UNIT – 2

INDIAN FINANCIAL SYSTEM

- Prof (Dr.) Pavnesh Kumar
- Head of Department
- Department of Management Sciences
- Mahatma Gandhi Central University of Bihar

MONETARY POLICY

MEANING

Monetary policy consists of the process of drafting, announcing, and implementing the plan of actions taken by the central bank, currency board, or other competent monetary authority of a country that controls the quantity of money in an economy and the channels by which new money is supplied. Monetary policy consists of management of money supply and interest rates, aimed at achieving macroeconomic objectives such as controlling inflation, consumption, growth, and liquidity. These are achieved by actions such as modifying the interest rate, buying or selling government bonds, regulating foreign exchange rates, and changing the amount of money banks are required to maintain as reserves. Some view the role of the International Monetary Fund as this.

Key Takeaways

- Monetary policy is how a central bank or other agency governs the supply of money and interest rates in an economy in order to influence output, employment, and prices.
- Monetary policy can be broadly classified as either expansionary or contractionary.
- Monetary policy tools include open market operations, direct lending to banks, bank reserve requirements, unconventional emergency lending programs, and managing market expectations (subject to the central bank's credibility).

MONETARY POLICY INSTRUMENTS

- **Repo Rate:** The fixed interest rate which the RBI provides to lend instant money to banks against the government security and other approved collaterals under the liquidity adjustment facility (LAF).

- **Reverse Repo Rate:** The fixed interest rate at which the RBI absorbs liquidity, on an instant basis, from banks against the security of eligible government securities under the LAF.

- **Liquidity Adjustment Facility (LAF)**: The LAF comprises overnight and term repo auctions. Gradually, the RBI has increased the amount of liquidity injected under the modified variable rate repo auctions of range of tenors. The objective of term repo is to help develop the interbank term money market, which can set market based standards for loan prices and deposits, and hence develop transmission of monetary policy. The RBI also offers variable interest rate reverse repo auctions, as imposed under the market conditions.

- **Marginal Standing Facility (MSF)**: A facility under which planned commercial banks can lend extra amount of immediate cash from the RBI by dipping into their Statutory Liquidity Ratio (SLR) collection up till a limit at a penal rate of interest. This, in turn, provides a safety valve against unexpected liquidity shocks to the banking system.

MONETARY POLICY INSTRUMENTS

•**Corridor:** The MSF rate and reverse repo rate regulate the corridor for the daily movement in the weighted average call money rate.

•**Bank Rate:** It's the rate at which the RBI is ready to purchase or rediscount invoices of exchange or other commercial papers. The bank rate is available under Section 49 of the Reserve Bank of India Act, 1934. The rate is associated with the MSF rate and changes automatically as and when the MSF rate changes along with the policy repo rate changes.

•**Cash Reserve Ratio (CRR):** The average day-to-day balance a bank is required to sustain with the RBI as a share of such per cent of its net demand and time liabilities (NDTL) that the RBI may advise from time to time in the Gazette of India.

•**Statutory Liquidity Ratio (SLR):** The share of NDTL a bank is required to retain in safe and liquid assets, such as tangential government securities, cash, and gold. Variations in SLR often affect the availability of resources in the banking system for lending to the private sector.

•**Open Market Operations (OMOs):** These include outright purchase and transaction of government securities, for injection and absorption of durable liquidity, respectively.

•**Market Stabilisation Scheme (MSS):** This tool for monetary supervision was introduced in 2004. Excess liquidity of a more lasting nature arising from the inflow of large capital is absorbed via sale of short-dated government collaterals and treasury bills. The cash received is held in a separate government account with the RBI.

FISCAL POLICY

- Fiscal policy is playing an important role on the economic and social front of a country. Traditionally, fiscal policy in concerned with the determination of state income and expenditure policy. But with the passage of time, the importance of fiscal policy has been increasing continuously for attaining rapid economic growth.

- Accordingly, it has included public borrowing and deficit financing as a part of fiscal policy of the country. An effective fiscal policy is composed of policy decisions relating to entire financial structure of the government including tax revenue, public expenditures, loans, transfers, debt management, budgetary deficit, etc.

- The policy also tries to attain proper balance between these aforesaid units so as to achieve the best possible results in terms of economic goals. Harvey and Joanson, M., defined fiscal policy as "changes in government expenditure and taxation designed to influence the pattern and level of activity."

