

MAA OMWATI INSTITUTE OF MGT. & TECH HASSANPUR (PALWAL)

NOTES

MBA 3RD SEM

PRINCIPLES OF ECONOMICS (O.E)

Unit -1

Studying economics is essential because it helps us understand how societies allocate limited resources to satisfy unlimited wants. Economics provides valuable insights into decision-making processes, both at the individual and societal levels, and helps us navigate the challenges of scarcity and choice.

The Scope and Method of Economics:

Economics covers a wide range of topics, from the behavior of individual consumers and firms to the functioning of entire economies. It is divided into two broad branches:

1. **Microeconomics:** Focuses on the behavior of individual agents, such as consumers, firms, and workers. It explores how they make choices, how markets work, and how resources are allocated at the individual level.
2. **Macroeconomics:** Studies the performance, structure, and behavior of an entire economy. It looks at aggregates like national income, inflation, unemployment, and economic growth.

The **method of economics** involves using models and theories to analyze economic behavior. Economists use data, mathematical tools, and statistical methods to test hypotheses and make predictions about real-world economic phenomena.

Scarcity and Choice:

At the core of economics is the concept of **scarcity**, which refers to the limited availability of resources (land, labor, capital) to meet the endless wants and needs of individuals and societies. Because of scarcity, choices must be made regarding how resources are allocated.

Scarcity forces individuals, businesses, and governments to prioritize their needs and make trade-offs. When we choose one option over another, we give up the next best alternative, known as the **opportunity cost**. This concept of trade-offs is central to decision-making in economics.

Questions of What, How, and For Whom to Produce:

Economics helps address the fundamental questions every society faces regarding production and distribution:

1. **What to produce?** Societies must decide which goods and services to produce based on resource availability, consumer preferences, and technological capabilities.
2. **How to produce?** This involves deciding the most efficient way to produce goods and services, such as choosing the right combination of labor, capital, and technology.
3. **For whom to produce?** Once goods and services are produced, economies must decide how to distribute them. This involves considering factors such as income inequality, social welfare, and market mechanisms.

Distribution of Output:

The distribution of output—how wealth and resources are shared within society—is another key focus of economics. Different economic systems (capitalism, socialism, mixed economies) have varying approaches to distributing goods and services, with policies influencing income distribution, welfare programs, and access to essential goods.

Unit-2

Indian Economy on the Eve of Independence

At the time of India's independence in 1947, the economy was characterized by stagnation and underdevelopment, a direct consequence of nearly two centuries of British colonial rule. The Indian economy was primarily agrarian, with the majority of the population dependent on agriculture. However, the sector was marked by low productivity and widespread poverty due to exploitative systems like the **zamindari system** and lack of investment in rural infrastructure.

Key Features of the Economy:

1. **Agriculture Dominated:**
 - Over 70% of the population was engaged in agriculture, but it was marked by backward techniques, low productivity, and vulnerability to famines.
 - The British policies prioritized cash crops (like cotton, indigo, and jute) for export, often at the expense of food security.
2. **Limited Industrial Development:**
 - The British deindustrialized India by discouraging indigenous industries and promoting British goods.
 - Some modern industries emerged, like textiles, jute, and steel, but they were limited to a few urban centers.
3. **Underdeveloped Infrastructure:**

- The British built infrastructure like railways, ports, and telegraphs, but it primarily served colonial interests.
 - Roads and irrigation systems, crucial for internal development, were neglected.
4. **Drain of Wealth:**
- Colonial policies led to the **economic drain**: a significant portion of India's wealth was transferred to Britain through unfair trade practices, taxation, and exploitation.
5. **Social Indicators:**
- Literacy rates were extremely low, and healthcare facilities were inadequate.
 - High mortality rates, widespread poverty, and malnutrition were rampant.
-

British Rule and Its Impact on the Indian Economy

The British colonial administration shaped the Indian economy to serve its interests, leading to long-term structural distortions and economic hardships.

