INTRODUCTION

The Economy of India is the ninth largest in the world by nominal GDP and the third largest by purchasing power parity (PPP). The independence-era Indian economy before and a little after 1947 was inspired by the economy of the Soviet Union with socialist practices, large public sectors, high import duties and lesser private participation characterising it, leading to massive inefficiencies and widespread corruption. However, later on India adopted free market principles and liberalised its economy to international trade. Following these strong economic reforms, the country’s economic growth progressed at a rapid pace with very high rates of growth and large increases in the incomes of people.

India recorded the highest growth rates in the mid-2000s, and is one of the fastest-growing economies in the world. The growth was led primarily due to a huge increase in the size of the middle class consumer, a large labour force and considerable foreign investments. India is the fourteenth largest exporter and eleventh largest importer in the world.

Recently India has become one of the most attractive destinations for investment owing to favourable government policies and reforms. The approval of Foreign Direct Investment (FDI) in several sectors have allowed investments to pour into the economy. According to the data provided by Department of Industrial Policy and Promotion (DIPP), the cumulative amount of FDI inflows in the country in the period April 2000-September 2014 was US$ 345,073 million.

Growth in India was expected to rise to 5.6 per cent in 2014 and pick up further to 6.4 per cent in 2015 as both exports and investment was expected to increase, according to the World Economic Outlook (WEO) report released by International Monetary Fund (IMF).

Sectors projected to do well in the coming years include automotive, technology, life sciences and consumer products. Engineering and research and development (ER&D) export revenue from India is expected to reach US$ 37-45 billion by 2020, from an estimated US$ 12.4 billion in FY14.

Furthermore, the US$ 1.2 trillion investment that the government has planned for the infrastructure sector in the 12th Five-Year Plan is set to help in further improving the export performance of Indian companies and the Indian growth story, which will consequently improve the overall Indian economy.

ECONOMY TYPES

An economy is a system whereby goods are produced and exchanged. Without a viable economy, a state will collapse. There are three main types of economies: free market, command, and mixed. The chart below compares free-market and command economies; mixed economies are a combination of the two.

<table>
<thead>
<tr>
<th>Free-Market Economies</th>
<th>Command Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usually occur in democratic states</td>
<td>Usually occur in communist or authoritarian states</td>
</tr>
<tr>
<td>Individuals and businesses make their own economic decisions.</td>
<td>The state’s central government makes all of the country’s economic decisions.</td>
</tr>
</tbody>
</table>

FREE-MARKET ECONOMIES

In free-market economies, which are essentially capitalist economies, businesses and individuals have the freedom to pursue their own economic interests, buying and selling goods on a competitive market, which naturally determines a fair price for goods and services.

COMMAND ECONOMIES

A command economy is also known as a centrally planned economy because the central, or national, government plans the economy. Generally, communist states have command economies, although China has been moving recently towards a capitalists economy. In a communist society, the central government controls the entire economy, allocating resources and dictating prices for goods and services. Some non communist authoritarian states also have command economies. In times of war, most states-even democratic, free-market states—take an active role in economic planning but not necessarily to the extent of communist states.

MIXED ECONOMIES

A mixed economy combines elements of free-market and command economies. Even among free-market states, the government usually takes some action to direct the economy. These moves are made for a variety of reasons: for example, some are designed to protect certain industries or help consumers. In economic language, this means that most states have mixed economies.

With the induction of liberalisation, Licence Raj was abolished, ended public monopolies which allowed automatic approval of foreign direct investment in various sectors. India has become one of the fastest-growing developing economies since 1990. It is projected that in 2035, India will be the third largest economy of the world after US and China. India has taken a drift from its earlier stand of Mixed Economies.

ECONOMY SECTORS

Primary Sector: When the economic activity depends mainly on exploitation of natural resources then that activity comes under the primary sector. Agriculture and agriculture related activities are the primary sectors of economy.
The Indian agriculture sector accounts for 18 per cent of India's Gross Domestic Product (GDP) and employs just a little less than 50 per cent of the country's workforce. This sector has made considerable progress in the last few decades with its large resources of land, water and sunshine. India is presently the world's largest producer of pulses and the second largest producer of rice and wheat.

**Secondary Sector:** When the main activity involves manufacturing then it is the secondary sector. All industrial production where physical goods are produced come under the secondary sector.

In the secondary sector of the national economy, natural ingredients are used to create products and services that are consequently used for consumption. This sector can be regarded as one that adds value to the products and services on offer.

