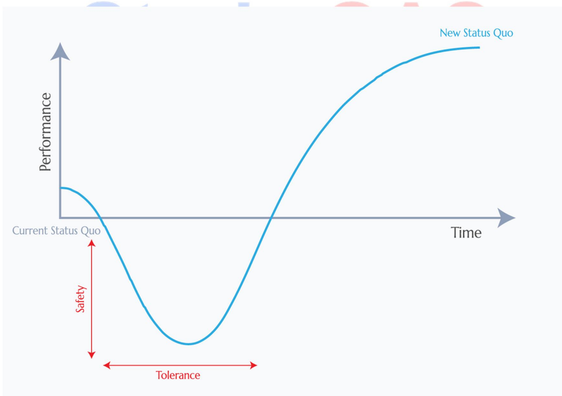
5. Lorenz Curve

- Graphical representation of **income inequality.**
- Perfect equality → 45° line.
- Actual distribution → bowed curve.
- Greater the gap → higher inequality.
- Measured by **Gini Coefficient** (0 = equality, 1 = max inequality).



6. J-Curve

- Shows impact of currency depreciation on trade balance.
- Immediately after depreciation → trade deficit worsens (imports costly, exports take time to rise).
- Later → exports rise, imports fall → trade balance improves.
- Shape: J-shaped.



7. Other Important Curves

- **Engel's Curve:** Shows relationship between income & spending on a good. Eg: As income ↑, % on food ↓, % on luxuries ↑.
- **IS-LM Curve:** Interaction of goods market (IS) & money market (LM) → determines interest rate & output.
- **Indifference Curve:** Represents consumer's preferences; shows combinations of goods giving equal satisfaction.
- **Demand Curve:** Shows inverse relation between price & demand (law of demand).
- **Supply Curve:** Shows direct relation between price & supply.

Agriculture

Cropping Seasons in India

- **Kharif Crops:**
  - Sown: June–July (with SW monsoon).
  - Harvested: Sept–Oct.
  - Eg: Rice, maize, bajra, cotton, jute, soyabean.
- **Rabi Crops:**
  - Sown: Oct–Nov (after monsoon).
  - Harvested: March–April.
  - Eg: Wheat, barley, mustard, gram, peas.
- **Zaid Crops:**
  - Between Rabi & Kharif (summer crops).
  - Eg: Watermelon, cucumber, fodder, vegetables.

Key Concepts in Cropping

- **Cropping Intensity:**
  - Ratio of Gross Cropped Area (includes multiple crops on same land) to Net Sown Area.
  - Formula: (GCA ÷ NSA) × 100.
  - High in Punjab, Haryana (due to irrigation).
- **Cropping Pattern:**
  - Proportion of land under different crops in an area.
  - Influenced by rainfall, soil, irrigation, demand, govt policies.
- **Multiple Cropping:**
  - Growing more than one crop on same field in a year.
  - Eg: Wheat + rice in Punjab.
- **Intercropping:**
  - Two or more crops grown simultaneously on same field in a definite row pattern.
  - Eg: Maize + pulses.
- **Mixed Cropping:**
  - Two/more crops grown together without fixed pattern.
  - Eg: Wheat + mustard.

- **Contour Bunding:**
  - Soil & water conservation practice in hilly areas.
  - Bunds along contour lines reduce soil erosion.

Sustainable Farming Practices

- **Organic Farming:**
  - No chemical fertilisers/pesticides.
  - Uses compost, manure, bio-fertilisers.
  - Promotes soil health & eco-balance.
- **Zero Budget Natural Farming (ZBNF):**
  - Proposed by Subhash Palekar.
  - "Zero cost" as inputs prepared locally.
  - Uses:
    - Bijamrit (seed treatment).
    - Jeevamrit (soil microbe enhancer).
    - Mulching, Waaphasa (soil aeration).
  - Focus: Reducing farmer's dependence on credit & chemicals.