Positive Contributions:

1. **Infrastructure Development:**
 - Railways, ports, and communication systems were developed, which later became critical for India's post-independence development.
2. **Unification of Markets:**
 - Introduction of railways and telegraphs facilitated greater connectivity and laid the groundwork for a unified Indian market.
3. **Introduction of Modern Education:**
 - Western-style education created an educated elite who later led India's independence struggle.

Negative Impacts:

1. **Deindustrialization:**
 - Indian handicrafts and traditional industries were systematically destroyed, leading to mass unemployment.
2. **Agricultural Exploitation:**
 - Policies like **land revenue settlements** (zamindari, ryotwari) extracted wealth from farmers and led to poverty, famines, and indebtedness.
3. **Economic Drain:**
 - A significant portion of India's resources and wealth was siphoned off to Britain, stalling domestic economic growth.
4. **Low Investment in Human Capital:**

- Neglect of education, health, and welfare led to poor human development indicators.

5. Unequal Development:

- Industrial and urban development was limited to a few cities, deepening regional inequalities.
-

Emergence and Development of Planning Exercise in India

After independence, India adopted economic planning to address the challenges of poverty, inequality, and underdevelopment. This marked a significant shift from colonial laissez-faire policies to a **mixed economy model**.

Early Debates and Historical Context:

1. Pre-Independence Planning Initiatives:

- **Visvesvaraya's Plan (1934)**: Advocated for industrialization and state-led economic planning.
- **National Planning Committee (1938)**: Set up by the Indian National Congress under Subhash Chandra Bose and chaired by Jawaharlal Nehru, it emphasized self-reliance and industrial development.
- **Bombay Plan (1944)**: Proposed by prominent industrialists, it outlined the need for state intervention in economic development.

2. Philosophical Influences:

- Influenced by Soviet-style centralized planning but adapted to Indian conditions.
- Emphasized the need for a **socialist pattern of society**, with a focus on reducing inequality and achieving self-reliance.

Establishment of the Planning Commission:

1. Formation (1950):

- The **Planning Commission** was established to formulate five-year plans for economic growth and social development.

2. Key Objectives:

- Increase national income and employment.
- Reduce poverty and economic inequality.
- Develop key sectors like agriculture, industry, and infrastructure.

Early Five-Year Plans:

1. First Plan (1951–56):

- Focused on agriculture and irrigation to address food security and recovery from Partition shocks.

2. Second Plan (1956–61):

- Emphasized industrialization, especially heavy industries, following the **Mahalanobis model**.

3. Debates on Strategy:

- **Agriculture vs. Industry:** Scholars debated whether the focus should be on rural development or rapid industrialization.
- **Public Sector Dominance:** Critics questioned the inefficiency and overreach of state-owned enterprises.

Unit-3

Trends and Patterns in the Structure of Population Over Time

1. Growth Rate:

- Post-Independence Trends:
 - India's population has experienced rapid growth since independence, with the growth rate peaking during the 1960s and 1970s due to declining mortality rates and sustained high fertility rates.
- Decline in Growth Rate:
 - Post-1990s, population growth has slowed, attributed to improved education, healthcare, and family planning policies.

2. Gender Composition:

- Declining Sex Ratio:
 - India's sex ratio (females per 1,000 males) has historically been low due to socio-cultural factors like gender bias, female infanticide, and neglect of female health.
 - Recent years show a slight improvement, attributed to government initiatives such as Beti Bachao Beti Padhao.
- Female Participation:
 - Despite improvements in education, female labor force participation remains low, highlighting gender disparities.

3. Rural-Urban Divide:

- Urbanization Trends:
 - Urban population increased significantly, from about 17% in 1951 to nearly 35% in 2021, driven by industrialization, migration, and urban-centric policies.
 - Rural areas still house the majority of the population, leading to disparities in infrastructure and opportunities.