**Examples:** The major examples of this sector are manufacturing and transporting.

**Employment generation:** The various industries in India employ almost 14 per cent of the aggregate workforce in the country.

**Economic contribution:** The secondary sector of Indian economy contributes almost 28 per cent of the GDP. Global standing: India occupies the 12th spot in the world when it comes to nominal factory production in real terms.

**Tertiary Sector:** When the activity involves providing intangible goods like services then this is part of the tertiary sector. Financial services, management consultancy, telephony and IT are good examples of service sector.

**Global standing:** With regards to output in the services sector, India occupies the 13th spot in the world.

**Employment generation:** It employs approximately 23 per cent of the Indian workforce

**Yearly growth rate:** The tertiary economic sector of India has a yearly growth rate of almost 7.5 per cent.

**Economic contribution:** This sector accounts for almost 55 per cent of India’s GDP.

The main difference between the private and public sectors of Indian economy is that in the later a group of individuals or an individual holds the rights to the properties whereas in the second instance the government is the owner.

**Employment Generation:** In India there are approximately 487 million workers, a number preceded only by China. 94 per cent of this workforce is employed in the companies that belong to the organised sector and this includes gems and diamond polishing entities to pushcart sellers.

The organised sector is mostly made of workers that are employed in the public sector companies. Of late the scales are slowly tipping in the favour of the private sector with a lot of Indians starting their businesses and international entities coming into the country.

**NEW ECONOMIC POLICY**

The new economic policy 1991 was introduced to revive the economy. It emphasised a bigger role for Private sector. It focused on FDI on supplement growth. It aimed at export led growth along with reducing the role of state and making planning liberal and market driven.

The main characteristics of new Economic Policy 1991 are:

1. **Delicencing:** Only six industries were kept under Licencing scheme. The private sectors were allowed to set up industrial units without taking any licences. Industrial licensing was abolished for almost all but product categories.

2. **Entry to Private Sector:** The role of public sector was limited only to four industries; rest all the industries were opened for private sector also.

3. **The threshold limit of assets in respect of MRTP companies and other major undertakings was abolished. They were free to undertake investments without any ceiling prescribed by MRTP.**

4. **Disinvestment:** Disinvestment was carried out in many public sector enterprises.

5. **The role of RBI reduced from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI. The reform policies led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 per cent.**

6. **Liberalisation of Foreign Policy:** The government granted approval for FDI up to 51 per cent in high priority areas.

7. In 1991 the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange.

8. **Liberalisation in Technical Area:** Automatic permission was given to Indian companies for signing technology agreements with foreign companies.

9. **Setting up of Foreign Investment Promotion Board (FIPB):** This board was set up to promote and bring foreign investment in India.

10. **Sick public sector units were recommended to Board for Industrial and Financial Reconstruction (BIFR) for revival.**

11. **Setting up of Small Scale Industries:** Various benefits were offered to small scale industries.

12. **PSU were given more autonomy**

There are three major components or elements of new economic policy—Liberalisation, Privatisation, Globalisation.

**SALIENT FEATURES OF INDIAN ECONOMY**

The economy of India is the tenth-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). India was 6th largest exporter of services and 19th-largest exporter of merchandise in 2013. It is the 12th-largest merchandise and 7th largest services importer. Agriculture sector is the largest employer in India's economy but contributes a declining share of its GDP (13.7% in 2012-13). Its manufacturing industry has held a constant share of its economic contribution, while the fastest-growing part of the economy has been its services.

**GROWTH INDICATORS**

The growth and performance of the Indian economy is explained in terms of statistical information provided by the various economic parameters. Gross National Product (GNP), Gross Domestic Product (GDP), Net National Product (NNP), per capita income are the various indicators relating to the national income sector of the economy. They provide a wide view of the economy including its productive power for satisfaction of human wants.
In the industrial sector, the Index of Industrial Production (IIP) is a single representative figure to measure the general level of industrial activity in the economy. It measures the absolute level and percentage growth of industrial production.

The four main monetary aggregates of measures of money supply which reflect the state of the monetary sector are:- (i) M1 (Narrow money) = Currency with the public + demand deposits of the public; (ii) M2 = M1 + Post Office Savings deposits; (iii) M3 (Broad money) = M1 + time deposits of the public with banks; and (iv) M4 = M3 + Total post office deposits.