OBJECTIVES OF FISCAL POLICY

i. To mobilise adequate resources for financing various programmes and projects adopted for economic development.

ii. To raise the rate of savings and investment for increasing the rate of capital formation;

iii. To promote necessary development in the private sector through fiscal incentive;

iv. To arrange an optimum utilisation of resources;

v. To control the inflationary pressures in economy in order to attain economic stability;

vi. To remove poverty and unemployment;

vii. To attain the growth of public sector for attaining the objective of socialistic pattern of society;

viii. To reduce regional disparities; and

ix. To reduce the degree of inequality in the distribution of income and wealth.

In order to attain all these aforesaid objectives, the Government of India has been formulating its fiscal policy incorporating the revenue, expenditure and public debt components in a comprehensive manner.

Fiscal vs Monetary Policy Comparative Table

Basis for Comparison	Fiscal Policy	Monetary Policy
Meaning	It helps control the spending and revenue collections of the government to influence the economy at large.	Monetary policy is the tool for the central bank through which the movement and the flow of money in the economy is controlled.
Controlled by	Ministry of Finance of the country.	The central bank of the country.
Complexity	Comparatively less complex.	Comparatively more complex.
Nature	Fiscal policy changes every year after reviewing the previous year's results.	Monetary policy doesn't change as per a particular period; rather it changes whenever the economy needs the change.
Focus	The focus is to ensure the development and growth of an economy.	The focus of the monetary policy is to maintain the economic stability of a country.
Works on	Works on the government's spending and government's collections.	Monetary policy works on the flow of money in the economy and credit control.
Does it have any political influence?	Yes.	No.
Tools used in the policy	Tax rates, Demonetisation, etc.	Cash reserve ratios, repo rate, interest rate etc.

ECONOMIC TRENDS

Introduction

- India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships.

Market size

- India's nominal GDP growth rate is estimated at 12 per cent in 2019-20. The estimate for 2018-19 was 11.5 per cent. During Q2 of 2019-20, GDP (at constant 2011-12 prices), GDP stood at Rs 33.16 lakh crore (US$ 474.46 billion) showing a growth rate of 4.3 percent over the corresponding quarter of previous year.
- India has retained its position as the third largest startup base in the world with over 8,900-9,300 startups, with about 1,300 new start-ups being founded in 2019, according to a report by NASSCOM. India also witnessed the addition of 7 unicorns in 2019 till August, taking the total tally up to 24.

RECENT ECONOMIC DEVELOPMENTS

- Exports from India increased 1.60 per cent year-on-year to US$ 356.96 billion in April-November 2019.
- Nikkei India Manufacturing Purchasing Managers' Index (PMI) stood at 52.7 in December 2019, showing expansion in the sector.
- Mergers and Acquisitions (M&A) activity in the country has reached US$ 48 billion during Jan-Sept 2019.
- The gross tax revenue stood at Rs 11.74 lakh crore (US$ 168 billion) out of which Income tax collection contributed Rs 2.67 lakh crore (US$ 38.34 billion) between April-November 2019.
- Companies in India have raised around US$ 114.1 billion through 768 Initial Public Offers (IPO) first nine months of 2019.
- India's Foreign Direct Investment (FDI) equity inflows reached US$ 436.47 billion between April 2000 and June 2019, with maximum contribution from services, computer software and hardware, telecommunications, construction, trading and automobiles.
- India's cumulative growth of Index of Industrial Production (IIP) with base 2011-12 for the period April-September 2019 stands at 1.3 per cent, with September 2019 stands at 123.3.
- Consumer Price Index (CPI) – Combined inflation 3.3 per cent in April-September 2019.

PRICING POLICY OF INDIA

It should be remembered that public sector undertakings should not be guided by profit and loss considerations.

Thus, their pricing policy should be guided on the basis of the following socio-economic considerations:

- (i) Public sector undertakings should operate its activities at the lowest possible cost along with maximum increased efficiency.
- (ii) The prices of their product/output/serving are to be fixed in such a manner which will help the consumers of all levels to buy and have it.
- (iii) They must raise adequate resources for re-investment purposes.
- (iv) While determining the price policy various considerations relating to costs and benefits to the various sections of the community are to be considered carefully in our socialistic pattern of society.
- (v) Lastly, while determining price policy certain other factors should also be taken into consideration; viz.: Competition from private sectors, requirements of foreign trade etc. Thus, it is not an easy task to fix up the pricing policy of a public sector undertaking.