Agricultural Revolutions

- **Green Revolution:**
  - Foodgrain self-sufficiency (1960s).
  - HYV seeds, irrigation, fertilisers.
  - Led by M.S. Swaminathan.
- **White Revolution:**
  - Milk production (Operation Flood, 1970).
  - Led by Verghese Kurien.
- **Blue Revolution:**
  - Fish & aquaculture development.
- **Yellow Revolution:**
  - Oilseed production.
- **Golden Revolution:**
  - Fruits, vegetables, horticulture.
- **Silver Revolution:**
  - Egg & poultry production.

- **Brown Revolution:**
    - Cocoa, coffee; also linked to leather & non-conventional energy.
- **Black Revolution:**
    - Petroleum production.
- **Pink Revolution:**
    - 2 uses:
        1. Shrimp & prawn farming.
        2. Meat processing.
- **Grey Revolution:**
    - Fertiliser production & use.
- **Round Revolution:**
    - Potato production.

Agriculture Reforms & Institutions

1. Land Reforms in India (Post-Independence)

Objectives: Abolish intermediaries, redistribute land, improve productivity, ensure equity.

Main Components:

1. **Abolition of Zamindari (1950s):** Ended landlord system, tenants got ownership rights.
2. **Tenancy Reforms:** Regulated rent, gave security of tenure, ownership to cultivators.
3. **Ceilings on Land Holdings:** Surplus land redistributed to landless.
4. **Consolidation of Holdings:** Merge fragmented plots → better mechanisation.
5. **Cooperative Farming:** Farmers pool land & resources.

Outcome:

- Success in states like Kerala, West Bengal.
- Weak implementation elsewhere → limited impact.

2. Agricultural Marketing

Problems:

- Middlemen dominance, poor storage, lack of grading, price fluctuations.

Reforms:

- **APMC Acts:** Set up regulated mandis, but led to monopoly & high commissions.
- **Model APMC Act (2003, 2017):** Allowed private markets, contract farming, direct marketing.

- **Grading & Standardisation:** AGMARK, FSSAI.
- **Warehousing:** Central Warehousing Corporation (CWC), State Warehousing Corporations.

3. MSP (Minimum Support Price)

- Announced by **Govt on recommendation of CACP (Commission for Agricultural Costs & Prices).**
- Objective: Ensure fair income, incentivise production.

Methodology (as per Swaminathan recommendations):

- **C2 cost** (comprehensive cost = paid-out costs + imputed rent + interest on owned land & capital).
- MSP fixed at **1.5 times C2 cost** (since 2018).

Crops Covered:

- 23 crops (cereals, pulses, oilseeds, commercial crops).
- Eg: Paddy, wheat, maize, cotton, sugarcane (FRP).

Limitations:

- Benefits concentrated in wheat & paddy (Punjab, Haryana).
- Procurement system weak in most states.

4. APMC Act

- **Agricultural Produce Market Committee** regulates trade.
- Farmers required to sell in designated mandis → middlemen thrive.
- Reforms aimed to:
    - Allow direct purchase by processors/exporters.
    - Encourage private markets & contract farming.
- **2020 Farm Acts** attempted further reforms (later repealed).

5. e-NAM (National Agriculture Market, 2016)

- Online trading platform integrating APMC mandis.
- Single license valid across states.
- Transparent price discovery, reduces middlemen role.
- Over **1000 mandis** integrated (as of 2023).

6. Food Corporation of India (FCI, 1965)

- Established under **Food Corporations Act, 1964.**
- Functions:
  - Procurement of foodgrains at MSP.
  - Storage & maintenance of buffer stock.
  - Distribution under PDS & welfare schemes.
- Criticism: High procurement + storage costs, leakages, inefficiency.

7. National Food Security Act (NFSA), 2013

- Covers **67% of population (75% rural, 50% urban).**
- Provides:
  - 5 kg foodgrains per person per month at subsidised rates (₹3 rice, ₹2 wheat, ₹1 coarse grain).
  - Pregnant women, lactating mothers: ₹6000 maternity benefit.
  - Children 6 months–14 years: Free nutritious meals.
- Implemented via **TPDS (Targeted PDS).**
- FCI supplies grain, states distribute.