Price movement in the country is reflected by the Wholesale Price Index (WPI) and the Consumer Price Index (CPI). WPI is used to measure the change in the average price level of goods traded in the wholesale market, while the Consumer Price Index (CPI) captures the retail price movement for different sections of consumers.

INDIA AS DEVELOPING COUNTRY

Indian economy has over the decades shown marked improvements. Few facts of relevance are:

(i) **Rise in National Income**: India’s national income i.e. Net National Product (NNP) at factor cost (National Income) has increased by about 17 times over a period of about 6 decades. On an average, the NNP has increased at a rate of a little less than 5 per cent per annum.

(ii) **Rise in Per Capita Income**: Per capita income in India has increased by more than 4 times over a period of about six decades. If we consider the period 1950-51 to 1990-91, the rate of increase in per capita NNP was roughly 1.6 per cent per annum. Since 1990-91, the per capita income shows an uptrend. It has increased roughly at a rate of about 5.5 per cent per annum.

INDIA AS MIXED ECONOMY

In India, we observe that the following characteristics exist:

(1) Private ownership of means of production- Agriculture and most of the industrial and services sectors are in the private hands.

(2) Important role of market mechanism- Market forces of demand and supply have free role in determining prices in various markets. Government regulations and control over period of time have reduced a lot.

(3) Presence of a large public sector along with free enterprise- After Independence, the government recognised the need to provide infrastructure for the growth of the private sector. Also, it could not hand over strategic sectors like arms and ammunition, atomic energy, air transport etc., to the private sector. So public sector was developed on a large scale.

(4) Economic planning - Economic planning has been an integrated part of the Indian Economy. The Planning Commission lays down overall targets for the economy as a whole, for public sector and even for the sectors which are in the private hands like agriculture. The government tries to achieve the laid down targets by providing incentives to these sectors. Thus, here planning is only indicative in nature and not compulsive.

**INDIAN FINANCIAL SYSTEM**

Financial system operates through financial markets and institutions.

The Indian Financial system (financial markets) is broadly divided under two heads:

(i) **Indian Money Market**

(ii) **Indian Capital Market**

The Indian money market is the market in which short-term funds are borrowed and lent. The money market does not deal in cash, or money but in bills of exchange, grade bills and treasury bills and other instruments. The capital market in India on the other hand is the market for the medium term and long term funds.

Generally the investors are called surplus units and business enterprises are called deficit units. So financial market transfers money supply from surplus units to deficit units. Financial market acts as a link between surplus and deficit units and brings together the borrowers and lenders.

There are mainly two ways through which funds can be allocated, (a) Via bank (b) Financial markets. The households who are the surplus units may keep their savings in banks; they may buy securities from capital market. The banks and financial market both in turn lend the funds to business firm which is called deficit unit.

Bank and financial market are competitor of each other. Financial market is a market for the creation and exchange of financial assets.

**FUNCTIONS OF FINANCIAL MARKETS**

Financial markets perform following four important functions:

1. **Mobilisation of Savings and Channelising them into most Productive use**: Financial markets act as a link between savers and investors. Financial markets transfer savings of savers to most appropriate investment opportunities.

2. **Facilitate Price Discovery**: Price of anything depends upon the demand and supply factors. Demand and supply of financial assets and securities in financial markets help in deciding the prices of various financial securities.

3. **Provide Liquidity to Financial Assets**: In financial markets financial securities can be bought and sold easily so financial market provides a platform to convert securities in cash.

4. **Reduce the Cost of Transaction**: Financial market provides complete information regarding price, availability and cost of various financial securities. So investors and companies do not have to spend much on getting this information as it is readily available in financial markets.

**NATIONAL INCOME**

National income is the final outcome of all economic activities of a nation valued in terms of money. Economic activities include all human activities which create goods and services that can be valued at market price. Economic activities include agricultural production, industrial production, production of goods and services by the government enterprises, and services produced by business intermediaries etc. On the other hand, non-economic activities are those which produce goods and services that do not have any economic value. Thus, national income may also be obtained by adding the factor earnings and adjusting the sum for indirect taxes and subsidies. The national income thus obtained is known as national income at factor cost. It is related to money income flows.
MEASURES OF NATIONAL INCOME

Gross National Product (GNP): It is the most comprehensive measure of the nation’s productive activities. The GNP is defined as the value of all final goods and services produced during a specific period, usually one year, plus incomes earned abroad by the nationals minus incomes earned locally by the foreigners. The GNP is identical to Gross National Income (GNI). Thus, GNP = GNI. The difference between them is only of procedural. While GNP is estimated on the basis of product-flows, the GNI is estimated on the basis of money income flows, (i.e., wages, profits, rent, interest, etc.)

