Government of TamilNadu

Department of Employment and Training

Course : **SSC EXAM**

Subject : **ECONOMICS**

Topic : **Indian Economy**

INTRODUCTION

ECONOMICS

- Economics is a social science which deals with human wants and their satisfaction.
- Defined as science of production, distribution and consumption.

Adam Smith

- Defined – Economics is the science of wealth
- Book – Wealth of Nations – 1776
- Father of Economics

Alfred Marshall's

- Defined – A study of man's action in the ordinary business of life.
- Book – Principle of Economics.

Father of New Economics – John Maynard Keynes.

BASIC DIVISION IN ECONOMICS

(i) Production – Land, Labour, Capital, Organization

(ii) Distribution – Sharing products to consumer.

(iii) Consumption – Satisfaction of human needs

(iv) Exchange – Goods are exchanged for Goods.

Divisions of Economic Theory

Macro Economics – The Study of the relation between broad economic aggregates.

Micro Economics – Deals with problems such as the output of a Industry.

Traders:

The people who buy and sell things

Wholesale Merchant:

People who sell and buy large quality of commodities.

Retailers:

People who buy and sell small quantities.

Sectors

Primary Sector : Raw materials / Natural
- Agriculture, forestry, fishing.

Secondary Sector: Manufacturing
- Mining, Supply, Construction.

Tertiary Sector: Service

- Transport, Banking, Business.

Economic Systems:

Traditional economy - Governed by customs.

- also called village / closed economy

Capitalist economy - Free markets without Government interferences.

- also called Market economy eg: US, Canada, Britain

Socialist economy - Production owned and operated by the state

- also called planned economy – eg: China, North Korea

Mixed economy – Both public and private sectors co-exist.-eg: India.

Economic Development

As the demand increase there is increase in production, consumption and distribution.

Economical Growth

- Self reliance
- Increase import

India Economy

- Unique blend of public and private sector
- After liberalisation Indian is going ahead as a capitalist economy (or) market economy.
- Indian economy is a developing economy.

Basic features of Indian economy

- Low per capita income
- Inequalities in income distribution
- Rapidly growing population.
- Chronic unemployment.

National Income

- The sum of total value of all the final Goods.
- Dadabhi Naoroji was the first to calculate the National income in India.
  - ➢ Father of Indian Politics and Economics
  - ➢ Book – Poverty and Unbritish Rule in India
  - ➢ Economic Drain theory
- First National Income Calculate by V.K.R.V.Roa in 1931-32

Gross Domestic Product (GDP)

- Final Goods and Services produced within the country.

Gross National Product (GNP)

- Total output of Goods and Services produced by the nationals of the country.

Net Domestic Product = GDP-Depreciation

Net National Product = GNP – Depreciation

Per capita Income

$$\text{Per capita Income} = \frac{\text{National Income}}{\text{Population}}$$

Method of calculating National Income

Product method – Total value of Goods and service produced in a country.

Income method – Income and payments received by all the people in the country

- In India we use product method.

Difficulties in the calculation of National Income

- Block money
- Non – Monetization
- Double Counting
- Unscientific and unreliable data
- Household services
- Social services
- Disparity of Industrial Distribution
- Low production capacity
- Low Industrialisation
- Over population

Amarthya Sen

First Indian to receive Nobel prize for Economics.

PLANNING COMMISSION

M.VISWESWARAYYA

– father of Indian Planning

- Book – planned economy of India.

- In March 15, 1950 – Indian National planning committee was introduced.
- January 1, 2015 – planning commission change to NITI Aayog.
- Chairman – Prime Minister
- Vice Chairman – Rajiv Kumar
- CEO – Amitabh Kant

Functions

- To evolve a shared vision of national development
- Cooperative federalism
- To develop mechanisms to formulate credible plans at the village level
- To pay special attention to the risk section of our society from economic progress.
- To provide advice and encourage partnerships.

Objectives

- Increasing National Income
- Elimination of Poverty
- Providing additional employment
- Reducing inequalities in the distribution of income and wealth.

FIVE YEAR PLANS

Plan	Tenure	Objective	Growth Rate	
			Target	Reached
First	1951-1956	Agriculture	2.1	3.6
Second	1956-1961	Rapid Industrialization	4.5	4.2
Third	1961-1966	Self reliance	5.6	2.8
Three annual plans	1966-1969	-	-	-
Fourth	1969-1974	Stability and self reliance	5.7	3.3
Fifth	1974-1978	Removal of poverty (Garibi Hatao)	4.4	4.8
Rolling Plan	1978-1980	-	-	-
Sixth	1980-1985	Decrease in poverty increase employment	5.2	5.6
Seventh	1985-1990	Rapid Growth in Employment	5	6
Eight	1992-1997	Rapid Growth in Economic	5.6	6.5
Ninth	1997-2002	Growth with social Justice	6.5	5.4
Tenth	2002-2007	Development	8.6	7.6
Eleventh	2007-2012	Rapid economic development	9	8.2
Twelfth	2012-2017	Faster Sustainable Development	9	

BANKING IN INDIA

Reserve Bank of India

- Central Bank of India
- Established in 1935
- Nationalized in 1949
- Head quarter in Mumbai
- Banker's Bank
- RBI Governor – Shakthikanta Das

Function:

- Regulation of currency
- Controller of credit
- Lender of last Resort
- Agent, advisor, banker to the Government.
- Control and supervise all commercial Bank.

State Bank of India:

- In 1921 Imperial bank is converted to state bank of India
- Nationalized in 1955
- Largest bank in India
- State bank consist of six subsidiary banks.

Nationalization of Banks

- In 1969 Government of India nationalized 14 banks.
- In 1980 six more banks are nationalized.

Bank Rate

- The interest rate at which RBI lends to commercial banks.

Cash Reserve Ratio

- Minimum amount deposited by the commercial bank in the central bank (RBI)

Statutory Liquidity Ratio

- Commercial Bank in India Required to maintain in the form of Cash, Gold reserves, Government approved securities before providing credit to the customers.

Repo Rate

- Central Bank (RBI) lend money to commercial Banks.

Reverse Repo Rate

- RBI borrows money from commercial Bank.

AGRICULTURE IN INDIA

Agriculture Development and Food Production.

- In India agriculture is the backbone of the economy.
- Nearly 20% of National Income (2011-2012) in agriculture.

Green Revolution

- Introduced in 1967
- By M.S.Swaminathan
- Promoting the use of High Yielding Variety seeds
- Improved irrigation facilities.
- Increase the agricultural production.

Major Agricultural Revolutions:

- Black Revolution - Petroleum
- Blue Revolution - Fish
- Green Revolution - Food grain
- Grey Revolution - Fertilizer
- Brown Revolution - Coco
- Golden Revolution - Horticulture
- Pink Revolution - Onion, Prawn
- Red Revolution - Meat, Tomato
- Round Revolution - Potato
- Silver Revolution - Egg
- Yellow Revolution - Oil Seeds
- Golden fibre Revolution – Jute
- Silver fibre Revolution – Cotton

Crop Seasons

Kharif Crops - Summer Crops
- Rice, Cotton, Maize

Rabi Crops - Winter Crops
- Wheat, barley, mustard

Zaid Crops - Vegetable, pulses.

Cash Crops - Cotton, Jute, Sugarcane

<u>Industry In India:</u>

Automobile Industry

- India 9^{th} largest in world
- 4^{th} largest exporter.

Steel Industry

- India 8^{th} largest in world.
- Total steel in Jamshedpur was the first steel plant in India and Asia.

Fertilizer Industry

- India is the 3^{rd} largest producer of nitrogenous fertilizer

Textile Industry

- Largest Agro Industry in India
- India 2^{nd} largest in the world
- India is one of the largest producer of cotton.

ECONOMIC REFORMS OF 1991

- The year 1991 has a special significance in the Indian economy
- Aimed at Rapid Industrialization.
- Abolition of Industrial Licensing
- Allowing foreign Investment.
- Encouragement of private sector

ASPECTS OF ECONOMIC REFORMS

Liberalisation

- Free market system
- Encourage the private sector

Privatisation

- Transform economic activities from public to private sector

Globalisation

- Linkage of nation market with global market.
- Worldwide movement towards economic, finance, trade.

Taxes:

Direct Taxes:

Tax levied on the income of the person who pays it.

Indirect Taxes:

Tax levied on goods and services rather than on income (or) profits

Value Added Tax:

VAT is a tax levied on the value added at each stage of production and distribution process.

Direct Tax:

- Income Tax
- Corporation Tax
- Wealth Tax
- Gift Tax

Indirect Tax:

- Sales Tax
- Excise duty
- Entertainment Tax
- Service

Goods and Services Tax:

- An Indirect tax levied in India on the supply of goods and services.
- Single tax on the supply of goods and services.
- GST is expected to bring together state economics and improve overall economic growth of the nation.
- GST launched in India on 1 July 2017 101st amendment of GST

SGST - State GST

- Collected by state Government

CGST - Central GST

- Collected by Central Government

IGST - Integrated GST

- Collected by Central Government

UTGST- Union territory GST

- Collected by Union territory Government

Impact of GST on consumers:

- Simpler Tax System
- Transparency in taxation system
- Increase in employment opportunities
- Uniform prices throughout the country

Impact of GST on Traders:

- Reduction in multiplicity of taxes.
- Development of common national market.
- Simpler tax regime exemptions.

Tax Reg: 0%, 5%, 12%, 18%, 28%

Budget Deficit:

The difference between all receipts and expenses in both revenue and capital account of the Government.

Types of Budget Deficit:

Revenue Deficit:

Total Revenue Expenditure – Total Revenue Receipts

Fiscal Deficit:

Total Expenditure – Total receipts excluding borrowing.

Special Economic Zones:

- Special Economic Zone policy was announced in 2000

Objectives:

- Promotion of Goods and Services
- Generation of additional Economic activity.
- Creating of employment opportunities.
- Development of infrastructure facilities.