Moreover, ascertainment of pricing policy is really very difficult which may be applicable to all public sector undertakings, since the nature, size, types of one enterprise is quite different than the others, e.g., some enterprises are industrial or trading, some others are basic or which supply the essential services (like railways, electricity, telecommunications etc.).

STOCK EXCHANGE IN INDIA

- Indian stock exchange is one of the oldest markets in Asia and is a yardstick to measure the health and progress of the economy of the country. Over the course of the period, the market has transitioned into the electronic market and securities are dealt in dematerialization form.
- There are two major stock exchanges in India- National Stock Exchange of India (NSE) and Bombay Stock Exchange (BSE). National Stock Exchange was established in Mumbai in 1992 and started trading in 1994. Bombay Stock Exchange was established in 1875 in Mumbai.

❑Functions of Stock Exchange in India

i. Stock exchange in India ensures –

ii. Stability of prices of securities.

iii. Convenient and transparent place to trade in securities.

iv. Help companies to raise their funds.

v. Promote the habit of saving and investment

vi. Provide forecasting service.

STOCK EXCHANGE IN INDIA

Regulation of Stock Exchange in India

- Entire stock exchange of India is regulated by the Securities and Exchange Board of India (SEBI) which was established in 1992 as an independent authority. SEBI has the power to impose fines and penalties in case of violation of rules and regulations. It plays a pivotal role and protects the interest of investors in the stock exchange of India. SEBI promotes education and training of intermediaries of the stock market.

Bull Market and Bear Market

- A bull market is a market where buyers are aggressively buying the shares in an expectation that shares price will rise and will sell at later date. A bear market is a market where prices are falling.
- Strong economic conditions, high employment levels, the favourable government are few factors which lead to a bull market whereas poor economic conditions, natural adversity, unemployment or sudden unfavourable political changes lead to bear market.

Future of Stock Exchange in India

- In a growing economy like India, the future of stock exchange is bright and the volume of transactions will grow substantially in the coming years.
- Out of 1.2 billion people, there are only 20 million demat accounts as of now. Government's initiative to bring retail customers in mutual funds and foreign investments in India will help the stock exchange of India.

RESERVE BANK OF INDIA

Establishment:

- The Reserve Bank of India was established in ***1935*** under the provisions of the Reserve Bank of India Act, 1934 in Calcutta, eventually moved permanently to ***Mumbai***. Though originally privately owned, was nationalized in 1949.

Organisation and Management:

- The Reserve Bank"s affairs are governed by a *central board of directors*. The board is appointed by the Government of India for a period of **four years,** under the Reserve Bank of India Act.
- Full-time officials : **Mr Shaktikanta Das (Governor)** and *not more than four Deputy Governors*. There are 3 **Deputy Governors** presently – *B P Kanungo, N S Vishwanathan and Viral V Acharya*.
- Nominated by Government: ten Directors from various fields and two government Officials
- Others: four Directors – one each from four local boards

MAIN ROLE AND FUNCTIONS OF RBI

•**Monetary Authority**: Formulates, implements and monitors the monetary policy for A) maintaining price stability, keeping inflation in check ; B) ensuring adequate flow of credit to productive sectors.

- **Regulator and supervisor of the financial system:** lays out parameters of banking operations within which the country"s banking and financial system functions for- A) maintaining public confidence in the system,
- B) protecting depositors' interest ;
- C) providing cost-effective banking services to the general public.

•**Regulator and supervisor of the payment systems**:

•A) Authorises setting up of payment systems;

•B) Lays down standards for working of the payment system;

•C)lays down policies for encouraging the movement from paper-based payment systems to electronic modes of payments.

•D) Setting up of the regulatory framework of newer payment methods.

•E) Enhancement of customer convenience in payment systems.

•F) Improving security and efficiency in modes of payment.

MAIN ROLE AND FUNCTIONS OF RBI

- **Manager of Foreign Exchange**: RBI manages forex under the FEMA- Foreign Exchange Management Act, 1999. in order to A) facilitate external trade and payment B) promote the development of foreign exchange market in India.
- **Issuer of currency:** RBI issues and exchanges currency as well as destroys currency & coins not fit for circulation to ensure that the public has an adequate quantity of supplies of currency notes and in good quality.
- **Developmental role :** RBI performs a wide range of promotional functions to support national objectives. Under this it setup institutions like NABARD, IDBI, SIDBI, NHB, etc.
- **Banker to the Government:** performs merchant banking function for the central and the state governments; also acts as their banker.
- **Banker to banks:** An important role and function of RBI is to maintain the banking accounts of all scheduled banks and acts as the banker of last resort.
- An agent of Government of India in the IMF.