GROSS DOMESTIC PRODUCT (GDP)

The Gross Domestic Product (GDP) is defined as the market value of all final goods and services produced in the domestic economy during a period of one year, plus income earned locally by the foreigners minus incomes earned abroad by the nationals. The GDP is similar to GNP with procedural difference. In case of GNP the incomes earned by the nationals in foreign countries are added and incomes earned locally by the foreigners are deducted from the market value of domestically produced goods and services. In case of GDP, the process is reverse – incomes earned locally by foreigners are added and incomes earned abroad by the nationals are deducted from the total value of domestically produced goods and services.

ECONOMIC PLANNING IN INDIA

Economic planning in India was started in 1950 is necessary for economic development and economic growth. Economic Planning is a term used to describe the long term plans of government to co-ordinate and develop the economy. Economic Planning is to make decision with respect to the use of resources.


Objectives: Reduction of Unemployment, Modernisation, Balanced Regional Development, Reduction of Economic in Equalities, Economic Growth

OVERVIEW

The Indian economy still depends on the agricultural sector. About one-third of its national income is derived from agriculture and its allied sectors employing about two-third of the work force.

Given below are the organisations and concepts associated with our economy:

The Department of Statistics in the Ministry of Planning and Programme Implementation is the apex body in the official statistic system of the country.

The Department consists of:

(i) Central Statistical Organisation (CSO) which is responsible for formulation and maintenance of statistical standard, work pertaining to national accounts, conduct of economic census and surveys, training in official statistics, coordination of statistical activities.

(ii) National Survey Organisation which was set up in 1950 with a programme of conducting large-scale surveys to provide data for estimation of national income and related aggregates for planning and policy formulation. It was reorganised in 1970 by bringing together all aspects of survey work into a single unified agency known as National Sample Survey Organisation.

Ministry of Finance is responsible for the administration of the finance of the government. It is concerned with all economic and financial matters affecting the country.

This Ministry comprises four departments, namely:

(a) Economic Affairs
(b) Expenditure
(c) Revenue
(d) Company Affairs

The Department of Economic Affairs consists of eight main divisions:

(i) Economic
(ii) Banking
(iii) Insurance
(iv) Budget
(v) Investment
(vi) External Finance
(vii) Fund bank
(viii) Currency and coinage.

This Department inter alia monitors current economic trends and advises the government on all matters of internal and external economic management.

Public Finance: The power to raise and disburse public funds has been divided under the constitution between union and State Government. Sources of revenue for Union and States are by large mutually exclusive if shareable taxes are excluded.

All receipts and disbursement of the Union are kept under two separate headings namely:

(a) Consolidated Fund of India and (b) Public Account of India.

All the revenues received, loans raised and money received in repayment of loans by the Union form the Consolidated Fund. No money can be withdrawn from this fund except by an Act of Parliament. All other receipts go to public accounts and disbursements. These are not subject to the vote of Parliament. To meet unforeseen needs not envisaged in the Annual Appropriation Act, a Contingency Fund has been established. These three are in each state also.

Sources of Revenue: The main sources of the Union tax revenue are Custom duties, Union excise duties, Corporate and Income taxes, non-tax revenues comprise interest receipts, including interest paid by the railways, telecommunications dividends and profits.

The main heads of revenue in the states are taxes and duties levied by the respective state governments, shares of taxes levied by the Union and grants received from the Union Property taxes, octroi and terminal taxes are the mainstay of local finance.

Public Debt: It includes internal debt comprising borrowing inside the country like market loans, compensations and other bonds, treasury bills issued to the RBI State Governments, Commercial banks as well as non-negotiable non-interest bearing rupees securities issued to the international financial institutions and external debt comprising loans from foreign countries and international financial institutions.