MSME

- Micro, Small and Medium Enterprises
- Investment made in plant and machineries

- Operating in the manufacturing sector
- Investment in equipment for service sector companies

CLASSIFICATION OF MSMEs

Micro – Investment below 25 lakhs

Small – 25 Lakhs to 5 Crores

Medium – 5 Crores to 10 crores

Importance and role of MSMEs in Indian economy.

- To generate large scale employment
- To sustain Economic Growth and increase exports
- Making growth Inclusive

Unemployment:

Disguised unemployment

- When more people are engaged in a job than actually required.
- It is most seen in rural areas.

Seasonal unemployment

- Only during seasonal months of the year
- Very common in agriculture sector

Under unemployment

- Employed people a contributing to production less than they are capable.

Welfare programs of Government of India

TRYSEM

- Training Rural Youth for Self-Employment.
- 1979
- Trained rural Youth

SARVASHIKSHA ABHIYAN (SSA)

- 2001
- Educational facility to children of 6-14 years.

MGNREGA

- Mahatma Gandhi National Rural Employment Guarantee Act.
- 2006
- Guarantee 100 days of employment in rural areas.

RAJIV AWAS YOJANA

- 2010
- Aims at slum free India for urban areas.

JAWAHAR ROZGAR YOJANA

- 1989
- Providing employment to rural unemployed.

INTEGRATED RURAL DEVELOPMENT PROGRAMME

- 1980
- Rural poor self – employment.

ANTYODAYA ANNA YOJANA

- 2000
- Provide food security to poor.

<u>MONEY</u>

- The unit of money in India is Rupee.
- Note issue in India is Minimum Reserve System.

Measures of Money Supply in India.

M_1 => Currency with the public + Demand deposit of the public.

- Also called Narrow Money.

M_2=> M1+Saving deposits with post office

M_3=>M1+Net time deposits of a banks

M_4=>M3+Total deposit with post office.

SEBI

- Securities and Exchange Board of India
- Established in 1992
- Head quarters Mumbai
- Regulates financial Markets in India

BSE

- Bombay Stock Exchange
- Established in 1975
- Mumbai
- Largest stock exchange in India

NSE

- National stock Exchange
- Established in 1992
- Mumbai
- Third largest in the world.

Insurance in India

- Insurance Nationalized in 1956.
- All Government bodies in insurance function under the ministry of finance
- The first insurance company in India was the Oriental Life Insurance Company in Calcutta 1818.

Life Insurance Corporation

- Established in 1956
- Headquarters Mumbai
- Largest Life Insurance Company in India.

General Insurance Corporation

- Established in 1972
- Headquarters Mumbai

Agriculture Insurance Company

- Established 2002
- Headquarters New Delhi
- Promoted by GIC and NABARD
- Under the administrative control of Ministry of Finance.
- Under the operative control of Ministry of Agriculture
- Weather crop insurance scheme to farmers.
- One of the largest agriculture insurance companies in the world.

Committees on Various Sectors of Indian Economy.

1. A.C.Shah Committee – Non- Booking financial sector
2. Bimal Jalan Committee – Market Infrastructure Instruments.
3. Chaturvedi Committee – Improving National Highways
4. S.r.Hashim Committee – Urban Poverty.
5. Godgil Committee – Financial Inclusion
6. Raguram Committee – Financial Sector Reform.
7. Damodran Committee – Customer service in Banks.
8. C.Rangarajan Committee – Services prices Index.

BALANCE OF PAYMENTS–Balance of payments (BOP) accounts are an accounting record of all monetary transactions between a country and the rest of the world. It is a more accurate picture of a country's economic transactions with the rest of the world as it also takes into account transactions in Invisibles. There are two components of BoP –**Current Account Balance of Payments** (Imports + Exports + Income + other Current Transfers like Aid, Grants etc) and **Capital Account Balance of Payments** (*it will include – portfolio investment + FDI + other investment + reserve account*). *When all components of the BOP accounts are included they must sum to zero with no overall surplus or deficit* (Like a balance sheet).

BANK RATE – Repo rate or repurchase rate is the rate at which banks borrow money from the central bank (read RBI for India) *for short period (for a few hours to a few days) by selling their securities* (financial assets) to the central bank with an agreement to repurchase it at a future date at predetermined price. *It is similar to borrowing money from a money-lender by selling him something, and later buying it back at a pre-fixed price.* On the other hand, Bank rate is the rate at which banks borrow money from the central bank *without any sale of securities. As RBI is a banker to the banks, the interest rate at which the RBI lends to commercial banks is known as bank rate***.** It is generally for a longer period of time. This is similar to borrowing money from someone and paying interest on that amount. *Both these rates are determined by the central bank of the country based on the demand and supply of money in the economy.* In India, the bank rate acts as the penal rate charged on banks for shortfalls in meetings their reserve requirements(cash reserve ratio and statutory liquidity ratio).

BASE EROSION and PROFIT SHIFTING – It refers to the effect of tax avoidance strategies used by multinational corporations on countries' tax basis. The term was used for the first time by OECD. In an increasingly interconnected world, national tax laws have not kept pace with global corporations, fluid capital, and the digital economy, leaving gaps that can be exploited by companies who avoid taxation in their home countries by pushing activities abroad to low or no tax jurisdictions. This undermines the fairness and integrity of tax systems. This phenomenon is called base erosion or 'tax base erosion'. Multinational companies use a wide range of cross border tax planning techniques (like loopholes in DTAs, transfer pricing and so on) that result in little or tax liability and such results are referred to as *'Base Erosion and Profit Shifting*'. The G20 in 2013 had unanimously agreed to a ***15-point action plan*** to check BEPS. The plan recognizes the importance of addressing the borderless digital economy, and will develop a new set of standards to prevent double non-taxation. This will require closer international co-operation, greater transparency, data and reporting requirements. To ensure that the actions can be implemented quickly, a multilateral instrument to amend bilateral tax treaties will be developed. The global base erosion and profit shifting (BEPS) rules, aimed at collecting a fair share of taxes from multinationals operating in different tax jurisdictions, are likely to be finalized by December 2015. The *BEPS initiative would ensure that tax is paid where profits are made*. BEPS project will make it difficult for multinationals to shift profits from one jurisdiction to another to save taxes. Multinationals with a presence in many countries that prefer to show larger profits in low-tax jurisdictions or operate through subsidiaries in such territories will now face pressure to clean up their structures. The BEPS move takes into account concerns that many countries such as India have expressed on defining the base in the case of a multinational— home countries, intermediary country where the holding company is located or the country where it derives its profits. The majority of MNCs that operate in India invest indirectly through favourable tax jurisdictions such as Mauritius or Singapore to lower their tax outgo.

BHAGWATI vs SEN MODEL – Professor Jagdish Bhagwati advocated model calls for economic growth leading to overall economic improvement and hence also leading to improvement in condition of the poor as well. Amartya Sen model argues first empowering the poor by increasing their purchasing power and this will ultimately have pan-economic impact.

BEHIND THE BORDER BARRIERS–This refers to a variety of nontariff barriers that operate inside countries rather than at the border, but that nonetheless can restrict trade. Examples include technical barriers to trade, labeling requirements, and sanitary regulations etc.

BLACK MONEY – Black money is a term used in common parlance to refer to money that is not fully legitimate in the hands of the owner and main reason is non-payment of the tax. The money may have been generated through illegitimate activities not permissible under the law, like crime, corruption, drug trade, terrorism, and corruption, all of which are punishable under the legal framework of the state. Further, it may also be generated by legitimate means, but is not declared for the purpose of evasion of tax. Half of India's economy is black at any given time. Expert estimates agree that the Indian Black Money stashed abroad is close to $ 3 Trillion. **Reasons** for its existence are – corruption, illegal activities, political-industry nexus and poll funding, real estate underpricing and investment in it, manipulation of corporate incomes, discouraging rates of taxation etc. Black money has a deleterious **impact on society** in many ways and at several levels. A part of it remains lying idle, while the other part gets invested in productive and unproductive activities. The government looses on tax front. If it is not invested anywhere, it leads to tightening of monetary supply or squeeze in the volume of money. Generally, black money finds its maximum usage in ostentatious consumption which is inimical to the economic development of a developing economy. At the same time it leads to inflation in the price of real estate. A major chunk of black money is also put to use for criminal purposes which creates problems not only for the economy but also for the law and order. The poor are being deprived of their right to development. It is the common man who has to face the ultimate effect of black money. He has to pay the tax and also face impact of price hike. Illicit financial flows across borders also greatly add to the volatility of financial markets, at times endangering the growth and macroeconomic stability. But, how to **control black money?** There are several strategies. Joining the global crusade against 'black money', creating an appropriate legislative framework to fast track such case and discourage its generation, making administration and economic activities more transparent and maximum use of electronic fund transfers and minimize cash payments, cut the official discretion through e-governance, revise the DTAAs to put a check on tax havens, electoral reforms, tax reforms should be implemented at the earliest etc. There can be other innovative acts like 'US False Claims Act' which provide handsome reward for whistleblowers.

BROAD MONEY or M2 – In economics, broad money is a measure of the money supply that includes more than just physical money such as currency and coins (also termed narrow money). It generally includes demand deposits (*are the deposits that are with banks that can be demanded any time, unlike the term deposits which have fixed maturity time, most 'Saving Accounts' are demand deposit accounts*) at commercial banks, and any monies held in easily accessible accounts. Components of broad money are still very liquid, and non-cash components can usually be converted into cash very easily. The most commonly used measure of broad money is M2 (in India RBI uses term M3), which includes currency and coins, and deposits in checking accounts, savings accounts and small time deposits, overnight repos at commercial banks, and non-institutional money market accounts. **Narrow Money** which includes only currency notes and coins is more liquid. *Broad money is also termed as 'aggregate monetary resources' in the country.*

CAPITAL ACCOUNT– *Capital Account Transactions = Portfolio Investment/FIIs + FDI + Other Investment + Reserve Account + ECBs + NRI Deposits.* Whereas the current account reflects a nation's net income, the capital account reflects net change in national ownership of assets.

