Contents

Structure Of Economy

- The economy developed historically in every country including ours such a way that even every agriculture become relatively large –scale and rich farmers emerged who employed labour from outside barrowed capital (mainly finance)and become a separate class by themselves quite different from the class of small cultivates.
- Similarly, with the growth of large –scale industries the ownership and cotton of the enterprises no longer belonged to people who themselves contributed their skill and labour to industrial production (as artisans).
- What the economy produces then is the aggregate of goods and services produced by the individual producers and enterprises in the economy. This aggregate is called the domestic product of the economy. Gross Domestic Product GDP and the Net Domestic product (NDP).
- GDP is the sum of values o fall final goods and services product is a year without making any deduction for the wear and tear of the land, buildings and machinery used in production. When this deduction is made, what get is the net domestic product or NDP.
- The people living in the economy may have earning or remittances from (or send remittance to) other countries(through trade, for example). When we add the net earnings from abroad (i.e. remittances brought in minus remittance sent out) to the GDP we call it the Grass National Product or GNL. When we add such net earning to the NDP. We call it the Net National Product or NDP.
- NNP is also called the National Income of the country. This is because the value of the NNP is nothing but the total of what people will get as profits, wages, interest and rent, i.e. as income while producing the NNP.

The institutional set-up

- By economy institutions we mean the small and large productive enterprises and business house owned by private individuals or government bodies, the banks, insurance companies and similar financial institutions providing productive services, and above all the government agencies engaged in the regulation of the economy such as the different ministries of the central government, the state governments, the Reserve Bank of India and so on All these together provide the institutions set- up of the economy.
- Mixed economy with a large public sector, the description of India as a mixed economy applies mainly to the urban part of the economy . India have industries either in the private or public sectors. The large financial institutions in banking and insurance are mostly in urban areas too both in the public and private sectors.
- The large financial institution in banking and insurance are mostly in urban areas too both in the public and the private sectors. The transport services like airlines and roadways are in the public

sector while the road transport is largely in the private sector.

- These services too are largely town-based, though they serve both towns and villages. Agriculture is almost entirely in private hands in India, The role of government farms being negligible.
- India is a developing economy. The economic activities in rural India, as we have noticed, are mainly agriculture, while the main industries are in the urban part.
- The third major characteristic of the institutional set- up of the India economy follows from the federal character of the India constitution itself. Under the constitution the power to regulate the economic life of the people is distributed between the centre and state, in a well defined manner.
- The centre has the overall responsibility of guiding and if necessary, controlling most of the major economic activities is still left to the jurisdiction of the states. Thus the government institutions concerned with the economic activities of the central and other at the state level.

1. Main sectors and Regions of the Indian Economy

- Some people are engaged in various economic activities. Some of these are activities producing goods. Some others are producing services. These activities are happening around us every minute even as we speak.
- One way of doing this is to group them (classify them) using some important criterion. These groups are also called sectors.
- There are many activities that are undertaken by directly using natural resources. Take, for example, the cultivation of cotton.
- It takes place within a crop season. For the growth of the cotton plant, we depend mainly, but not entirely, on natural factors like rainfall, sunshine and climate.
- The product of this activity, cotton, is a natural product. Similarly, in the case of an activity like dairy, we are dependent on the biological process of the animals and availability of fodder etc.
- The product here, milk, also is a natural product. Similarly, minerals and ores are also natural products.
- When we produce a good by exploiting natural resources, it is an activity of the primary sector. This is because it forms the base for all other products that we subsequently make.
- Since most of the natural products we get are from agriculture, dairy, fishing, forestry, this sector is also called agriculture and related sector.
- The secondary sector covers activities in which natural products are changed into other forms through ways of manufacturing that we associate with industrial activity. It is the next step after primary.
- The product is not produced by nature but has to be made and therefore some process of manufacturing is essential. This could be in a factory, a workshop or at home.
- For example, using cotton fibre from the plant, we spin yarn and weave cloth. Using sugarcane as a raw material, we make sugar or *gur*.
- We convert earth into bricks and use bricks to make houses and buildings. Since this sector gradually became associated with the different kinds of industries that came up, it is also called as industrial sector.
- After primary and secondary, there is a third category of activities that falls under tertiary sector and is different from the above two. These are activities that help in the development of the primary and secondary sectors.
- These activities, by themselves, do not produce a good but they are an aid or a support for the production process. For example, goods that are produced in the primary or secondary sector would need to be transported by trucks or trains

and then sold in wholesale and retail shops.

- At times, it may be necessary to store these in godowns. We also may need to talk to others over telephone or send letters (communication) or borrow money from banks (banking) to help production and trade.
- Transport, storage, communication, banking, trade are some examples of tertiary activities. Since these activities generate services rather than goods, the tertiary sector is also called the service sector.
- Service sector also includes some essential services that may not directly help in the production of goods. For example, we require teachers, doctors, and those who provide personal services such as washermen, barbers, cobblers, lawyers, and people to do administrative and accounting works.
- In recent times, certain new services based on information technology such as internet cafe, ATM booths, call centres, software companies etc have become important.