PLANNING COMMISION REPLACES THE NITI AAYOG

The Planning Commission was set up on the 15th of March, 1950 through a Cabinet Resolution. Nearly 65 years later, the country has metamorphosed from an under-developed economy to an emergent global nation with one of the world’s largest economies. In the context of governance structures, the changed requirements
of our country, point to the need for setting up an institution that serves as a Think Tank of the government - a directional and policy dynamo. The proposed institution has to provide governments at the central and state levels with relevant strategic and technical advice across the spectrum of key elements of policy. This includes matters of national and international import on the economic front, dissemination of best practices from within the country as well as from other nations, the infusion of new policy ideas and specific issue-based support. The institution has to be able to respond to the changing and more integrated world that India is part of. An important evolutionary change from the past will be replacing a centre-to-state one-way flow of policy by a genuine and continuing partnership with the states. We need to find our own strategy for growth. The new institution has to zero in on what will work in and for India. It will be a Bharatiya approach to development.

DIFFERENCE BETWEEN THE NITI AAYOG AND PLANNING COMMISSION

Under the Planning Commission centre-to-state one-way flow of policy existed, whereas, the NITI Aayog has planned a genuine and continuing partnership of states. Now, state governments can play an active role in achieving national objectives, as they have been empowered to provide with strategic and technical advice across the spectrum of policymaking.

The institution to give life to these aspirations is the NITI Aayog (National Institution for Transforming India). This is being proposed after extensive consultation across the spectrum of stakeholders including inter alia state governments, domain experts and relevant institutions.

COMPOSITION

Chairperson: Prime Minister.
Governing Council: It will consist of Chief Ministers (of States) and Lt. Governors (of Union Territories).
Regional Council: It will be formed on need basis. It will compromise Chief Ministers (of States) and Lt. Governors (of Union Territories).
Vice-Chairperson: To be appointed by the Prime Minister.
Members: Full time Basis.
Part time members: Maximum of 2. They will from leading universities research organisations and other relevant institutions on a rotational basis.
Ex Officio members: Maximum of 4 members of the Union Council of Ministers to be nominated by the Prime Minister.
Special invitees: They will be nominated by the Prime Minister and will be experts, specialists and practitioners with relevant domain knowledge as special invitees.
Chief Executive Officer: Appointed by the Prime Minister for a fixed tenure, in the rank of Secretary to the Government of India. Secretariat: If deemed necessary.

The NITI Aayog will work towards the following objectives:

(a) To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States in the light of national objectives. The vision of the NITI Aayog will then provide a framework 'national agenda' for the Prime Minister and the Chief Ministers to provide impetus to

(b) To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation
(c) To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government
(d) To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy
(e) To pay special attention to the sections of our society that may be at risk of not benefitting adequately from economic progress
(f) To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
(g) To provide advice and encourage partnerships between key stakeholders and national and international think tanks, as well as educational and policy research institutions. To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
(h) To offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda
(i) To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders
(j) To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
(k) To focus on technology upgradation and capacity building for implementation of programmes and initiatives
(l) To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

FUNCTIONS THAT WILL BE UNDERTAKEN BY THE NITI AAYOG

- It will develop mechanisms for formulation of credible plans to the village level and aggregate these progressively at higher levels of government.
- Special attention will be given to the sections of the society that may be at risk of not benefitting adequately from economic progress.
- It will also create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and partners.
- It will offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.
- It will also monitor and evaluate the implementation of programmes, and focus on technology upgradation and capacity building.
China's and Pakistan's innovations.

Sever drought in 100 years, occurred in 1965-66.

Bokaro Steel Plant in 1964.

This plan was a failure. Food output fell, i.e., became negative.

3rd Plan : 1961-66

"Socialist pattern of society" is accepted as a goal.

Deficit financing started in this plan.

"Garibi Hatao" slogan in 1971 Elections

Privy purses were abolished in 4th Plan

5th Plan - Aim : 1974-79

Poverty removal became distinct objective for the first time.

DP Dhar drafted.

"Minimum Needs Programme" launched.

Command Area Development Programme was started in 1974-75 to utilise water in major and medium irrigation projects in an optimum manner.


20 point programme replaced 5th plan discontinued 1 year in advance.

6th Plan: 1978-83

Proposed by Janata Party but it was defeated in elections and could implement Rolling Plan for 2 years for 1978-80. Prof. DT Lakdawala was the Dy. Chairman, Planning Commission.
Our PM Manmohan Singh, however, warned that it is also expected to create employment through developing the plan.

This plan’s focus is on instilling “inclusive growth”. The plan is concentrated to encourage the development of India’s agriculture, education, health and social welfare through government spending. It is also expected to create employment through developing India’s manufacturing sector and move the nation higher up the value chain.

Our PM Manmohan Singh, however, warned that maintaining fiscal discipline is important as well.