CAPITAL ACCOUNT CONVERTIBILITY– Capital Account Convertibility is a feature of a nation's financial regime that centers on the ability to conduct transactions of local financial assets (money, stocks, bonds, real estate, FDI, FII, account receivable, inventory etc) into foreign financial assets freely and at market determined exchange rates. In layman's terms, full capital account convertibility allows local currency to be exchange for foreign currency without any restriction on the amount. Capital account convertibility is considered to be one of the major features of a developed economy.

Advantages of capital account convertibility –

I. It helps attract foreign investment. It *offers foreign investors a lot of comfort as they can re-convert local currency into foreign currency any time they want to and take their money away.*

II. At the same time, capital account convertibility makes it easier for domestic companies to tap foreign markets.

III. Greater access for resident companies to foreign capital and debt markets – reduce cost of capital

Downsides of capital account convertibility –

I. While during good times, investment flow into the country, in times of financial crisis, unchecked outflows may lead to destabilization of economy and developing countries cannot handle such shocks. Crisis in Asian economies – called Asian Tigers – is one of the burning example.

II. It also means that country might lose domestic saving as individual might want to invest in foreign markets.

Preconditions of CAC (as per Tarapore Committee) -

I. Reduced Fiscal Deficit – 3.5% (currently at 4.7%, 2014 budget)

II. Reduced Inflation – 3-4% (averaged 7-8% during past few years)

III. Strengthen Financial System – Deregulate interest rates, consolidate banking industry, reduce CRR requirements

IV. RBI should have more liberty to intervene

V. Distinction between NRIs and Foreigners be narrowed down

VI. Liberate equity market, but ban PNs (PNs are transferable but their source is unknown)

VII. Discriminatory treaties should be done away with.

CAPITAL BUDGET – Budget has two components – revenue budget and capital budget. The capital budget is different from the revenue budget as its components are of a long-term nature. Revenue receipts include receipts from taxes and non-tax sources. Revenue expenditures are those which don't create any assets. The capital budget consists of capital receipts and payments. Capital receipts are government loans raised from the public, government borrowings from the Reserve Bank and treasury bills, loans received from foreign bodies and governments, divestment of equity holding in public sector enterprises, securities against small savings, state provident funds, and special deposits. Capital payments are capital expenditure on acquisition of assets like land, buildings, machinery, and equipment. Investments in shares, loans and advances granted by the central government to state and union territory governments, government companies, corporations and other parties.

CAPITAL GAINS TAX – A capital gains tax (CGT) is a tax on capital gains, the profit realized on the sale of a non-inventory asset that is purchased at a cost amount lower than the amount realized on the sale. The most common capital gains are realized from the sale of stocks, bonds, precious metals and property. For short term gains it is 15%, for long term gains it is 20% in India. It was in news in Vodafone Tax dispute case as government accused Vodafone deal of Hutch as evading capital gains tax.

CASH BASED ACCOUNTING SYSTEM and ACCRUAL BASED ACCOUNTING SYSTEM – The Indian Government accounts are prepared on a cash based accounting system. This system recognizes a transaction when cash is paid or received. However it does not give a realistic account of government's financial position because it lacks an adequate framework for accounting for assets and liabilities, and depicting consumption of resources. Moreover capital expenditure (expenditure on the creation of new assets) under the cash system is brought to account only in the year in which a purchase or disposal of an asset is made. This is not an effective way to track assets created out of public money. The present system does not reflect accrued liabilities arising from the gap between commitments and transactions of government on the one hand and payments made. The Twelfth Finance Commission recommended introduction of accrual accounting in Government. Government has accepted the recommendation in principle and asked Government Accounting Standards Advisory Board (GASAB) in the office of the Comptroller and Auditor General of India to draw a roadmap for transition from cash to accrual accounting system and to prepare an operational framework for its implementation. So far twenty one State Governments have agreed in principle to introduce accrual accounting.

CECA and CEPA – **CECA** stands for Comprehensive Economic Cooperation Agreement while **CEPA** is an acronym for Comprehensive Economic Partnership Agreement. Both CECA and CEPA are forms of economic agreements between India and other countries such as Malaysia, Singapore, and Thailand (for CECA) and Japan, Sri Lanka, and South Korea (for CEPA).From the actual name itself, the most obvious difference is the use of the word ‘cooperation’ in the former and 'partnership' on the latter. 'Cooperation' denotes a loose connection between two countries while the word 'partnership' denotes a more personal and more intense relationship between the parties. CECA is mainly concerned with tariff reductions and the elimination of all items that are considered to be listed tariff rate quota items. On the other hand, CEPA has the same components of CECA with an additional focus and options in the terms of trade investments and services. In looking at the big picture, CEPA is much broader and more complicated compared to CECA. In a comparable economic standing, CECA is considered as the first step or a stepping stone to accomplish CEPA. If negotiations can still be conducted between countries, and both parties are open to discussion and have a good economic relationship with each other, CECA can evolve into CEPA. This makes CEPA a result of on-going efforts and negotiations of two countries that started from CECA.

CENTRAL PLAN ASSISTANCE – Financial assistance provided by Government of India to support State's Five Year/intervening annual plans is called Central Plan Assistance (CPA) or Central Assistance (CA). CPA or CA primarily comprises of the following –

I. Normal Central Assistance (NCA): The distribution of the NCA is formula based (*Gadgil-Mukherjee Formula*) and is untied. Gadgil Formula of determining the Central Assistance to the State is being adopted from the 4th five year plan and revised subsequently.

II. Additional Central Assistance (ACA): This is provided for implementation of externally aided projects (EAPs), and for which presently there is no ceiling. Unlike NCA, this is Scheme based. These are one time assistance and thus not recurring. These assistances are discretionary in nature.

III. Special Central Assistance (SCA), which is provided for special projects/Programs e.g., Western Ghats Development Program, Border Areas Development Program etc. (In exceptional situations, Advance Central Assistance, may also be provided.) This special plan assistance is given only to *special category states* to bridge the gap between their Planning needs and resources. In other words, SPAs are ACA to special category States.

CPA is provided, as per scheme of financing applicable for specific purposes, approved by Planning Commission. It is released in the form of grants and/or loans in varying combinations, as per terms & conditions defined by Ministry of Finance, Department of Expenditure.

CENTRALLY SPONSORED SCHEME (CSS) – In India's developmental plan exercise we have two type of schemes viz; central sector and centrally sponsored scheme. The nomenclature is derived from the pattern of funding and the modality for implementation. Under Central sector schemes, it is 100% funded by the Union government and implemented by the Central Government machinery. Under Centrally Sponsored Scheme (CSS) a certain percentage of the funding is borne by the States in the ratio of 50:50, 70:30, 75:25 or 90:10 and the implementation is by the State Governments. Centrally Sponsored Schemes are *formulated in subjects from the State List* to encourage States to prioritize in areas that require more attention. Funds are routed either through consolidated fund of States and or are transferred directly to State/ *District Level Autonomous Bodies* (like DRDA)/Implementing Agencies. Some of the limitations with CSS are –

- The Centrally Sponsored Schemes (CSS) do not fall within the subjects allocated to the Union Government in List I of the Seventh Schedule of the Constitution. However, they are funded by the Union Government for developmental process. So, their conception is faulty and the funds should be directly given to the respective state governments or the panchayats.
- Most of the schemes exist in silos planned without any horizontal or vertical integration, resulting in multiple sectoral district plans, unrelated to each other, often mutually conflicting.
- The schemes are often rigid and do not provide flexibility required for adaptation to local needs.
- Professional support is quite weak as not much attention is paid to this aspect.
- Most of the CSS remain expenditure oriented.
- No mechanism for tracking funds. Funds released from ministry are treated as expenditure even if it may be lying in bank accounts of the implementing agency.

- Most of CSS deal with matters earmarked for Panchayats and yet PRIs are not integrated well into the schemes.
- Often independent structures are created for each scheme resulting in a multiplicity of delivery structures. No attempt is made to leverage PRIs or previous structures.

CHIT FUNDS – Chit funds are essentially saving institutions. They are of various forms. Chit Funds activity involves contributions by members in instalments by way of subscription to the Chit and by rotation each member of the Chit receives the chit amount. The subscriptions are specifically excluded from the definition of deposits and cannot be termed as deposits. While Chit funds may collect subscriptions as above, they are prohibited by RBI from accepting deposits with effect from August 2009. The beneficiary is selected usually on the basis of bids or by draw of lots or in some cases by auction or by tender. Chit fund business is regulated under the Central Act of Chit Funds Act, 1982. However, prized chits scheme are banned under **Prize Chits and Money Circulation Schemes (Banning) Act, 1978.** Functionally, Chit funds are included in the definition of Non- Banking Financial Companies by RBI under the sub-head miscellaneous non-banking company (MNBC). But RBI has not laid out any separate regulatory framework for them.

CORE INFLATION (Also called UNDERLYING INFLATION or NON-FOOD INFLATION) – Core inflation or Non-Food Inflation is a measure of inflation which *excludes certain items that face volatile price movements, notably food and energy.* On the other hand, *Headline Inflation* includes prices of volatile items like energy and food and in India is measured by WPI taking into account all types of inflation.

COUNTERVAILING DUTIES – Countervailing duties (CVDs), also known as anti-subsidy duties, are *trade import duties imposed under World Trade Organization (WTO) Rules to neutralize the negative effects of subsidies*. They are imposed after an investigation finds that a foreign country subsidizes its exports, injuring domestic producers in the importing country.