4. Literacy Rates:

- Rising Literacy:

- Literacy rates have improved dramatically, from 18% in 1951 to over 77% in 2021.
- Gender disparities persist, with female literacy lagging behind male literacy, especially in rural areas.

5. Regional Variations:

- States in southern India (Kerala, Tamil Nadu) have better demographic indicators like higher literacy, lower fertility, and better gender ratios compared to northern states (Bihar, Uttar Pradesh), reflecting regional inequalities in development.
-
-

Structure and Trends of Poverty and Inequality

1. Poverty:

- Declining Poverty Rates:
 - Poverty levels have declined from over 50% in the 1950s to around 21% in 2020 (pre-COVID estimates).
 - Rural poverty remains higher than urban poverty due to limited access to employment and infrastructure.

2. Inequality:

- Interpersonal Inequality:
 - Despite poverty reduction, economic inequality has risen, particularly post-liberalization (1991).
 - The top 10% of the population controls a significant portion of national wealth.
 - Regional Inequality:
 - States like Kerala and Punjab have low poverty and better social indicators, while states like Bihar and Odisha struggle with high poverty rates and low development.
-
-

Inflation: Trends, Structure, and Causes

1. Trends:

- Pre-Liberalization:
 - Inflation was often high due to supply-side constraints, wars, and poor agricultural output.
- Post-Liberalization:
 - Inflation has been relatively moderate but still volatile due to global factors and domestic challenges.
 - Recent trends show inflation driven by food and energy prices.

2. Structure:

- **Food Inflation:**
 - **A persistent issue, as a large portion of household expenditure is on food.**
- **Core Inflation:**
 - **Driven by services and non-food manufacturing sectors.**

3. Causes:

- **Demand-Pull Inflation:**
 - **Rising demand during economic growth phases.**
 - **Cost-Push Inflation:**
 - **Supply-side constraints, such as rising oil prices, labor shortages, and disruptions in supply chains.**
 - **Structural Issues:**
 - **Poor logistics, storage, and agricultural productivity contribute to price volatility.**
-
-

Unemployment: Trends, Structure, and Types

1. Trends:

- **Rising Unemployment:**
 - **Despite economic growth, unemployment has risen, particularly among educated youth.**
- **Impact of COVID-19:**
 - **The pandemic significantly worsened unemployment, especially in urban areas and informal sectors.**

2. Structure:

- **Sectoral Distribution:**
 - **Agriculture employs nearly half the workforce but contributes only about 16% to GDP, indicating disguised unemployment.**
 - **The manufacturing sector's employment has stagnated, while services have grown but remain skill-intensive.**

3. Types:

- **Disguised Unemployment:**
 - **Prevalent in rural agriculture, where more people work than necessary.**
- **Frictional Unemployment:**
 - **Temporary unemployment due to job changes or skill mismatches.**
- **Structural Unemployment:**

- Arising from a mismatch between skills and job requirements, exacerbated by slow industrial growth.
- **Seasonal Unemployment:**
 - Common in agriculture and related sectors, where work is not available year-round.
- **Urban Unemployment:**
 - Increasing among educated youth, highlighting the need for skill-based training and job creation.

Unit-4

Trends in Agricultural Production and Productivity

1. Trends in Agricultural Production:

- **Pre-Independence:**
 - Agriculture was stagnant due to exploitative colonial policies, lack of investment, and outdated farming methods.
- **Post-Independence:**
 - Agricultural production increased steadily, especially after the Green Revolution, but growth has been inconsistent, with challenges like monsoon dependency and land degradation.
- **Food Security:**
 - India transitioned from a food-deficit nation to a food-surplus nation, achieving self-sufficiency in staples like wheat and rice.

2. Trends in Productivity:

- **Green Revolution Era (1960s-80s):**
 - Productivity rose due to high-yield variety (HYV) seeds, chemical fertilizers, and irrigation.
- **Post-Reform Period (1990s onward):**
 - Growth slowed due to soil degradation, declining water tables, and inadequate diversification into high-value crops.
- **Current Challenges:**
 - Productivity remains low compared to global standards due to fragmented landholdings, lack of technology adoption, and poor infrastructure.