FINANCE COMMISSION OF INDIA

A finance commission is set up every five years by the President under Article 280 of the Constitution. Finance Commission of India came into existence in 1951. It was formed to define the financial relations between the centre and the state. These recommendations cover a period of five years.

The commission also lays down rules by which the centre should provide grants-in-aid to states out of the Consolidated Fund of India. It is also required to suggest measures to augment the resources of states and ways to supplement the resources of panchayats and municipalities.

Composition of the Fourteenth Finance Commission

The Fourteenth Finance Commission has been set up under the Chairmanship of Dr. Y.V. Reddy [Former Governor Reserve Bank of India].

Other Members of the Commission are:
(i) Ms. Sushma Nath [Former Union Finance Secretary],
(ii) Dr. M. Govinda Rao [Director, National Institute for Public Finance and Policy, New Delhi],
(iii) Dr. Sudipto Mundle, Former Acting Chairman, National Statistical Commission.
(iv) Prof Abhijit Sen (Member, Planning Commission) is the part-time Member of the Fourteenth Finance.
(v) Commission. Shri Shri Ajay Narayan Jha is the Secretary, Fourteenth Finance Commission.

Qualifications of the Members

The Chairman of the Finance Commission is selected among people who have had the experience of public affairs. The other four members are selected from people who:
1. Are, or have been, or are qualified, as judges of High Court, or
2. Have knowledge of Government finances or accounts, or
3. Have had experience in administration and financial expertise; or
4. Have special knowledge of economics

Procedure and Powers of the Commission: The Commission has the power determine their own procedure and:
1. Has all powers of the civil court as per the Court of Civil Procedure, 1908.
2. Can summon and enforce the attendance of any witness or ask any person to deliver information or produce a document, which it deems relevant.
3. Can ask for the production of any public record or document from any court or office.
4. Shall be deemed to be a civil court for purposes of Sections 480 and 482 of the Code of Criminal Procedure, 1898.

Tenure of the 14th Finance Commission: The Finance Commission is required to give its report by 31st October, 2014. Its recommendations will cover the five year period commencing from 1st April, 2015.

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<tr>
<th>Some Important Committees</th>
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<td>Naarsinhan Committee I-II Bank Reforms</td>
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<td>S.P. Gupta Committee Unemployment</td>
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<tr>
<td>Onkar Goswami Committee Industrial Sickness</td>
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<tr>
<td>Abid Hussain Committee Small Scale Industries</td>
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<td>Shankar Lal Guru Committee Agricultural Marketing</td>
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<tr>
<td>Malhotra Committee Insurance</td>
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<tr>
<td>Rakesh Mohan Committee Infrastructure</td>
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<tr>
<td>Khan Committee Universal Banking</td>
</tr>
<tr>
<td>Bhandari Committee Restructuring of Rural Banks</td>
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<tr>
<td>Chalayia Committee Tax Reforms</td>
</tr>
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<td>N.K. Singh Committee Foreign Direct Investment</td>
</tr>
<tr>
<td>Janki Ram Committee Share Scam</td>
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<td>Rangrajan Committee Balance of Payments</td>
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<td>Y V Reddy Committee Administered Interest Rate</td>
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<td>MS Ahluwalia (Task Force) Employment Opportunities</td>
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<tr>
<td>Meera Seth Committee Handloom (Textile)</td>
</tr>
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<td>Abhijeet Sen Committee Grain Policy</td>
</tr>
</tbody>
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### Important Financial Institutions of India

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>Year of Establishment</th>
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<tbody>
<tr>
<td>Reserve Bank of India (RBI)</td>
<td>April 1, 1935</td>
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<tr>
<td>Industrial Finance Corporation of India (IFCI)</td>
<td>1948</td>
</tr>
<tr>
<td>State Bank of India (SBI)</td>
<td>July 1, 1955</td>
</tr>
<tr>
<td>Unit Trust of India (UTI)</td>
<td>February 1, 1964</td>
</tr>
<tr>
<td>Industrial Development Bank of India (IDBI)</td>
<td>July, 1964</td>
</tr>
<tr>
<td>National Bank for Agriculture and Rural Development (NABARD)</td>
<td>July 12, 1982</td>
</tr>
<tr>
<td>Small Industries Development Bank of India (SIDBI)</td>
<td>1990</td>
</tr>
<tr>
<td>Export-Import Bank of India (EXIM Bank)</td>
<td>January 1, 1982</td>
</tr>
<tr>
<td>National Housing Bank (NHB)</td>
<td>July, 1988</td>
</tr>
<tr>
<td>Life Insurance Corporation (LIC)</td>
<td>September, 1956</td>
</tr>
<tr>
<td>General Insurance Corporation (GIC)</td>
<td>November, 1972</td>
</tr>
<tr>
<td>Regional Rural Banks (RRB)</td>
<td>March, 1975</td>
</tr>
<tr>
<td>Housing Development Finance Corporation Ltd. (HDFC)</td>
<td>1977</td>
</tr>
</tbody>
</table>