Industry

Disinvestment, Privatisation, Corporatisation

- **Disinvestment:**
  - Govt sells part of its equity in PSUs.
  - Can be minority stake (Govt retains control) or majority stake (strategic).

- Eg: LIC IPO, Air India disinvestment.
- **Privatisation:**
  - Transfer of ownership & management from public → private sector.
  - Can be through majority disinvestment, leasing, outsourcing.
  - Eg: Air India acquired by Tata in 2021.
- **Corporatisation:**
  - Converting a govt department into a corporate body (company) with its own legal identity.
  - Eg: BSNL from Dept. of Telecom.
- **Strategic Disinvestment:**
  - Govt sells **majority stake + transfer of management control** to private sector.
  - Eg: BALCO (2001), Air India (2021).

Navratna, Maharatna, Miniratna PSUs

- **Navratna:**
  - 1997 policy.
  - Given to 9 PSUs initially (now 14).
  - Autonomy in investment up to ₹1000 crore or 15% of net worth.
  - Eg: HAL, MTNL, BEL.
- **Maharatna:**
  - Introduced 2010 for top-performing Navratnas.
  - Eligibility: Navratna + global presence + avg annual turnover > ₹25,000 cr.
  - Autonomy in investment up to ₹5000 crore.
  - Eg: ONGC, NTPC, Coal India, Indian Oil.
- **Miniratna:**
  - 1997 policy.
  - Category I: Profit-making for 3 yrs, can invest up to ₹500 crore.
  - Category II: Profit-making for 3 yrs, invest up to ₹300 crore.
  - Eg: Airports Authority of India, IRCTC

National Investment Fund (NIF, 2005)

- Created to channelise proceeds from PSU disinvestment.
- Managed by **Public Sector Mutual Funds (UTI, LIC, SBI).**
- Utilisation:
  - Earlier for social sector schemes.
  - Now mainly for recapitalisation of PSBs & infrastructure investment.

Public-Private Partnership (PPP) Models

- **BOT (Build-Operate-Transfer):**
  - Private party builds, operates project for fixed period, then transfers to govt.
  - Eg: Highway projects.
- **BOOT (Build-Own-Operate-Transfer):**
  - Private party owns project during concession period, then transfers to govt.
- **BOO (Build-Own-Operate):**
  - Private party builds, owns, and operates indefinitely (no transfer).
- **DBFO (Design-Build-Finance-Operate):**
  - Private party handles full cycle; govt remains owner.
- **O&M Contracts:**
  - Operation & Maintenance handled by private party.
- **Joint Ventures:**
  - Govt + private sector share equity & management.

5. Viability Gap Funding (VGF)

- Introduced in 2004 for PPP projects.
- Govt provides **up to 20% of project cost as grant** to make socially desirable but financially unviable projects attractive.
- Additional 20% can come from state govt/PSU.
- Eg: Rural roads, airports, metro projects.

Balance of Payments (BoP)

1. BoP – Meaning & Features

- Record of all **economic transactions** of a country with the rest of the world in a year (goods, services, income, capital).
- **Closed Economy:** No trade or capital flow with outside world (self-sufficient).
- **Open Economy:** Trade & financial linkages with rest of world.
- **Features of BoP:**
    - Double-entry system (credit = inflow, debit = outflow).
    - Always balances mathematically (but may show deficit/surplus in parts).

BoP Components

(A) Current Account

1. **Visible (Merchandise Trade):** Exports/imports of goods.
2. **Invisible:** Services (IT, tourism, transport, banking).
3. **Income:** Investment income (dividends, interest, profits).
4. **Transfers:** Remittances, grants, gifts.

- **Current Account Deficit (CAD):** When imports of goods/services + income + transfers > exports + inflows.
    - India often has CAD due to oil & gold imports.