COMPARING THE THREE SECTORS

- The various production activities in the primary, secondary and tertiary sectors produce a very large number of goods and services. Also, the three sectors have a large number of people working in them to produce these goods and services.
- The next step, therefore, is to see how much goods and services are produced and how many people work in each sector. In an economy there could be one or more sectors which are dominant in terms of total production and employment, while other sectors are relatively small in size.

How do we count the various goods and services and know the total production in each sector?

- Economists suggest that the values of goods and services should be used rather than adding up the actual numbers.For example, if 10,000 kgs of wheat is sold at Rs 8 per kg, the value of wheat will be Rs 80,000.
- The value of 5000 coconuts at Rs 10 per coconut will be Rs 50,000. Similarly, the value of goods and services in the three sectors are calculated, and then added up.
- Remember, Not every good (or service) that is produced and sold needs to be counted. It makes sense only to include the final goods and services. Take, for instance, a farmer who sells wheat to a flour mill for Rs 8 per kg.
- The mill grinds the wheat and sells the flour to a biscuit company for Rs 10 per kg. The biscuit company uses the flour and things such as sugar and oil to make four packets of biscuits. It sells biscuits in the market to the consumers for Rs 60 (Rs 15 per packet). Biscuits are the final goods, i.e., goods that reach the consumers.
- Why are only ‘final goods and services’ counted? In contrast to final goods, goods such as wheat and the wheat flour in this example are intermediate goods. Intermediate goods are used up in producing final goods and services.
- The value of final goods already includes the value of all the intermediate goods that are used in making the final good. Hence, the value of Rs 60 for the biscuits (final good) already includes the value of flour (Rs 10).
- Similarly, the value of all other intermediate goods would have been included. To count the value of the flour and wheat separately is therefore not correct because then we would be counting the value of the same things a number of times. First as wheat, then as flour and finally as biscuits.
- The value of final goods and services produced in each sector during a particular year provides the total production of the sector for that year. And the sum of production in the three sectors gives what is called the Gross Domestic Product (GDP) of a country.
- It is the value of all final goods and services produced within a country during a particular year. GDP shows how big the economy is. In

India, the mammoth task of measuring GDP is undertaken by a central government ministry.

- This Ministry, with the help of various government departments of all the Indian states and union territories,collects information relating to total volume of goods and services and their prices and then estimates the GDP.

Historical Change in Sectors

- Generally, it has been noted from the histories of many, now developed, countries that at initial stages of development, primary sector was the most important sector of economic activity.
- As the methods of farming changed and agriculture sector began to prosper, it produced much more food than before. Many people could now take up other activities.
- There were increasing number of craft persons and traders. Buying and selling activities increased many times. Besides, there were also transporters, administrators, army etc.
- However, at this stage, most of the goods produced were natural products from the primary sector and most people were also employed in this sector. Over a long time (more than hundred years), and especially because new methods of manufacturing were introduced, factories came up and started expanding.
- Those people who had earlier worked on farms now began to work in factories in large numbers. People began to use many more goods that were produced in factories at cheap rates. Secondary sector gradually became the most important in total production and employment.
- Hence, over time, a shift had taken place. This means that the importance of the sectors had changed. In the past 100 years, there has been a further shift from secondary to tertiary sector in developed countries.
- The service sector has become the most important in terms of total production. Most of the working people are also employed in the service sector. This is the general pattern observed in developed countries.

Multiple Choice Questions

1. 'Self-sufficiency' in food, in the true sense of freedom from hunger, has not been achieved in India in spite of a more than three-fold rise in foodgrains production over 1950 to 1990. Which of the following are the reasons for it?
   A. the green revolution has been restricted to small pockets of the country.
   B. the cost of food is too high compared to the earnings of the poor
   C. too much emphasis is laid on wheat and paddy compared to the coarse grains.
   D. the gains of the green revolution have largely accrued to the cash crop rather than food crops.
   (a) A, B, and C (b) A, B, and D
   (c) A, C, and D (d) B, C, and D
2. They are fantastically diverse. They speak hundreds of languages and dialects. They comprise scores of ethnic groups. They include highly industrialized economics and up-and-coming economies. They span half the surface of the earth and tyre home to two-fifths of the world's population'. The group of countries referred to here belongs to:
   (a) SAPTA (b) APEC
   (c) EC (d) CIS
3. A consumer is said to be in equilibrium, if
   (a) he is able to fulfill his need with a given level of income
   (b) he is able to live in full comfort with a given level of income
   (c) he can fulfill his needs without consumption of certain items
   (d) he is able to locate new sources of income
4. A country is said to be in a debt trap if
   (a) it has to abide by the conditionalities imposed by the International Monetary Fund
   (b) it has to borrow to make interest payments on outstanding loans
   (c) it has been refused loans or aid by creditors abroad
   (d) the World Bank charges a very high rate of interest on outstanding as well as new loans
5. A redistribution of income in a country can be best brought about through
   (a) progressive taxation combined with progressive expenditure
   (b) progressive taxation combined with regressive expenditure
   (c) regressive taxation combined with regressive expenditure
   (d) regressive taxation combined with progressive expenditure