### Various Poverty Alleviation and Employment Generation Programmes since Independence

<table>
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<tr>
<th>S.N.</th>
<th>Programme</th>
<th>Year of Beginning</th>
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<tbody>
<tr>
<td>1</td>
<td>Community Development Programme (CDP)</td>
<td>1952</td>
</tr>
<tr>
<td>2</td>
<td>Intensive Agriculture Development Programme (IADP)</td>
<td>1960-61</td>
</tr>
<tr>
<td>3</td>
<td>Green Revolution</td>
<td>1966-67</td>
</tr>
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<td>4</td>
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Important International Organizations

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<td>WTO (World Trade Organization)</td>
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<td>ASEAN (Association of South East Asian Nations)</td>
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<td>EU (European Union)</td>
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<td>OPEC (Organization of Petroleum Exporting Countries)</td>
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<td>SAARC (South Asian Association for Regional Cooperation)</td>
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BANKING IN INDIA

The Indian banking sector is broadly classified into scheduled banks and non-scheduled banks. The scheduled banks are those which are defined under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: Nationalised banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks. The term commercial banks refer to both scheduled and non-scheduled commercial banks which are regulated under the Banking Regulation Act, 1949.

Generally banking in India was fairly mature in terms of supply, product range and reach—even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State Bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development with things like microfinance.

MONETARY POLICY

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

In India, monetary policy of the Reserve Bank of India is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth.

The RBI implements the monetary policy through open market operations, bank rate policy, reserve system, credit control policy, moral persuasion and through many other instruments. Using any of these instruments will lead to changes in the interest rate, or the money supply in the economy. Monetary policy can be expansionary and contractionary in nature. Increasing money supply and reducing interest rates indicate an expansionary policy. The reverse of this is a contractionary monetary policy.

By purchasing bonds through open market operations, the RBI introduces money in the system and reduces the interest rate.

UNEMPLOYMENT

Unemployment is a major developmental issue in Indian economy is unemployment. When the labour possesses necessary ability and health to perform a job, but does not get job opportunities that state is called as unemployment. Number of unemployed is equal to labour force minus workforce. The labour force refers to the number of persons who are employed plus the number who are willing to be employed. The work force includes those who are actually employed in economic activity. If we deduct work force from labour force we get the number of unemployment. The unemployment rate means the number of persons unemployed per 1000 persons in the labour force.

TYPES OF UNEMPLOYMENT

Following are the important types of unemployment.

1. **Voluntary unemployment**: Voluntary unemployment happens when people are not ready to work at the prevailing wage rate even if work is available. It is a type of unemployment by choice.

2. **Involuntary Unemployment**: It is a situation when people are ready to work at the prevailing wage rate but could not find job.

3. **Natural Unemployment**: This is postulated by the Post Keynesians. According to them in every economy there exists a particular percentage of unemployment.

4. **Structural unemployment**: This type of unemployment is not a temporary phenomenon. This type of unemployment occurs due structural changes in the economy. It results due the result of backwardness and low rate of economic development.

5. **Disguised Unemployment**: When more people are engaged in a job than actually required, then it is called disguised unemployment.

6. **Under Employment**: This exists when people are not fully employed ie; when people are partially employed.
7. **Open Unemployment**: Open unemployment is a situation where a large labour force does not get work opportunities that may yield regular income to them. It is just opposite to disguised unemployment. It exists when people are ready to work but are not working due to non-availability of work.

8. **Seasonal unemployment**: Generally this type of unemployment is associated with agriculture. This type of unemployment occurs when the workers are engaged in a season products.

9. **Cyclical Unemployment**: It is generally witnessed in developed nations. This type of unemployment is due to business fluctuation and is known as cyclical unemployment.

10. **Technological Unemployment**: This type of unemployment occur when there is introduction of a new technology which causes displacement of workers.

11. **Frictional Unemployment**: It is a temporary unemployment which exists when people moved from one occupation to another.