(B) Capital Account

1. **FDI (Foreign Direct Investment).**
2. **FPI/FII (Foreign Portfolio Investment).**
3. **External Commercial Borrowings (ECBs).**
4. **NRI Deposits.**
5. **Banking Capital & Reserves.**

Currency Movements

- **Depreciation:** Fall in value of domestic currency due to market forces (Rupee ↓ vs $).
- **Devaluation:** Official lowering of currency value by govt/RBI (under fixed rate system).
- **Appreciation:** Rise in domestic currency value due to market forces.
- **Revaluation:** Official increase in currency value by govt/RBI.

Exchange Rate Mechanisms

- **Fixed Exchange Rate:** Currency pegged to gold/another currency.
- **Floating (Flexible):** Determined by market demand & supply.
- **Managed Float:** RBI intervenes occasionally to stabilise rupee.

India's Evolution

- Pre-1991: Fixed rate regime.
- 1992: **LERMS (Liberalised Exchange Rate Management System)** → dual exchange rate.
- 1993: Unified market-determined exchange rate.

Key Indices

- **NEER (Nominal Effective Exchange Rate):** Weighted avg of rupee vs basket of currencies (not adjusted for inflation).
- **REER (Real Effective Exchange Rate):** NEER adjusted for inflation → more realistic competitiveness measure.

Convertibility

- **Current Account Convertibility (1994):**
  - Freedom to convert domestic currency into foreign currency for trade, services, remittances.
  - Adopted under IMF Article VIII.

- **Capital Account Convertibility:**
  - Freedom to convert domestic currency into foreign currency for investments/loans.
  - Not fully allowed in India (due to stability concerns).

Types of Currency

- **Hard Currency:** Stable, widely accepted globally (USD, Euro, Yen, Pound).
- **Soft Currency:** Not stable or accepted globally (eg: Rupee, most developing country currencies).
- **Hot Money:** Short-term speculative capital inflows (FPI, FIIs) → can exit quickly.
- **Cheap Currency:** Low interest rates, encourages borrowing.
- **Dear Currency:** High interest rates, discourages borrowing.

Foreign Investment

Foreign Direct Investment (FDI)

- Investment where **foreign investor has ownership & control** in domestic company.
- Eg: Foreign company sets up factory/office in India.
- Features:
  - Long-term, stable.
  - Brings capital, technology, jobs.
  - Types:
    - **Greenfield:** New facilities (eg: Hyundai in Chennai).
    - **Brownfield:** Buying existing company (eg: Walmart buying Flipkart).
  - Routes in India:
    - **Automatic:** No govt approval (majority sectors).
    - **Approval (Govt) route:** Defence, telecom, insurance.

Foreign Portfolio Investment (FPI)

- Investment in **securities (shares, bonds)** without control/ownership.
- Eg: FIIs buying Indian stocks.
- Features:
    - Short-term, volatile ("hot money").
    - Registered with SEBI.
- Earlier categories:
    - **FII (Foreign Institutional Investor).**
    - **QFI (Qualified Foreign Investor).**
    - Now merged under single **FPI framework (2014).**

Participatory Notes (P-Notes)

- Offshore derivative instruments issued by SEBI-registered FPIs to overseas investors.
- Investors who don't want to directly register with SEBI can use P-Notes.
- Criticism: Can be misused for money laundering, round-tripping.
- Still used, but stricter KYC norms imposed.

ADRs & GDRs

- **ADR (American Depository Receipt):**
    - Indian company issues shares through US depository → traded in US markets.
    - Eg: Infosys ADR on NYSE.
- **GDR (Global Depository Receipt):**
    - Similar, but issued in markets outside US (Europe, Asia).
    - Eg: ICICI Bank GDR listed in London.
- Features:
    - Attract foreign investors.
    - Allows Indian companies to raise funds abroad.

FATF (Financial Action Task Force)

- Inter-governmental body (1989, G7 initiative).
- HQ: Paris.
- Mandate: Combat **money laundering, terror financing, proliferation financing.**
- Mechanism:
  - **Black List:** High-risk, non-cooperative countries.
  - **Grey List:** Under increased monitoring (Pakistan was in till 2022).
- India is a full member since 2010.