CROWDING OUT – The effect that an *increase in one kind of spending can have* *in reducing another kind of spending*. Most frequently mentioned is the effect of an increase in government spending on investment, which falls when an increase in the budget deficit drives up the interest rate. In economics, crowding out is any reduction in private consumption or investment that occurs because of an increase in government borrowing (due to increased deficit). If an increase in government spending and/or a decrease in tax revenues leads to a deficit that is financed by increased borrowing, then the borrowing can increase interest rates, leading to a reduction in private investment. Thus, *increased fiscal deficit crowds out Investment*.

CURRENCY SWAP – A currency swap is a foreign-exchange agreement between central banks of two countries whereby *they each agree to lend their currency to the other*. Currency swaps have two main uses –

I. *To secure cheaper debt* (by borrowing at the best available rate regardless of currency and then swapping for debt in desired currency using a back-to-back-loan).

II. To hedge against (reduce exposure to) *exchange rate fluctuations.*

CURRENT ACCOUNT– *The difference between a nation's total exports of goods, services and transfers, and its total imports of* them. Current account balance calculations exclude transactions in financial assets and liabilities. More Precisely, the current account is the sum of –

I. The balance of trade (exports minus imports of goods and services),

II. Net factor income (such as wages, interest and dividends) and

III. Net transfer payments (such as foreign aid, grants)

CYCLICAL UNEMPLOYMENT–The portion of unemployment that is due to the business cycle and *thus rises in recessions but then disappears eventually after the recession ends.*

DEPRESSION and RECESSION and SLOWDOWN and MELTDOWN – When an economy slows down it is said to be in a condition of '**Slowdown'**. Rate of GDP growth moderates, but is not negative.

When GDP of a country continues to decline and growth rate of *GDP goes into negative* for a few quarters then it is said to be in '**Recession'**. The traditional definition of a recession is when the GDP rate of growth is negative for two quarters in a row. GDP falls in absolute terms. '**Depression'** is more severe and my last longer. It is much widespread even of global proportion while recession may hit even a single country. In depression, real GDP contracts more than 10% and lasts longer than 3 years. A depression is loosely defined as a severe recession. Last big depression was of 1937-38.**Meltdown** is related to sharp fall in stock market.

DEVALUATION OF CURRENCY– A devaluation is when a country makes a conscious decision to lower its exchange rate in a fixed or semi fixed exchange rate. Therefore, technically a devaluation is only possible if a country is a member of some fixed exchange rate policy. While, **Depreciation** of a freely floating currency is controlled by the international currency rates based on the international stock market indicators; and **devaluation** is controlled by the central banks which force exchange rates that devalue the currency. Devaluation in India was resorted for the first time in **1966** to limit imports and push exports and hence create a favorable balance of trade. Effects of Devaluation –

I. First, devaluation makes a country's exports relatively less expensive for foreigners (so demand for exports will go up)

II. Second, it makes foreign products relatively more expensive for domestic consumers (so demand for imports will come down), discouraging imports.

III. As a result, this may help to reduce a country's trade deficit.

DIRECT TAX CODE - Direct tax code was brought out in 2010, which seeks to amend direct tax laws as well as merging the 1957-wealth tax act and 1961- income tax act under a single unified schedule to ensure simplification as well as uniformity in the tax reporting and tax compliance. Some of the other features are –

 Tax on wealth at the rate of 0.25% per year for the wealth amounting more than 50 crores.

- The DTC simplifies the complex taxation system and would lead to increase in the direct tax to GDP ratio.
- It shall increase tax compliance due to widening of tax base.

DISGUISED UNEMPLOYMENT –When more people are engaged in some activity than the number of person required for that, this is called disguised unemployment .It is similar to underemployment. It is most prevalent in agriculture sector.

DISPOSABLE INCOME– Disposable income is total personal income minus personal current taxes. Personal DI = Personal Income – Tax Expenses – Non tax expenditures (fees, government bills etc)

DISTRESS MIGRATION is the large scale exodus of poor agricultural or landless laborers, especially in the productive age of 26-60 years, from villages to urban areas, in search of all the year round work, health facilities and over all a better standard of living. Stagnation in Indian agriculture and lack of amenities in the rural areas are leading to it.

DOUBLE TAXATION AVOIDANCE AGREEMENT–Agreement under which out of two nations, a person making a transaction or on income, pays tax only in one of them. India has comprehensive Double Taxation Avoidance Agreements (DTAA) with 79 countries. This means that there are agreed rates of tax and jurisdiction on specified types of income arising in a country to a tax resident of another country.

Mauritius as reason for companies' destination: A large number of foreign institutional investors who trade on the Indian stock markets operate from Mauritius. According to the tax treaty between India and Mauritius, capital gains arising from the sale of shares are taxable in the country of residence of the shareholder (and not in the country of residence of the company whose shares have been sold). But there is no capital gains tax in Mauritius. Therefore, a company resident in Mauritius selling shares of an Indian company will not pay tax in India. Since there is no capital gains tax in Mauritius, the gain will escape tax altogether.

ECONOMIC OFFENCES and LAWS – Economic offences form a separate category of crimes under *Criminal* *offences*. These are often referred as White Collar crimes. Economic offences not only inflict pecuniary losses on individuals but also damage the national economy and have security implications as well. The offences of Smuggling of Narcotic substances, Counterfeiting of currency and valuable securities, Financial Scams, Frauds, Money Laundering, Hawala Transactions etc. Various legislations to deal with such offences are –

I. Income Tax Act

II. Narcotic Drugs and Psychotropic Substances Act

III. Central Excise Act

IV. Customs Act

V. Banking regulation Act

VI. Prevention of Corruption Act

EFFECTIVE REVENUE DEFICIT – It is a new term introduced in the Union Budget 2011-12. While revenue deficit is the difference between revenue receipts and revenue expenditure, the present accounting system includes all grants from the Union Government to the state governments/Union territories/other bodies as revenue expenditure, even if they are used to create assets. 'Effective revenue deficit' excludes those revenue expenditures (or transfers) in the form of grants for creation of capital assets.

ENGEL CURVE – An Engel curve describes *how household expenditure on a particular good or service varies with household income.* A good's Engel curve reflects its income elasticity and indicates whether the good is an 'inferior', 'normal', or luxury good.

EXCLUSIV ECONOMIC ZONE – EEZ – Under the UN Convention on Law of the Sea, an exclusive economic zone (EEZ) is a seazone over which a state has special rights over the exploration and use of marine resources. It stretches from the seaward edge of the state's territorial sea out to 200 nautical miles from its coast. India recently requested UN to expand this area to 350 Nautical miles (which is the maximum limit as well).

EXIM BANK– An Exim bank provides finances/credit to facilitates mainly exports and also imports. The Export-Import (EXIM) Bank of India is the principal financial institution in India for *coordinating the working of institutions engaged in financing export and import trade*. It is a statutory corporation wholly owned by the Government of India. The main functions of the EXIM Bank are as follows –

I. Financing of exports and imports of goods and services, not only of India but also of the third world countries;

II. Financing of joint ventures in foreign countries;

III. Providing loans to Indian parties to enable them to contribute to the share capital of joint ventures in foreign countries;

IV. To provide technical, administrative and financial assistance to parties in connection with export and import.

FDI and FII – FDI is relatively durable investment and is a long term investment in actual capital creation in form of brick and mortar investment in tangible assets. FII on the other hand is investment in secondary market like stocks and share and is through institutional channels like stock markets. RBI, FIPR and DIPP are three core bodies which oversee and approve FDI entry into India. FII on the other hand are regulated by SEBI and other institutions. FDI brings technology, skills and long terms capital which creates capacity in an economy. FDI helps to relax domestic savings gap. It provides equity financing and additional capital. FIIs also help in bringing international best practices into domestic institutional and legal framework. They also increase depth of the market, help lower capital costs. However, FIIs are more volatile in nature and can leave in situation of distress in market and can make financial situation even more acute at the time of trouble and hence can lead to financial instability in economy as well as it happened during time of global financial crisis. However, FDI in India too has certain limitations of its own. FDI in the past has been capital intensive and not labour intensive. Foreign companies tend to use more technology to retain their competitiveness and flexibility than go for hiring more workers. Further target of investors is also selective.

FINANCIAL INCLUSION – Financial inclusion is the delivery of financial services to disadvantaged and low income sections of society at the affordable prices. It is the progressive step by the govt. to include very poor people in the process of development so that it can be made more meaningful. General credit card facility and no frills accounts are some steps in this direction. Currently only 5.2% of the Indian villages have a bank branch and 40% of Indians only have a bank account. Schemes like Swabhiman, Lead Bank Scheme, Mobile Banking etc can help in spreading financial inclusion. RBI has asked banks to open Brick and Mortar branches, employee Business Correspondents and mobile branches to increase penetration in rural areas.

FISCAL CONSOLIDATION – Fiscal consolidation is a policy aimed at reducing government deficits and debt accumulation.

FISCAL DEFICIT– When a government's total expenditures exceed the revenue that it generates (excluding money from borrowings). Deficit differs from debt, which is an accumulation of yearly deficits. Broadly, part of fiscal deficit that finances revenue deficit is considered regressive, while the one that finances Capital Deficit/Expenditure is considered progressive. Fiscal Deficit is expressed as sum of – Budgetary Deficit + Borrowing. It indicates total borrowing requirements of government from all resources. In a situation when fiscal deficit rises, the government has to borrow more in order to meet its spending requirement. *High government borrowings crowd out credit for the private sector and also leads to more inflation as often central bank prints more money and it leads to excess money supply*. Deficit increases in a recession and falls in a boom, even with no change in fiscal policy.

Ways to reduce deficit

I. One way can be by selling its assets. This in India is largely done by making **disinvestment in PSUs**

II. Secondly by cutting expenditures. In India, reduction in **subsidy bill** is said to be one of the solutions to the problem. Various measures like Cash Transfers, Nutrients Based Subsidy etc have been taken to lower the subsidy burden.

III. Finally by increasing revenues.

Consequences of government debt or fiscal deficit – By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes. These may be levied on the young population that have just entered the work force, whose disposable income will go down and hence consumption. Thus, national savings, it was argued, would fall.