SECURITIES AND EXCHANGE BOARD OF INDIA - SEBI

- The Securities and exchange board of India – SEBI was constituted on 12th April, 1988 as a non-statutory body through a resolution passed by the Government of India for dealing with all matters relating to development and regulation of securities market, protect the interests of investors and advice government on all these matters. It was given statutory powers on 30th Jan, 1992 and on 4th April, 1992 the SEBI Act came to power.
- Under this act the Securities and exchange board of India was delegated several powers under the securities contracts regulation act and companies act in order to strengthen its hand as a capital market regulator. Now SEBI operates under the control and direction of the Finance Ministry of India.
- In 1988 it was initially formed with a capital of Rs. 7.5 Crore provided by its promoters (IDBI, ICICI, IFCI).
- **Head Office –** Mumbai
- **Branches –** Kolkata, Delhi, Chennai

SECURITIES AND EXCHANGE BOARD OF INDIA - SEBI

Statutory Objectives of Securities and exchange board of India – SEBI

- Protecting the interests of Investors
- Healthy Development of Securities market
- Regulation of Stock Exchange and Securities Market

Organisational structure of Securities and exchange board of India – SEBI

- It constitutes of Six Members –
- One Chairman who is the Head is nominated by the Central Government
- 2 members are selected form the Central Ministry (Law & Finance)
- 1 member is appointed by the RBI (Reserve Bank of India)
- 2 members are appointed by the Central Government who are professionals and have special knowledge of securities market

FUNCTIONS OF SECURITIES AND EXCHANGE BOARD OF INDIA – SEBI

It is the duty of the board to protect the interest of investors and to promote development of securities through the following measures:

- Prohibiting Insider trading of securities and Price Rigging
- Regulating the stock exchange and other securities markets
- Registering and regulating collective investment schemes
- Registering and regulating the activities of stockbrokers, agents, merchant bankers, trustees, underwriters etc. and other intermediaries related to securities market.
- Undertaking inspections, conducting enquires, stock audits etc.
- Promoting and Regulating self-regulatory organizations
- Prohibiting unfair trade practices and frauds
- Educating and training investors and intermediaries od securities market
- Imposing penalties on violations of SEBI Guidelines
- Charging fees and Conducting research on behalf of the government
- Performing all other functions under the SEBI Act

POWERS OF SECURITIES AND EXCHANGE BOARD OF INDIA – SEBI

The Securities and exchange board of India has been delegated the following powers:

- Power to Grant or Suspend or Reject the Certificate of registration to Intermediaries
- Power to Grant or Suspend or Reject Registration of Venture Capital Funds and Collective Investment Schemes
- Power to give directives to Intermediaries of Securities Market
- Power to issue directions to companies regarding issue of capital, transfer of securities etc.
- Power to Impose Monetary Penalties on Violation of SEBI Guidelines
- Power to Investigate Irregularities in a business through enquiries and inspections

Benefits of Securities and exchange board of India – SEBI

- **To Government –** Regulation of Indian Capital Market, Check on malpractices, Investor Protection
- **To Issuers –** It provides a market place where they can raise funds easily.
- **To Investors –** SEBI provides protection from unfair trade and ensures supply of accurate and correct information.
- **To Intermediaries –** It provides a competitive professional market

NATIONAL INCOME

- From the modern point of view, Simon Kuznets has defined national income as "the net output of commodities and services flowing during the year from the country's productive system in the hands of the ultimate consumers."
- On the other hand, in one of the reports of United Nations, national income has been defined on the basis of the systems of estimating national income, as net national product, as addition to the shares of different factors, and as net national expenditure in a country in a year's time. In practice, while estimating national income, any of these three definitions may be adopted, because the same national income would be derived, if different items were correctly included in the estimate.

Gross Domestic Product (GDP):

- GDP is the total value of goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices. Dernberg defines GDP at market price as "the market value of the output of final goods and services produced in the domestic territory of a country during an accounting year."