Land Reforms: Genesis, Progress, and Current Status

1. Genesis:

- Land reforms were initiated post-independence to address inequities in land ownership, eliminate feudal systems, and improve agricultural productivity.
- Key reforms included:
 1. **Abolition of Intermediaries** (e.g., Zamindari system).
 2. **Tenancy Reforms** to secure tenants' rights.
 3. **Land Ceiling Acts** to redistribute surplus land.

2. Progress:

- **Abolition of Zamindari:**
 - Successfully removed intermediaries but often led to legal loopholes and informal tenancies.
- **Land Ceiling and Redistribution:**
 - Progress was uneven across states; redistribution targets were often unmet.
- **Tenancy Reforms:**
 - Provided security to tenants but led to informal leasing practices, reducing tenant rights.

3. Current Status:

- Land reforms are largely stagnant, with limited political will.
 - Challenges include:
 - Fragmentation of landholdings due to inheritance laws.
 - Rising landlessness and informal tenancy arrangements.
 - The need for digitization of land records (e.g., **Digital India Land Records Modernization Programme**).
-

Green Revolution: Measures and Effects

1. Measures:

- **High-Yielding Variety (HYV) Seeds:**
 - Introduced for crops like wheat and rice.
- **Chemical Inputs:**
 - Extensive use of fertilizers, pesticides, and weedicides.
- **Irrigation:**
 - Expansion of irrigation facilities, including tube wells and canals.
- **Mechanization:**

- Use of tractors and harvesters to boost productivity.

2. Effects:

- **Positive Effects:**

- Increased food production, ensuring food security and making India self-sufficient.
- Boosted rural incomes in regions like Punjab, Haryana, and western Uttar Pradesh.
- Facilitated economic diversification by reducing dependence on food imports.

- **Negative Effects:**

- **Regional Imbalances:**

- Benefits were concentrated in agriculturally advanced states, neglecting eastern and southern regions.

- **Environmental Degradation:**

- Overuse of chemical inputs and water led to soil depletion and falling water tables.

- **Socioeconomic Issues:**

- Large farmers benefited more than small and marginal farmers, increasing rural inequality.
-

Trends and Patterns of the Industrial Sector

1. Trends in Industrial Growth:

- **Pre-Liberalization Era (1950-1990):**

- Dominance of public sector industries, with a focus on heavy industries under the **Mahalanobis model**.
- Industrial growth was constrained by the "License Raj" system, which stifled competition and innovation.

- **Post-Liberalization Era (1991 onward):**

- Liberalization led to the growth of private sector industries, foreign investments, and global integration.
- Growth shifted from heavy industries to consumer goods, IT, and service-oriented industries.

2. Patterns:

- **Traditional vs. Modern:**

- Traditional industries (textiles, handicrafts) coexist with modern industries (IT, pharmaceuticals).

- **Shift from Manufacturing to Services:**

- India witnessed premature industrialization, with the services sector dominating over manufacturing.
-

Changes in the Structure of Indian Industry

1. Public Sector to Private Sector:

- Post-1991 reforms reduced the dominance of the public sector, encouraging privatization and foreign direct investment (FDI).

2. Rise of Small and Medium Enterprises (SMEs):

- SMEs have become critical for employment and exports, supported by initiatives like **Make in India** and **Startup India**.

3. Sectoral Shifts:

- **Heavy Industries to Light Manufacturing:**
 - Growth in sectors like automobile, consumer electronics, and FMCG.
- **IT and Knowledge-Based Industries:**
 - India has emerged as a global leader in IT and outsourcing services.
- **Green and Sustainable Industries:**
 - Increased focus on renewable energy and environmental sustainability in industrial policies.