FISCAL EXPANSION or EXPANSIONARY FISCAL POLICY –Expansionary fiscal policy *involves government spending exceeding tax revenue, and is usually undertaken during recessions*. Hence, a **tight fiscal policy** means revenues exceeding expenditure and is used when fiscal deficit is high or inflation is high and is usually undertaken to pay down government debt).

FISCAL STIMULUS– Government measures, normally involving increased public spending (when private spending goes down) and *lower taxation*, aimed at giving a positive jolt to economic activity.

FOOT LOOSE INDUSTRIES– Footloose industry is a general term for an industry that can be placed and located at any location without effect from factors such as resources or transport. Diamonds and computer chips are some examples of footloose industries. These industries can be located at a wide variety of places as these are not weight losing, bulky or raw material specific. Moreover, they produce in relatively small quantities, employing smaller workforce and are considered to be more efficient from an ecological point of view.

FOREX RESERVES–Foreign Exchange Reserves are –external assets (like reserve currencies like *USD, Euro etc, gold* or *SDRs*) that are readily available to and controlled by monetary authorities (RBI in case of India) for direct financing of external payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes. FDI, Remittance, FIIs, Exports etc are sources of forex reserves.

Why forex reserves

I. Balance of Payment Issues – To intervene at time of BoP crisis and to cover 'deficit' arisen out of exchange rate fluctuation in the Balance of Payments

II. Exchange Rate Manipulation.

III. Mode of Payment for Imports and other financial transactions – Oil etc

Why not forex reserves

I. Forex reserves are considered as sterile as they **earn very low interest rates**. Even RBI has raised this issue. On one hand we are servicing our debt at high interest rates, on the other hand we are hoarding huge reserves which are giving abysmal returns. Otherwise forex reserves can be used for developmental activities. There has been example of countries like Singapore which has a dedicated investment arm to look into investment opportunities for the forex.

II. *Major argument against steps as above is that a major chunk of forex is constituted by the hot money so any such move to deploy forex reserves is risky.*

FRICTIONAL UNEMPLOYMENT – Frictional unemployment is the time period between jobs when a worker is searching for, or transitioning from one job to another or due to skill mismatch or place mismatch etc. It is always present in an economy.

GAAR – Tax Avoidance is an area of concern across the world. The rules are framed in different countries to minimize such avoidance of tax. Such rules in simple terms are known as 'General Anti Avoidance Rules' or GAAR. Thus, GAAR is a set of general rules enacted so as to check the tax avoidance. It empowers the Revenue Authorities in a country to deny the tax benefits of transactions or arrangements which do not have any commercial substance or consideration other than achieving the tax benefit. GAAR is likely to put a curb on use of Tax Havens and Round Tripping. These rules are likely to come into force in India in 2016. However, it is considered to be too sweeping in nature and there was a fear (considering poor record of tax authorities in India) that Assessing Officers will apply these provisions in a routine manner (or read misuse) and harass the general honest tax payer too. So, it was felt that there is a need for further legislative and administrative safeguards and at least a minimum threshold limit for invoking GAAR should be introduced so that small time tax payers are not harassed. As a result, an Expert Committee headed by Dr **Parthasarathi Shome** (*to give recommendations on the reforms in tax administration*) was set up to suggest recommendations. Most of these recommendations have been accepted – except the one regarding retrospective transaction – by the government, albeit some with modifications. Committee has also asked for merging CBDT and CBEC to increase the coordination between both the authorities and recommend for a governing council headed by a chairman which was decided on the **rotation** basis from both authorities. To make the transactions more transparent and increase the clarity , committee recommended for use of PAN as a common business identification number to be used in all the government departments. Wealth tax should be collected along with income tax is another recommendation to make the tax system more simple.

GDP and ITS CALCULATION in INDIA - GDP is calculated in 3 different ways. Income based, consumption based, production based. In India all three methods are used but predominantly production based method is used. It is calculated by the amount of goods and services produced in the country. GDP data are released in India by Central Statistical Organization. Currently the CSO sources goods data from IIP and services data from RBI to arrive at quarterly GDP figures.

GENDER BUDGETING– Gender budgeting is an exercise to translate the stated gender commitments of the government into budgetary commitments, involving special initiatives for empowering women and examination of the utilization of resources allocated for women and the impact of public expenditure and policies of the government on women. It started in India in 2000.

GILT EDGED SECURITIES or G-Sec or GOVERNMENT SECURITIES– Gilts are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are called gilt-edged securities, or gilts for short. Government securities are risk free and offer reasonable returns. *That's the reason that they are also part of the portfolio of mutual funds to hedge risk.*

Characteristics of G-Sec Market –

I. Investors are largely institutions which have obligations to buy these securities

II. Other institutions like mutual funds also buy these to hedge risk

GINI COEFFICIENT – It is a measure of inequality usually calculated on the basis of Lorenz curve. The Gini coefficient can range from 0 to 1. 1 means absolute inequality. For India it is around .37.

GREEN BOX and BLUE BOX SUBSIDIES – Under WTO' Uruguay Round negotiation on Agriculture, subsidies are classified as being provided for either export or for domestic use. **Green Box Subsidies** are *Non-trade Distorting Subsidies* and are permissible under WTO regime. They are exempted from reductions. These are mainly payments to producers for environmental programmes so long as it doesn't affect current production (only creates future capacity), training, marketing information, infrastructure etc. However, they also form the highest portion of subsidies given by developed countries to their farmers. USA gives 33% of the agriculture GDP as green box subsidies, Japan gives 25%. India gives a measly 2%. **Blue Box Subsidies** are a special category of subsidies permitted under the WTO Agriculture Agreement, it includes payments that are linked to production but with provisions to limit production through production quotas or requirements to set aside land from production. It is an exemption from the subsidy reduction rule but it has an upper limit. The main aim is to sustain cheap imports needed by trans-national agriculture businesses. There is other category of Domestic subsidy called **Amber Box** subsidies, which are considered as trade distorting and are required to be reduced. It is stated as Aggregate Measurement of Support (AMS) and includes all specific support + non specific support. Specific support is the difference between domestic procurement prices and international prices. Non specific support covers all input subsidies. AMS has to be reduced by 20% for developed countries over a period of 6 years while developing countries were required to reduce total AMS by 13% over a period of 10 years. While there is a category under **Red Box** that is prohibited. However, post Uruguay round in *developed countries Green Box subsidies increased substantially and no longer remained non-trade distorting as proved by many*. Apart from these, there is also a guideline of having maximum level of subsidies – ***De-Minimus Level of Subsidy***. Policies with AMS less than 5% of value of agricultural production for developed countries and less than 10% of value of agricultural production for developing countries are exempted from reduction commitments. India is currently exempted, but with its new food security law in full operation, it may not be.

GREEN GDP – Green GDP is a term used generally for expressing GDP after adjusting for environmental damage.

GROSS BUDGETARY SUPPORT – The Government's support to the Central plan is called the Gross Budgetary Support. The GBS includes the tax receipts and other sources of revenue raised by the Government. In the recent years the GBS has been slightly more than 50% of the total Central Plan.

GROSS DOMESTIC SAVINGS and GROSS DOEMSTIC CAPITAL FORMATION – Gross Domestic Saving is equivalent to saving by private households plus savings by Private Corporate Sector and by Public Sector. GDS = Household Savings + Private Corporate Sector Savings + Public Sector Savings. In India, Gross Domestic savings have increased significantly over the years from less than 10% at the time of independence to more than 33% in 2011-12. Out of these, contribution of household sector is highest which is more than 24% of GDP. Household Sector Savings are of two types – Financial Savings (NSC, FD, Currency, Shares, Life Insurance and Provident Fund etc – it was mainly facilitated by expansion of banking services and mobilization by LIC etc) and Physical Savings (like House, Real Estate, Equipments etc). *Savings done by one sector – say household sector – are not necessarily utilized by the same sector and may be utilized by another sector – say private sector. It is reflected in Gross Domestic Capital Formation or 'Investment' in an Economy. It grows as savings grow.*So, 'Gross Domestic Savings' are an important component of 'Gross Domestic Capital Formation' and hence overall Growth in a country – higher the savings and capital formation rates, higher the growth. Other component is 'Foreign Capital Inflows (in form of FDI etc)'.i.e. GDCF = GDS + FCI.

GST – It will replace multiple state and central levies such as excise, service tax, value added tax and entry tax and create a national market while lifting GDP by 1-2 percentage points. The constitutional amendment that will allow states to tax services and the centre to collect taxes on goods from retail establishments**.**

HEADLINE INFLATION or WPI – It is the most commonly used measure of inflation in India. It is a measurement of price inflation that takes into account all types of inflation that an economy can experience. *Food items have a much larger weight in the CPI vis-à-vis the WPI.* Unlike **Core Inflation**, headline inflation *also counts changes in the price of volatile items like food and energy*. In India it is also referred to as 'WPI'. In India, WPI data is divided into three broad groups (weightage given in brackets) – Primary Articles (20.12) – This is primary (not manufactured) food items related inflation; Fuel Group (14.91); Manufactured Products (64.97) (If we remove Food product inflation associated with manufactured items, we get 'Core Inflation' or 'Non Food' Inflation). The WPI index does not cover non-commodity producing sectors viz. services and non-tradable commodities. (That's why it's also accused of not representing the total spending of a consumer and hence actual impact of rise in prices on consumer). Apart from CPI and WPI, another measure to measure inflation is GDP Deflator (It is the most comprehensive out of the three measures). But it is released only once in 3 months.

Why WPI as a measure of inflation in India?

I. It is released more frequently (every 2 weeks) so policy analyst can use it more conveniently as CPI is available on a gap of 1 month. However from January 2012, this practice of weekly/bi-weekly release of data was abandoned and frequency of WPI data too was fixed as 1 month as there was considerable statistical aberrations.