NATIONAL INCOME

GDP at Factor Cost:

- GDP at factor cost is the sum of net value added by all producers within the country. Since the net value added gets distributed as income to the owners of factors of production, GDP is the sum of domestic factor incomes and fixed capital consumption (or depreciation).
- Thus GDP at Factor Cost = Net value added + Depreciation.

Net Domestic Product (NDP):

- NDP is the value of net output of the economy during the year. Some of the country's capital equipment wears out or becomes obsolete each year during the production process. The value of this capital consumption is some percentage of gross investment which is deducted from GDP. Thus Net Domestic Product = GDP at Factor Cost – Depreciation.

Nominal and Real GDP:

- When GDP is measured on the basis of current price, it is called GDP at current prices or nominal GDP. On the other hand, when GDP is calculated on the basis of fixed prices in some year, it is called GDP at constant prices or real GDP.
- Nominal GDP is the value of goods and services produced in a year and measured in terms of rupees (money) at current (market) prices. In comparing one year with another, we are faced with the problem that the rupee is not a stable measure of purchasing power. GDP may rise a great deal in a year, not because the economy has been growing rapidly but because of rise in prices (or inflation).

ROLE OF INDUSTRIAL DEVELOPMENT IN ECONOMIC GROWTH

a) Modernization of Industry.
b) Development of Science and Technology.
c) Capital Formation.
d) Industrialization and Urbanization.
e) Self-reliance in Defense Production..
f) Importance in International Trade.
g) Use of Natural Resources.
h) Alleviation of Poverty and Unemployment.
i) Main Sector of Economic Development.
j) Fast Growth of National and Per Capita Income.
k) Sign of Higher Standard of Living and Social Change.

FOREIGN TRADE

- Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.
- All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.
- Generally no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. Similarly, it can export goods, which are in excess quantity with it and are in high demand outside.
- International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex.

BALANCE OF PAYMENT

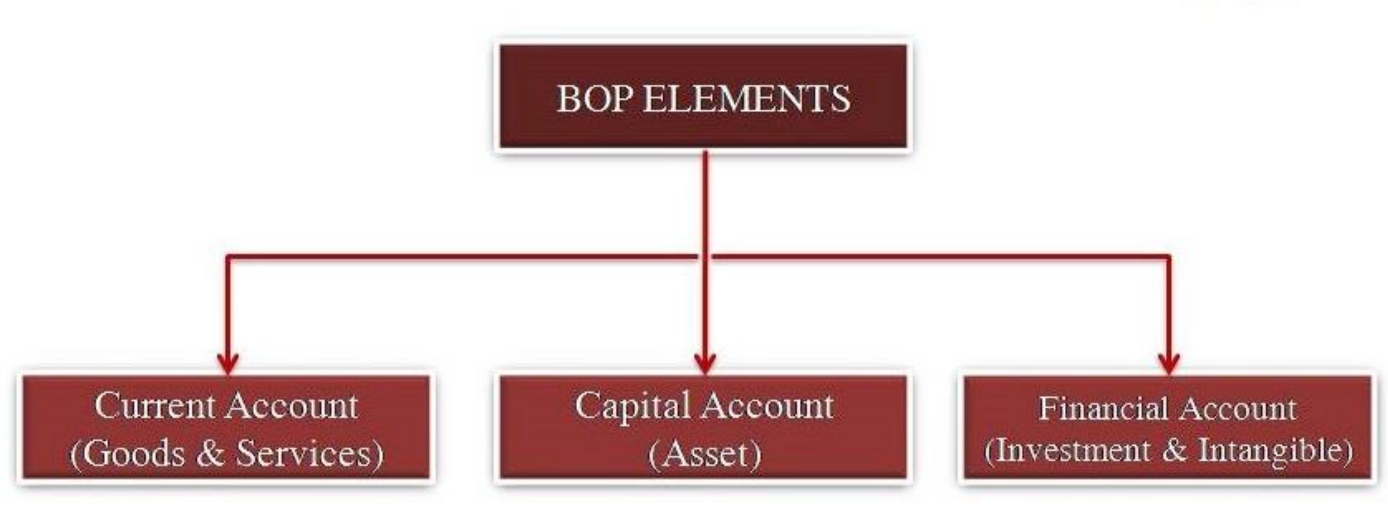
- Balance Of Payment (BOP) is a statement which records all the monetary transactions made between residents of a country and the rest of the world during any given period. This statement includes all the transactions made by/to individuals, corporates and the government and helps in monitoring the flow of funds to develop the economy. When all the elements are correctly included in the BOP, it should sum up to zero in a perfect scenario. This means the inflows and outflows of funds should balance out. However, this does not ideally happen in most cases.
- BOP statement of a country indicates whether the country has a surplus or a deficit of funds i.e when a country's export is more than its import, its BOP is said to be in surplus. On the other hand, BOP deficit indicates that a country's imports are more than its exports. Tracking the transactions under BOP is something similar to the double entry system of accounting. This means, all the transaction will have a debit entry and a corresponding credit entry.