### POVERTY IN INDIA

Poverty in India is a historical reality. From late 19th century through early 20th century, under British colonial rule, poverty in India intensified, peaking in 1920s. Famines and diseases killed millions each time. After India gained its independence in 1947, mass deaths from famines were prevented, but poverty increased, peaking post-independence in 1960s. Rapid economic growth since 1991, has led to sharp reductions in extreme poverty in India. However, those above poverty line live a fragile economic life. Lack of basic essentials of life such as safe drinking water, sanitation, housing, health infrastructure as well as malnutrition impact the lives of hundreds of millions.

The World Bank reviewed and proposed revisions in May 2014, to its poverty calculation methodology and purchasing power parity basis for measuring poverty worldwide, including India. According to this revised methodology, the world had 872.3 million people below the new poverty line, of which 179.6 million people lived in India. In other words, India with 17.5% of total world’s population, had 20.6% share of world’s poorest in 2011.

### INFLATION

Inflation is the percentage change in the value of the Wholesale Price Index (WPI) on a year-on-year basis. It effectively measures the change in the prices of a basket of goods and services in a year. In India, inflation is calculated by taking the WPI as base. Formula for calculating Inflation

\[
\text{Inflation} = \frac{\text{WPI in month of current year} - \text{WPI in same month of previous year}}{\text{WPI in same month of previous year}} \times 100
\]

Inflation occurs due to an imbalance between demand and supply of money, changes in production and distribution cost or increase in taxes on products. When economy experiences inflation, i.e., when the price level of goods and services rises, the value of currency reduces. This means now each unit of currency buys fewer goods and services.

It has its worst impact on consumers. High prices of day-to-day goods make it difficult for consumers to afford even the basic commodities in life. This leaves them with no choice but to ask for higher incomes. Hence the government tries to keep inflation under control.

Contrary to its negative effects, a moderate level of inflation characterises a good economy. An inflation rate of 2 or 3% is beneficial for an economy as it encourages people to buy more and borrow more, because during times of lower inflation, the level of interest rate also remains low. Hence the government as well as the central bank always strive to achieve a limited level of inflation.

### BUDGET

The Union Budget referred to as the Annual Financial Statement in Article 112 of the Constitution of India, is the annual budget of the Republic of India, presented each year on the last working day of February by the Finance Minister of India in Parliament. The budget, which is presented by means of the Financial Bill and the Appropriation bill has to be passed by the House before it can come into effect on April 1, the start of India's financial year.

An Interim Budget is not the same as a 'Vote on Account'. While a 'Vote on Account' deals only with the expenditure side of the government’s budget, an Interim Budget is a complete set of accounts, including both expenditure and receipts.

An Interim Budget gives the complete financial statement, very similar to a full Budget. While the law does not debar the Union government from introducing tax changes, normally during an election year, successive governments have avoided making any major changes in income tax laws during an Interim Budget.

### POPULATION

The population of India is estimated at 1,267,401,849 as of July 1, 2014. India’s population is equivalent to 17.5% of the total world population. India ranks number 2 in the list of countries by population. The population density in India is 386 people per Km². 32% of the population is urban (410,404,773 people in 2014). The median age in India is 26.6 years.

India is the second most populous country in the world, with over 1.27 billion people (2014), more than a sixth of the world’s population. Already containing 17.5% of the world's population, India is projected to be the world’s most populous country by 2025, surpassing China, its population reaching 1.6 billion by 2050. Its population growth rate is 1.2%, ranking 94th in the world in 2013. The Indian population had reached the billion mark by 1998.

India has more than 50% of its population below the age of 25 and more than 65% below the age of 35. It is expected that, in 2020, the average age of an Indian will be 29 years, compared to 37 for China and 48 for Japan; and, by 2030, India’s dependency ratio should be just over 0.4.

**Fertility Rate**: (Total Fertility Rate, or TFR), it is expressed as children per woman. It is calculated as the average number of children an average woman will have during her reproductive period (15 to 49 years old) based on the current fertility rates of every age group in the country, and assuming she is not subject to mortality.

**Density (P/Km²)**: (Population Density) Population per square Kilometer (Km²).

**Urban Pop %**: Urban population as a percentage of total population.

**Urban Population**: Population living in areas classified as urban according to the criteria used by each country.

**Country’s Share of World Pop**: Total population in the country as a percentage of total World Population as of July 1 of the year indicated.