II. Further, WPI is more comprehensive in terms of its coverage.

Shortcomings of WPI as a measure of inflation –

I. It excludes services which today form a major chunk of expenditure of a household

II. It also excludes the products of the unorganized sector that are estimated to constitute about 35% of the total manufactured output of the country

III. It measures prices at wholesale level, hence doesn't reflect the final prices

Inflation reduces savings, pushes up interest rates, dampens investment and leads to depreciation of currency thus making imports costlier. Inflation can be demand pull, cost push or structural inflation.

Depending upon the rate of growth of prices, inflation can be of following types:

I. **Creeping inflation**– It is a rate of general price increase of 1-5% a year. It erodes the purchasing power of money when continued for many years but it is manageable. Furthermore, a low creeping inflation could be good for the economy as producers and traders make reasonable profits encouraging them to invest.

II. **Trotting inflation** – It is 5-10% annual rate of increase in the general level of prices,that if not controlled,might accelerate into a galloping inflation.

III. **Galloping inflation**– It is 10-20% a year. If it aggravates it can worsen to **runaway inflation** which may change into a hyperinflation.

IV. **Hyperinflation**–A monthly inflation rate of 20-30% or more. It is a condition in which prices increase rapidly as a currency loses its value.

V. The worst is the **monetary collapse**, if prices are not reined in time.

Measures to control inflation

I. Fiscal Measures – Reduced import duties; Deficit reduction

II. **Administrative and Policy Measures** – Ban on Export of certain Essential Commodities, Suspension/Ban on future trading of certain commoditities, Boost domestic production by increasing output, dual pricing of goods, prevention of black marketing and hoarding, fixing maximum prices for goods

III. **Monetary Measures** – Liquidity Adjustment Facility (LAF), Open market Operations, Call Money Market

IV. Long term measures like improving supply of goods

CPI and WPI –

 CPI also includes fewer items

 WPI doesn't include services

 WPI is published by Commerce Ministry, but CPI is published by Statistics Ministry

 A major reason for the divergence between the CPI and the WPI is the former's higher weight on food items

 RBI has recently moved toward CPI as prime inflation number as it is generally higher and reflect more realistic impact on consumer. Global practice is also the same.

HINDU RATE OF GROWTH– The Hindu rate of growth is a controversial and derogatory expression used to refer to the low annual growth rate of the economy of India before 1991, which stagnated around 3.5% from 1950s to 1980s, while per capita income growth averaged 1.3%. The term was coined by economist Raj Krishna.

ICOR – Incremental Capital Output Ratio – A metric that assesses the marginal amount of investment capital necessary for an entity to generate the next unit of production. Overall, a higher ICOR value is not preferred because it indicates that the entity's production is inefficient. The measure is used predominantly in determining a country's level of production efficiency. ICOR is calculated as: Annual Investment/Annual Increase in GDP.

IMPORT PARITY PRICE – This was in news due to the price hike in petrol by Oil Marketing Companies. It is argued that they use Import Parity Pricing principle to show 'under-recovery'. Under recovery are a form of losses that OMCs suffer *due to the difference between the IPP and the Actual prices in India.* This approach doesn't represent actual losses because of the losses being notional and not real at times. This is highlighted by the fact that despite under-recoveries, OMCs make huge profits.

INTEGRATED TRANSPORT SYSTEM – Integrated transport system refers to a multi-modal transport smooth movement of freight over various modes of transport like roads, railways, ports, coastal shipping, inland water and civil aviation.

INVERTED DUTY STRUCTURE – Under this finished goods are taxed lower than raw material such as components. Due to this, component import becomes expensive. This is also one of the reasons that India imports more electronics than are locally made.

LAFFER CURVE – It is the representation of the relationship between possible rates of taxation and resulting levels of government revenue. It illustrates the concept of taxable income elasticity i.e. the taxable income will change in response to changes in the rate of taxation. Its application was proven in 1991 when India liberalised its economy.

LEAD BANK – The scheme was first introduced in 1960s in India. The scheme aimed at nominating some banks in each district as lead banks and these will coordinate the credit activities of all the financial institutes like cooperatives, commercial banks etc to promote financial inclusion. The LBS has been able to achieve great success in the rural areas, and also it has aided in building up a cadre of Bank Officers devoted to Rural Banking. Later **Service Area Approach** was adopted in 1989 similar to Lead Bank Scheme under which a specific area was allotted to a bank. It aimed at de-duplication of efforts and lending. It allowed organized lending instead of scattered lending. However due to issues like basis of allocation of service area, under-utilization of staff etc led to collapse of scheme.

LENDER OF LAST RESORT–An institution, usually a country's central bank, that offers loans to banks or other eligible institutions that are experiencing financial difficulty or are considered highly risky or near collapse. In India RBI performs the same task.

LIMITATIONS of BENEFIT CLAUSE - LoB is an anti-abuse provision that restricts eligibility criteria for third country (other than the contracting States) residents to obtain benefits under a Double Taxation Avoidance Agreement (DTAA). This ensures that the benefit of lower withholding tax rate is given to genuine tax residents of a contracting state. The introduction of LoB provisions in recent Indian treaties, as in India's treaty with Singapore recently, demonstrates a policy to discourage treaty shopping — where a multinational business takes advantage of favourable tax treaties in certain jurisdictions.

LIQUIDITY ADJUSTMENT FACILITY – Use of Reverse Repo and Repo Rates by RBI to adjust the amount of liquidity in the banking system is termed as the Liquidity Adjustment Facility. This is one of the major tool of monetary control. (Others are Open Market Operations and Call market).

MARGINAL WORKERS – Marginal workers were those who worked any time at all in the year preceding the enumeration but did not work for a major part of the year, i.e., those who worked for less than 183 days. 'Main workers' work for more than 183 days.

MARGINAL STANDING FACILITY RATE – MSF is the rate at which banks can borrow overnight from RBI.

This was introduced in the monetary policy of RBI for the year 2011-2012. The MSF is pegged 100bps or a % above the repo rate. Banks can borrow funds through MSF when there is a considerable shortfall of liquidity. This measure has been introduced by RBI to regulate short-term asset liability mismatches more effectively.

MIS-SELLING broadly means unfair or fraudulent practices in soliciting or selling (insurance) policies mostly of third party not sought by the customer. It generally means the bank has sold products to customers which is different from what they wanted or bank promised. In past few years there is a rising number of mis-selling by banks which could effect the consumer's confidence in insurance products, not good for tapping savings for long term investments for the economy.

MOST FAVORED NATION – Most Favoured Nation (MFN) is a status or level of treatment accorded by one state to another in international trade. This means that there are special tariffs and import-export relaxations like replacement of 'Positive List' of tradable items with a negative list etc. The members of the World Trade Organization (WTO) agree to accord MFN status to each other. MFN is one of the cornerstones of WTO trade law.

MPI – The Multidimensional Poverty Index (MPI) was developed in 2010 by Oxford Poverty & Human Development Initiative and the United Nations Development Program and uses different factors to determine poverty beyond income-based lists. Multidimensional Poverty Index is an improvement over the earlier used human poverty index. MPI indicates the number of people who are multi dimensionally poor. By multidimensional, we mean that there are many indicators, a total of 10 in number, with respect to which the deprivations are considered. One is said to be multi dimensionally poor if one is suffering from deprivations in at least one third of these 10 weighted indicators – Child mortality, Health and nutrition, Education, Standard of living, Cooking fuel, Toilet, Water, Electricity, Floor, Assets etc.

MULTIPLIER EFFECT – The expansion of a country's money supply that results from banks being able to lend. The size of the multiplier effect depends on the percentage of deposits that banks are required to hold as reserves. In other words, it is money used to create more money and is calculated by dividing total bank deposits by the reserve requirement.

MUTUAL FUND– A mutual fund is a type of 'professionally-managed' 'collective investment' scheme that pools money from many investors to purchase 'securities' (i.e. to invest in stock markets and other securities like government securities, NSC etc).In India, they are regulated by SEBI. They are established as 'Trusts' and are managed by a separate Asset Management Company in India.

NAMA - Non-Agricultural Market Access (WTO Doha rounds) – NAMA refers to all products not covered by the Agreement on Agriculture. In other words, in practice, it includes manufacturing products, fuels and mining products, fish and fish products, and forestry products. They are sometimes referred to as industrial products or manufactured goods. Over the past years, NAMA products have accounted for almost 90% of the world trade.

NATIONAL COMMON AGRICULTURE MARKET – It was proposed by the government to do away with inefficiencies of current APMC Act and the associated market mechanism. Its primary objective was to curb food inflation by curbing the issues related to food shortages due to lack of interconnectedness of markets. Existing mechanisms divide the country into smaller markets it creates artificial price differential across states.

NATIONAL INVESTMENT FUND – The cabinet Committee on Economic Affairs (CCEA) on 27th January, 2005 had approved the constitution of a National Investment Fund (NIF). The Purpose of the fund was to receive disinvestment proceeds of central public sector enterprises and to invest the same to generate earnings without depleting the corpus. The earnings of the Fund were to be used for selected Central social welfare Schemes. This fund was kept outside the consolidated fund of India.

NEW ECONOMIC POLICY – In 1991, India met with an economic crisis relating to its external debt – the government was not able to make repayments on its borrowings from abroad; foreign exchange reserves, which we generally maintain to import petrol and other important items, dropped to levels that were not sufficient for even a fortnight! (*The crisis was further compounded by rising prices of essential goods*).Major cause of the situation was continued deficit financing. In the late 1980s, government expenditure began to exceed its revenue by such large margins that meeting the expenditure through borrowings became unsustainable.Also no country or international funder was willing to lend to India. India approached the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and the International Monetary Fund (IMF), and received $7 billion as loan to manage the crisis. For availing the loan, these international agencies expected India to liberalize and open up the economy by removing restrictions on the private sector, reduce the role of the government in many areas and remove trade restrictions between India and other countries. India agreed to the conditionalities of World Bank and IMF and announced the **New Economic Policy** (NEP).