WHY BALANCE OF PAYMENT IS VITAL FOR A COUNTRY?

A country's BOP is vital for the following reasons:

- BOP of a country reveals its financial and economic status.
- BOP statement can be used as an indicator to determine whether the country's currency value is appreciating or depreciating.
- BOP statement helps the Government to decide on fiscal and trade policies.
- It provides important information to analyze and understand the economic dealings of a country with other countries.

By studying its BOP statement and its components closely, one would be able to identify trends that may be beneficial or harmful to the economy of the county and thus, then take appropriate measures.



BOP ELEMENTS

Current Account

- The current account is used to monitor the inflow and outflow of goods and services between countries. This account covers all the receipts and payments made with respect to raw materials and manufactured goods. It also includes receipts from engineering, tourism, transportation, business services, stocks, and royalties from patents and copyrights. When all the goods and services are combined, together they make up to a country's Balance Of Trade (BOT).
- There are various categories of trade and transfers which happen across countries. It could be visible or invisible trading, unilateral transfers or other payments/receipts. Trading in goods between countries are referred to as visible items and import/export of services (banking, information technology etc) are referred to as invisible items. Unilateral transfers refer to money sent as gifts or donations to residents of foreign countries. This can also be personal transfers like – money sent by relatives to their family located in another country.

Capital Account

- All capital transactions between the countries are monitored through the capital account. Capital transactions include the purchase and sale of assets (non-financial) like land and properties. The capital account also includes the flow of taxes, purchase and sale of fixed assets etc by migrants moving out/in to a different country. The deficit or surplus in the current account is managed through the finance from capital account and vice versa.

BOP ELEMENTS

There are 3 major elements of capital account:

- Loans & borrowings – It includes all types of loans from both the private and public sectors located in foreign countries.
- Investments – These are funds invested in the corporate stocks by non-residents.
- Foreign exchange reserves – Foreign exchange reserves held by the central bank of a country to monitor and control the exchange rate does impact the capital account.

Financial Account

- The flow of funds from and to foreign countries through various investments in real estates, business ventures, foreign direct investments etc is monitored through the financial account. This account measures the changes in the foreign ownership of domestic assets and domestic ownership of foreign assets. On analyzing these changes, it can be understood if the country is selling or acquiring more assets (like gold, stocks, equity etc).

POVERTY IN INDIA

- India is the second most populous country after China with about 1.2 billion people and isthe seventh largest country in the world with an area of 3,287,000 km². The highly contrasted country has enjoyed growth rates of up to 10% over many years and is one of the largest economies in the world, with a gross domestic product (GDP) of 1,644 billion US dollars. But only a small percentage of the Indian population has benefited from this impressive economic boom so far, as the majority of people in India are still living in abject poverty.
- More than 800 million people in India are considered poor. Most of them live in the countryside and keep afloat with odd jobs. The lack of employment which provides a liveable wage in rural areas is driving many Indians into rapidly growing metropolitan areas such as Bombay, Delhi, Bangalore or Calcutta. There, most of them expect a life of poverty and despair in the mega-slums, made up of millions of corrugated ironworks, without sufficient drinking water supply, without garbage disposal and in many cases without electricity. The poor hygiene conditions are the cause of diseases such as cholera, typhus and dysentery, in which especially children suffer and die.

Poverty in India impacts children, families and individuals in a variety of different ways through:

- High infant mortality
- Malnutrition
- Child labour
- Lack of education
- Child marriage
- HIV / AIDS

UNEMPLOYMENT IN INDIA

What is Unemployment?

- Unemployment occurs when a person who is actively searching for employment is unable to find work. Unemployment is often used as a measure of the health of the economy. The most frequent measure of unemployment is the unemployment rate, which is the number of unemployed people divided by the number of people in the labour force.