World Trade Organization (WTO)

Evolution of WTO

- **1947:** GATT (General Agreement on Tariffs & Trade) established → aim: reduce tariffs.
- **Uruguay Round (1986–94):** Negotiations expanded to services, IPR, agriculture.
- **1995:** WTO established, replacing GATT.
- HQ: Geneva, Switzerland.
- Members: 164 (India is founding member).

Guiding Principles of WTO

1. **Non-Discrimination:**
    - **MFN (Most Favoured Nation):** Any concession to one member must extend to all.
    - **National Treatment:** Imported goods must be treated equal to domestic goods.
2. **Free Trade through Negotiation:** Gradual lowering of barriers.
3. **Predictability & Transparency:** Binding commitments.
4. **Fair Competition:** Discouraging unfair subsidies, dumping.
5. **Special & Differential Treatment:** For developing countries (longer timelines, flexibilities).

Major WTO Agreements

- **Agreement on Agriculture (AoA):**
    - Divided subsidies into **boxes**:
        - **Green Box:** Non-trade distorting (R&D, environmental support).
        - **Amber Box:** Trade-distorting subsidies (MSP-type). Reduction required.
        - **Blue Box:** Production-limiting subsidies (eg: conditional direct payments).

  - India's stand: MSP & food security programmes should be exempted.
- **TRIPS (Trade-Related Aspects of Intellectual Property Rights):**
  - Covers patents, copyright, trademarks, industrial designs, geographical indications.
  - **Patent:** Exclusive right to invention (20 years).
  - **Copyright:** Protection of literary, artistic works.
  - **Trademark:** Distinctive sign/logo for goods & services.
  - India amended **Patent Act (1970 → 2005)** to comply with TRIPS (product patent in pharma & agro-chemicals).
- **GATS (General Agreement on Trade in Services):**
  - Covers services trade (banking, IT, telecom, education).
  - 4 Modes of supply: Cross-border, consumption abroad, commercial presence, movement of natural persons.
- **TRIMS (Trade-Related Investment Measures):**
  - Prohibits discriminatory investment measures like local content requirements.
- **Dispute Settlement Body (DSB):**
  - Quasi-judicial system to resolve trade disputes.

WTO Trade Remedies

- **Countervailing Duty (CVD):**
  - Imposed to offset subsidy given by exporting country.
- **Anti-Dumping Duty:**
  - Imposed when goods exported below their normal value to protect domestic industry.
- **Safeguard Duty:**
  - Temporary tariff to protect against sudden import surge.

Issues in WTO

- **Agriculture:**
  - Developed nations (US, EU) give huge subsidies (Green Box) while opposing India's MSP.
  - India demands "peace clause" for food security programmes.

- **TRIPS & Public Health:**
    - Patent rules vs access to affordable medicines.
    - India defends compulsory licensing (eg: Natco Pharma's generic cancer drug).
- **Developing Countries' Concerns:**
    - Developed nations push for new issues (e-commerce, investment) while avoiding core reforms in agriculture.
- **Dispute Settlement Paralysis:**
    - US blocking appointment of judges → DSB crisis.

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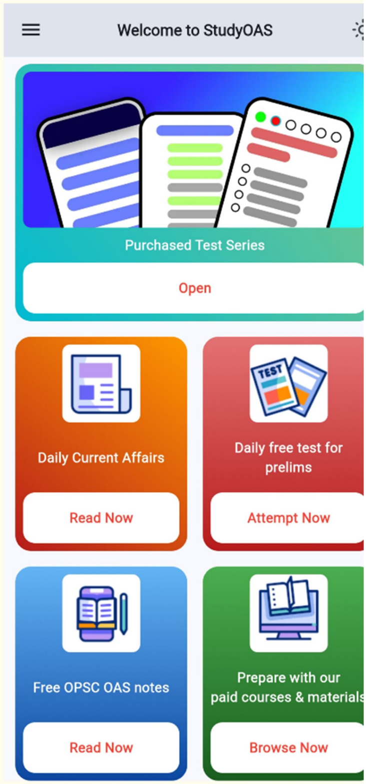

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