NON-COMPETE CLAUSE – The non-compete clause is a standard feature of mergers-acquisitions. This clause restricts a party from competing with a business after termination of employment or completion of a business sale for a fixed time. This duration of fixed period can be different from one agreement to another.

NON-PLAN EXPENDITURES – Non-Plan expenditure is a generic term, which is used to cover all expenditure of Government not included in the Plan i.e. expenditure, which does not come under the purview of the Planning Commission is called non-plan expenditure. It may either be revenue expenditure or capital expenditure. Part of the expenditure is obligatory in nature e.g. *interest* *payments, pensionary charges* and statutory transfers to State and Union Territory Governments. A part of the expenditure relates to essential functions of the State, e.g. defense, internal security, external affairs and revenue collection. Subsidies are also part of Non-Plan expenditure. Government decided to cut non-plan expenditure in wake of slowing economy.

NON TARRIFF TRADE BARRIERS – Non-tariff barriers to trade (NTBs) are trade barriers that restrict imports but are not in the usual form of a tariff. Some common examples of NTB's are anti-dumping measures and countervailing duties, sanitary and phytosanitary requirements, quotas, Import Licensing requirements, Minimum import price limits, Embargoes, Standards disparities, Administrative fees which, although they are called "non-tariff" barriers, have the effect of tariffs once they are enacted. Their use has risen sharply after the WTO rules led to a very significant reduction in tariff use. Some non-tariff trade barriers are expressly permitted in very limited circumstances, when they are deemed necessary to protect health, safety, or sanitation, or to protect depletable natural resources. In other forms, they are criticized as a means to evade free trade rules such as those of the World Trade Organization (WTO), the European Union (EU), or North American Free Trade Agreement (NAFTA) that restrict the use of tariffs.

OFFSHORE FINANCIAL CENTRES – An offshore financial centre (OFC), though not precisely defined, is usually a small, low-tax jurisdiction specializing in providing corporate and commercial services to non-resident offshore companies, and for the investment of offshore funds.

OPEN MARKET OPERATIONS– The buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases inject money into the banking system and stimulate growth while sales of securities do the opposite. This is one of the major tool of monetary control. (Others being Liquidity Adjustment Facility and Call market).The usual *aim of open market operations is to control the short term interest rate and the supply of base money in an economy, and thus indirectly the total money supply*.

OVER THE COUNTER SECURITIES – A security traded in some context other than on a formal exchange such as the BSE, etc. The phrase 'over-the-counter' can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

OVERHEATING of ECONOMY– Overheating of an economy occurs when its *productive capacity is unable to keep pace with growing aggregate demand*. Economic situation in which growth is occurring so quickly that economists fear a rise in inflation. This happens when producers are not able to make enough goods and services to meet rising demand, and raise prices instead.

PARTICIPATORY NOTES or P NOTES – Participatory Notes commonly known as P-Notes or PNs are instruments issued by registered foreign institutional investors (FII) to overseas investors, who wish to invest in the Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India - SEBI. SEBI permitted foreign institutional investors to register and participate in the Indian stock market in 1992. SEBI was not happy with P-Notes because it is not possible to know who owns the underlying securities and hedge funds acting through PNs might therefore cause volatility in the Indian markets. P Notes may also be used by terrorist organizations as well.

PERFORMANCE BUDGET – Unlike the traditional line item budget, a performance budget reflects the goal/objectives of the organization and spells out performance targets. These targets are sought to be achieved through a strategy(s). A Performance Budget gives an indication of how the funds spent are expected to give outputs and ultimately the outcomes. However, performance budgeting has a limitation – It is not easy to arrive at standard unit costs especially in social programmes which require a multi-pronged approach.

PERI URBAN AREAS – They are the outskirts of a large urban area, more accurately areas which are *outside urban jurisdiction* (and are not included in the definition of uraban areas) but are in the process of urbanization and have certain characteristics of urban areas. Such areas are created partly by the influx from the deeper countryside, but also from those in the cities seeking to move out – some migrating from congested areas to larger residences or new industries and some shifting away from expensive city living. Such areas lack clear administration, suffer from sanitation and water problems and are transitional zones between towns and the countryside. Their issues are:

I. Land use change, from agricultural to residential or industrial.

II. Changes in the use of natural resources such as water and forestry.

III. New forms of pollution and waste management.

IV. Creation of infrastructure.

V. Managing a new cultural ethos.

PHILLIPS CURVE (UPSC Mains 2006) – Phillips curve is a historical inverse relationship between the rate of unemployment and the rate of inflation in an economy. Stated simply, the lower the *unemployment in an economy, the higher the rate of inflation* in long run (in short run there may be some variations).

PLAN HOLIDAY– In 1960s, for 3 years, 1966-69, three annual plans were made instead of 5 year plan. This period is termed as plan holiday. Under achievements during third plan mainly due to war with Pakistan and China forced the planners to go for annual plans and during the Annual Plans, the economy basically absorbed the shocks given during the Third Plan, making way for a planned growth.

PLAN and NON-PLAN EXPENDITURE DIFFERENCE and NEED to DO AWAY WITH IT - The plan expenditure of the government is normally associated with productive expenditure, which helps increase the productive capacity of the economy. Non-plan expenditure, on the other hand, includes expenses on heads such as interest payment on government debt, subsidies, defence, pensions and other establishment costs of the government. A large part of this is obligatory in nature. In wake of changed priorities of government, such distinction is now superfluous. Further, it make a false distinction that non-plan expenditures are not very productive and should hence be prime focus of cost-cutting measures. In fact some non-plan expenses like salaries can be very important in sustaining the initiatives taken through plan investments. Various committees and commissions have recommended the government to remove this distinction as it has become dysfunctional and an obstacle in **outcome**-based budgeting. It had led to excessive focus on so-called Plan expenditures, with a corresponding neglect of items such as **maintenance**, which is classified as non-Plan. Once the distinction is removed,the Planning Commission, as suggested by the Rangarajan panel, might look at guiding the overall development priorities, setting of outcome targets and review of performance of departments. The distinction has become redundant with dissolution of planning commission.

PONZI SCHEMES or MULTILEVEL MARKETING SCHEMES – These are deceptive schemes which promise very high rates of returns to its investors and operate through a chain of investors in which higher returns are incentivized to those investors who bring in the most new investors into the schemes. Ponzi scheme is however a fraudulent investment operation where the operator, which promises to pay returns to its investors from new capital paid to the operators by new investors, rather than from profit earned by the operator. Such schemes are banned in India and globally. Recent scams including such schemes are – Sardha Chit Fund, Speak Asia, RCM etc.

PRIMARY DEFICIT – Fiscal deficit – interest payments and depreciation

QFI - The Qualified Foreign Investor (QFI) is sub-category of Foreign Portfolio Investor and refers to any foreign individuals, groups or associations, or resident, however, *restricted to those from a country that is a member of Financial Action Task Force (FATF) or a country that is a member of a group which is a member of FATF and a country* that is a signatory to International Organization of Securities Commission's (IOSCO) Multilateral Memorandum of Understanding (MMOU). QFI scheme was introduced by Government of India in consultation with RBI and SEBI in the year 2011, through a Union Budget announcement. The objective of enabling

QFIs is to deepen and infuse more foreign funds in the Indian capital market and to reduce market volatility as individuals are considered to be long term investors, as compared to institutional investors.

QUANTITATIVE EASING (**QE**) is an unconventional monetary policy used by central banks to stimulate the economy by supplying excess liquidity and bringing interest rates close to zero. To carry out **QE** central banks create money by buying securities, such as government bonds, from banks. Such measures were taken by American Fed Bank and European banks during the time of slowdown.

RENT SEEKING – It refers to instances when a company or individual use public resources to obtain economic gain from others without reciprocating any benefits back to society.

REVENUE DEFICIT – Revenue deficit is the gap between the consumption expenditure (revenue expenditure) of the Government (Union or the State Governments) and its current revenues (revenue receipts). It also indicates the extent to which the government has borrowed to finance the current expenditure. Revenue receipts consist of tax revenues and non-tax revenues. When the 'net amount received' (revenues less expenditures) falls short of the 'projected net amount to be received' (i.e. what is actually received and what was expected). This occurs when the actual amount of revenue received and/or the actual amount of expenditures do not correspond with predicted revenue and expenditure figures. It is different from Fiscal deficit in the sense that fiscal deficit represents that difference between Expenditures and Revenues. For example, consider an organization with budgeted revenue of Rs 325,000 and budgeted expenditures of Rs 200,000, which equates to a net amount of Rs 125,000. During the fiscal year, the organization's total revenue is actually Rs 300,000, while its total expenditure is Rs 195,000. The net amount received by the organization is Rs 105,000, which is Rs 20,000 less than the projected receipt of Rs 125,000. Therefore, although the organization generated a positive net amount of proceeds, it fell short of the projected amount, creating a revenue deficit. (In this case there is no Fiscal Deficit, but Revenue Deficit is there, there can be a case of viceversa also). Elimination of the revenue deficit has been a priority for Governments, both the Union and at the State-levels, as a revenue deficit may pre-empt resources which otherwise would be available for capital investments. Implementation of Fiscal Responsibility and Budget Management (FRBM) legislation during the period 2005-10 has helped Governments to reduce their revenue deficits to a considerable extent.

Fiscal deficit on the other hand measures the gap between the government consumption expenditure including loan repayments and the anticipated income from tax and non-tax revenues. It also indicates the borrowing requirements of the government from all sources.

Effective Revenue Deficit – In 2012 budget of India, FM has introduced this concept. It excludes grants given to states for capital creation from the revenue deficit. Focusing on this will help in reducing the consumptive component and hence create space for increased capital spending.