National Sample Survey Organization (NSSO) defines employment and unemployment on the following activity statuses of an individual:

- Working (engaged in an economic activity) i.e. 'Employed'.
- Seeking or available for work i.e. 'Unemployed'.
- Neither seeking nor available for work.
- The first two constitutes labour force and unemployment rate is the percent of the labour force that is without work.
- Unemployment rate = (Unemployed Workers / Total labour force) × 100

The unemployment rate in India rose to 7.2 percent in February 2019, the highest since September 2016, and also up from 5.9 percent in February 2018, according to the latest data compiled by the Centre for Monitoring Indian Economy (CMIE).

TYPES OF UNEMPLOYMENT IN INDIA

Disguised Unemployment:

•It is a phenomenon wherein more people are employed than actually needed.
•It is primarily traced in the agricultural and the unorganised sectors of India.

Seasonal Unemployment:

•It is an unemployment that occurs during certain seasons of the year.
•Agricultural labourers in India rarely have work throughout the year.

Structural Unemployment:

•It is a category of unemployment arising from the mismatch between the jobs available in the market and the skills of the available workers in the market.
•Many people in India do not get job due to lack of requisite skills and due to poor education level, it becomes difficult to train them.

Cyclical Unemployment:

•It is result of the business cycle, where unemployment rises during recessions and declines with economic growth.
•Cyclical unemployment figures in India are negligible. It is a phenomenon that is mostly found in capitalist economies.

TYPES OF UNEMPLOYMENT IN INDIA

Technological Unemployment:

- It is loss of jobs due to changes in technology.
- In 2016, World Bank data predicted that the proportion of jobs threatened by automation in India is 69% year-on-year.

Frictional Unemployment:

- The Frictional Unemployment also called as Search Unemployment, refers to the time lag between the jobs when an individual is searching for a new job or is switching between the jobs.
- In other words, an employee requires time for searching a new job or shifting from the existing to a new job, this inevitable time delay causes the frictional unemployment. It is often considered as a voluntary unemployment because it is not caused due to the shortage of job, but in fact, the workers themselves quit their jobs in search of better opportunities.

Vulnerable Employment:

- This means, people working informally, without proper job contracts and thus sans any legal protection. These persons are deemed ‘unemployed’ since records of their work are never maintained.
- It is one of the main types of unemployment in India.

INFLATION

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. It is the constant rise in the general level of prices where a unit of currency buys less than it did in prior periods. Often expressed as a percentage, inflation indicates a decrease in the purchasing power of a nation's currency.

Key Takeaways

- Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.
- Inflation is classified into three types: Demand-Pull inflation, Cost-Push inflation, and Built-In inflation.
- Most commonly used inflation indexes are the Consumer Price Index (CPI) and the Wholesale Price Index (WPI).
- Inflation can be viewed positively or negatively depending on the individual viewpoint.
- Those with tangible assets, like property or stocked commodities, may like to see some inflation as that raises the value of their assets.
- People holding cash may not like inflation, as it erodes the value of their cash holdings.
- Ideally, an optimum level of inflation is required to promote spending to a certain extent instead of saving, thereby nurturing economic growth.

CAUSES OF INFLATION

Demand-Pull Effect

- Demand-pull inflation occurs when the overall demand for goods and services in an economy increases more rapidly than the economy's production capacity. It creates a demand-supply gap with higher demand and lower supply, which results in higher prices. For instance, when the oil producing nations decide to cut down on oil production, the supply diminishes. It leads to higher demand, which results in price rises and contributes to inflation.

Cost-Push Effect

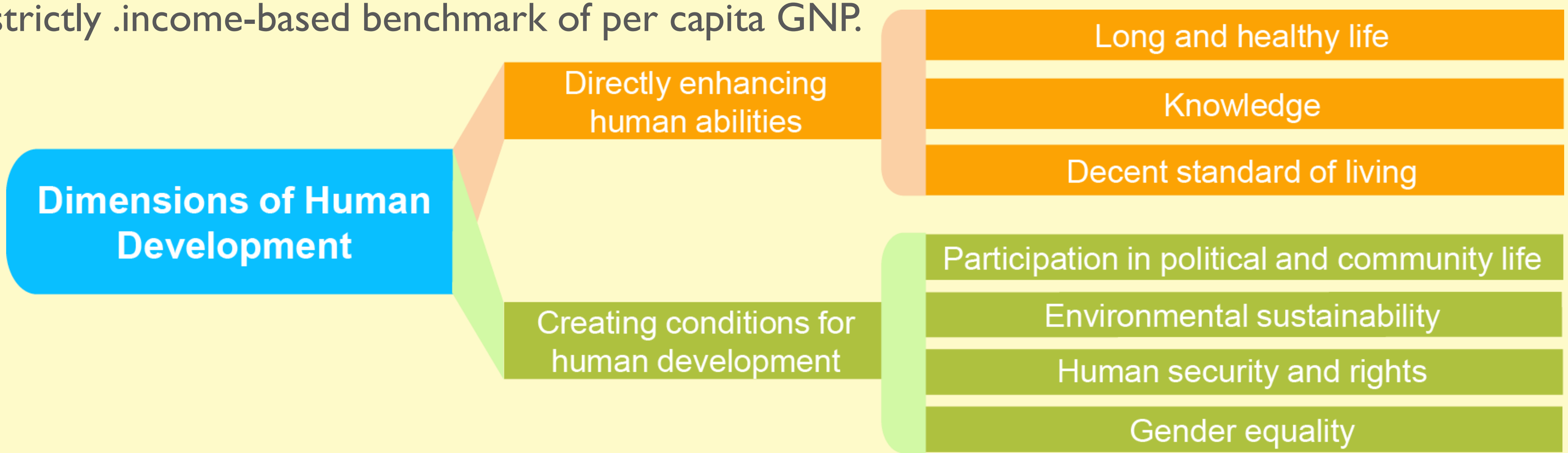
- Cost-push inflation is a result of the increase in the prices of production process inputs. Examples include an increase in labour costs to manufacture a good or offer a service or increase in the cost of raw material. These developments lead to higher cost for the finished product or service and contribute to inflation.

Built-In Inflation

- Built-in inflation is the third cause that links to adaptive expectations. As the price of goods and services rises, labour expects and demands more costs/wages to maintain their cost of living. Their increased wages result in higher cost of goods and services, and this wage-price spiral continues as one factor induces the other and vice-versa.

HUMAN DEVELOPMENT

- The term 'human development' may be defined as an expansion of human capabilities, a widening of choices, 'an enhancement of freedom, and a fulfilment of human rights.
- At the beginning, the notion of human development incorporates the need for income expansion. However, income growth should consider expansion of human capabilities. Hence development cannot be equated solely to income expansion.
- Income is not the sum-total of human life. As income growth is essential, so are health, education, physical environment, and freedom. Human development should embrace human rights, socio-eco-politico freedoms. Based on the notion of human development. Human Development Index (HDI) is constructed. It serves as a more humane measure of development than a strictly .income-based benchmark of per capita GNP.



RURAL DEVELOPMENT

- Rural development is a topic that is pretty easy to understand but hard to implement. It focuses upon the upliftment and development of the sections of rural economies, that experience grave poverty issues and effectively aims at developing their productivity. It also emphasizes the need to address various pressing issues of village economies that hinder growth and improve these areas.

Some areas that need urgent attention for Rural Development in India are:

- Public health and sanitation
- Literacy
- Female empowerment
- Enforcement of law and order
- Land reforms
- Infrastructure development like irrigation, electricity, etc.
- Availability of credit
- Eradication of poverty

NEED FOR RURAL DEVELOPMENT IN INDIA

- The rural economy is an example of an agrarian economy. Although farming and agriculture are one of the most important primary activities, the problem lies in the fact that they share in the GDP of the agriculture sector is on a constant decline. At the same time, about two-thirds of India's population depends on agriculture. As a result, the productivity is not up to the mark, with conditions only getting worse.
- Moreover, public investment declined since 1991 coupled with a lack of adequate infrastructure, credit, transport, employment, etc. Henceforth the agricultural output has grown at only 3.2% during 2007-2011. All these factors have been denting the process of development. Therefore there is a need to focus on rural development and not just urban development.

MAJOR PROBLEMS FACED BY THE INDIAN ECONOMY FOR GROWTH

- Low level of national income and per capita income
- Vast inequalities in income and wealth
- Predominance of agriculture
- Tremendous population pressure
- Massive unemployment
- Scarcity of capital and low rate of capital formation
- Underdeveloped infrastructure
- Low level of technology