REVENUE EXPENDITURE – Broadly the expenditure which does not result in creation of assets for Government of India is treated as revenue expenditure. An expenditure that neither creates assets nor reduces a liability is categorised as revenue expenditure. Revenue expenditure is for the normal running of Government departments and various services, interest payments on debt, subsidies, etc. All grants given to State Governments/Union Territories and other parties are also treated as revenue expenditure even though some of the grants may be used for creation of assets. It is recurring in nature and incurred regularly.

ROLLING PLAN – Fifth FYP was launched and planned for period 1974-79 but Janata Government came in power in 1978 and ended the plan prematurely in 1978. The Janata government launched sixth FYP for period 1978-1983. Congress government when came in power in 1980 abandoned the sixth FYP and launched a new sixth FYP for period 1980-1985. The plan for period, 1978-80, is called the rolling plan.

ROUND TRIPPING – Round tripping involves getting the money out of one country, say India, sending it to a place like Mauritius and then, dressed up to look like foreign capital, sending it back home to earn tax-favored profits. The problem for the home country is that native profits escape taxation this way. And instead of foreign capital flowing into the country, local capital just gets a free ride.

RUPAY – It is a new payment mechanism (like Visa and Maestro) launched by government of India (National Payments Corporation of India (NPCI). Its benefits include – Lower cost and affordability (as it domestically cleared, so low cost); Customized product offering; Protection of information related to Indian consumers; Provide electronic product options to untapped/unexplored consumer segment (rural areas); Inter-operability between payment channels and products (ATM, mobile tech and cheque)

SEZs – India has a relatively lower success as compared to China from where this model has been emulated. Chinese industrial strategy relies on 'production on mass scale'. They focus on the size of SEZ rather than number of SEZ. As a result China has just 6 SEZ compared to 388 of India but their size are much larger reaping economies of scale for them. Chinese SEZ are dominantly owned by manufacturing sector thus addressing their employment concerns. India's SEZ are IT and ITeS dominated negating employment objective. While SEZ in China contribute majority of its export, in India the contribution is just 30%. Strict SEZ land utilisation laws deters unorganised sector who own majority of export oriented production in India. Though SEZ have world class infrastructure in India, the ancillary infrastructure in messed up causing external spill over impacts which are mostly absent in China. Communist regime has advantages of quick decision making and stability while democracy is infested with populism, creating problems for SEZ expansion.

SHADOW BANKING are banking like activities offered by Non banking financial intermediaries. Their existence outside the regulatory ambit poses a threat to financial system. Occurrence of global financial crises of 2008 is a case to the point. Features of Shadow banking that makes it a threat are – It is completely unregulated or loosely regulated. Products offered are diverse and complex that may confuse investors. It has ability to transmit risk due to its interconnectedness with financial system.

SPECIAL DRAWING RIGHTS – An international type of monetary reserve currency (but not a currency per se), created by the International Monetary Fund (IMF) in 1969, which operates as a supplement to the existing reserves of member countries. Created in response to concerns about the limitations of gold and dollars as the sole means of settling international accounts, SDRs are designed to augment international liquidity by supplementing the standard reserve currencies. SDRs is like an artificial currency used by the IMF and defined as a 'basket of national currencies'. The IMF uses SDRs for internal accounting purposes. SDRs are allocated by the IMF to its member countries and are backed by the full faith and credit of the member countries' governments. *SDR's value is defined by a weighted currency basket of four major currencies: the Euro, the US dollar, the British pound, and the Japanese yen. Due to fluctuating exchange rates, the relative value of each currency varies continuously, and so does the value of the SDR. The IMF fixes the value of one SDR in terms of US dollars daily.*

SPOT EXCHANGE – Spot exchange is a platform which facilitates the spot trading. Spot trading is immediate or near immediate delivery of commodities or currencies which are being traded. It is settled on the spot. National Spot Exchange Limited is such platform for spot trading of commodities like ferrochrome, gold, wheat etc. It came into news due to recent scam in NSEL. Under recent scam of NSEL, it was allowing forward contracts which were not within its mandate. These contracts were being made on basis of forged warehouse receipts. In actual, there was no underlying commodity for trading.

STAGFLATION – In economics, stagflation is a situation in which the inflation rate is high and the economic growth rate slows down and unemployment remains steadily high.

STRUCTURAL ADJUSTMENT PROGRAMS – Structural adjustments are the *policies implemented by the International Monetary Fund (IMF) and the World Bank* (the Bretton Woods Institutions) in developing countries. These *policy* *changes are conditions for getting new loans from the IMF or World Bank, or for obtaining lower interest rates on existing loans*. Conditionalities are implemented to ensure that the money lent will be spent in accordance with the overall goals of the loan. The Structural Adjustment Programs (SAPs) are created with the goal of reducing the borrowing country's fiscal imbalances. The bank from which a borrowing country receives its loan depends upon the type of necessity. The SAPs are supposed to allow the economies of the developing countries to become more market oriented.

STRUCTURAL UNEMPLOYMENT – Structural unemployment occurs when a labor market is unable to provide jobs for everyone who wants one because there is a mismatch between the skills of the unemployed workers and the skills needed for the available jobs or due to the location mismatch.

SUPPLY SIDE ECONOMICS – Supply-side economics is a school of macroeconomics that argues thateconomic growth can be most effectively created by lowering barriers for people to produce (supply) goods and services as well as invest in capital. According to supply-side economics, consumers will then benefit from a greater supply of goods and services at lower prices; furthermore, the investment and expansion of businesses will increase the demand for employees. Typical policy recommendations of supply-side economists are lower marginal tax rates and less regulation. It emerged from the failure of Keynesian-style demand management policies

TAX EXPENDITURES – Tax Expenditures, as the word might indicate, does not relate to the expenditures incurred by the Government in the collection of taxes. Rather it refers to the opportunity cost of taxing at concessional rates, or the opportunity cost of giving exemptions, deductions, rebates, deferrals credits etc. to the tax payers. Tax expenditures indicate how much more revenue could have been collected by the Government if not for such measures. In other words, it shows the extent of indirect subsidy enjoyed by the tax payers in the country.

TAX HAVEN – A tax haven is a place where there are certain exemptions to the persons/organizations parking their funds there. There are many countries like –

Seychelles, Brunei, Trinidad and Tobago, Botswana and Brunei which have such policies of tax exemptions. These tax havens are often used to park the illegal funds. It is a nation or place which is – by virtue of its tax laws – is used by corporations/individuals to avoid tax. A tax haven is characterized by –

I. Nil or nominal taxes;

II. Lack of effective exchange of tax information with foreign tax authorities;

III. Lack of transparency in the operation of legislative, legal or administrative provisions;

IV. No requirement for a substantive local presence; and

Tax havens are less attractive after 2009 in aftermaths of financial crisis when G20 agreed that greater transparency in financial system should be ushered in. As a result, bank account in these tax havens have become more transparent.

TRANSFER PRICING – It is the price that is assumed to have been charged by one part of a company for products and services it provides to another part of the same company which are registered as separate entities and hence calculate profits and loss separately. India has the highest number of litigations over transfer pricing, where MNCs have been charged of reducing their tax liability by transferring profits to group companies abroad, the E&Y Global Transfer Pricing Survey revealed on February 6, 2011. The country has over 1,500 cases pending under the transfer pricing. A number of MNCs are accused of selling goods and services to their subsidiaries at inflated prices under transfer pricing, to reduce profits and hence tax liabilities. The law requires that goods and services should be sold to subsidiary companies at arm's length price – the price at which goods are traded between unconnected companies.

TRADITIONAL INDUSTRIES – The traditional industries of India include handloom, handicrafts, coir, cashew, beedi, tiles and bricks and other household industrial activities carried out in the rural parts of the country. They are labour intensive and rely on skills passed on from one generation to another generation. However, they are mostly non-viable as they have not modernized themselves to cater to the changing demand conditions and their marketing strategies are often not well planned or executed. As a result, many of these industries depend on subsidies for survival and lack a commercial orientation. Scheme of Fund for Regeneration of Traditional Industries (SFURTI) for regeneration of traditional industries clusters from khadi, village and coir sectors is run by government. The Scheme envisages need-based assistance for replacement of production equipment, setting up of common facility centres (CFC), product development, quality improvement, improved marketing, training and capacity building, etc. 26 coir clusters have been approved from the coir producing States for their development under SFURTI.

TWIN DEFICIT – The twin deficits hypothesis, also called the double deficit hypothesis or twin deficits anomaly, is a concept from macroeconomics that contends that there is a strong link between a national economy's current account balance (Current Account Deficit) and its government budget balance (Fiscal Deficit).

UNDEREMPLOYMENT – Underemployment refers to a situation where there is a disequilibrium in the labor market causing labor to be underutilized. This can include – workers working less hours than they would like; workers accepting jobs that don't utilize their skills.

ZERO-BASED BUDGETING – The concept of zero-based budgeting was introduced in the 1970s. As the name suggests, every budgeting cycle starts from scratch. Unlike the earlier systems where only incremental changes were made in the allocation, under zero-based budgeting every activity is evaluated each time a budget is made and only if it is established that the activity is necessary, are funds allocated to it. The basic purpose of ZBB is phasing out of programmes/activities which do not have relevance anymore. However, because of the efforts involved in preparing a zero-based budget and institutional resistance related to personnel issues, no government ever implemented a full zero-based budget, but in modified forms the basic principles of ZBB are often used.

Indian economy – General Features

Unlike Chinese economy, India economy is largely domestic consumption led.

Major Indicators –

 GDP Size – **$2.1 trillion** in 2014-15 (China - **$10 trillion**)

 GDP Growth rate 2014-15 – **7.3% as per**

revised estimates

 Agriculture growth - .2%

 India's **rank** on GDP is **9th** in terms of nominal prices

 GDP per capita – Around **$ 1,500** (China – **$ 7000**, USA - $53,041)

 Subsidy bill of central government (2014-15) – Rs 2,50,000 crore

Agriculture	Industry	Services
14%	27%	59%
49%	22%	31%