CAIIB

ECONOMIC ANALYSIS

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Economic Analysis (Model A)

Budget 2019-20

Scheme	Amount / About
PM Kisaan Samman Nidhi	75000 crs.
MGNREGA	60,000 crs.Under PM gram sadak yojana
Rural roads under Gram Sadak Yojana.	19000 Crs.
Railways	65,587 Crs

Mudra Yojana	7.23 Crs.
Pradhan Mantri Shram Yogi Mandhan	launched to provide assured monthly pension of 3000 rupees per month, with contribution of 100 rupees per month, for workers in unorganized sector after 60 years of age.
Pradhanmantri Shramyogi Mandhan yogna	500 Crs to be launched for poor people
Gokul Scheme	750 crs. The "Rashtriya Gokul Mission" has been launched by the Government for conservation and development of indigenous breeds in a focused and scientific manner. The mission also envisages establishment of integrated cattle development centres „Gokul Grams to develop indigenous breeds including upto 40% nondescript breeds.
Standard deduction limit	limit increased to INR 50, 000 from INR 40,000 earlier
Food for all	1.7 lakhs crs
Defence budget	3 lakhs crs

Economic Survey 2018-19

Guided by the dictum of **"blue-sky thinking", the Economic Survey** underscored the ambitious agenda of applying principles of behavioral economics to achieve **8 percent** of sustained **GDP growth to make India a $5-trillion economy by 2024-25.**

The Survey is the first for the new government, which came to power with an overwhelming mandate. "With the aspirations that have been kindled among our predominantly young population, India stands at a historic moment when sustained high economic growth has become a national imperative," **Chief Economic Adviser Krishnamurthy V Subramanian**stated in his preface to the Survey. Prime Minister Narendra Modi has already laid down the vision of India becoming a **USD 5-trillion economy by 2025.**

Key highlights from the Economic Survey:

- **Survey sees Financial Year 2020 GDP growth at 7%,** higher growth on stables macros.
- India needs to grow at **8% per year to be $5 trillion economy** by **Financial Year 2025.**
- The survey suggests diplomatic type privileges, naming roads for **top taxpayers.**
- Investment the **"key driver"** of simultaneous growth in **demand, jobs, exports, and productivity.**
- **Green shoots** in investment activity seems to taking hold.
- **Rural wage growth** started increasing **since mid-2018.**
- **Political stability** should push the animal **spirits of the economy.**
- Poor enforcement of contracts and dispute resolution is a **big hurdle.** The faster legal process should be the top priority.
- **Savings and growth** are positively co-related. Savings must increase more than investment.
- Constant recalibration based on real-time data. Data must be created as a publi**c good "of the people, by the people, for the people.**
- Survey argues that nudging behaviour change is the simplest way to solve **many social issues.**
- **Top policymakers** must ensure actions are predictable. Policymaking needs: **1. Clear Vision 2. Strategic blueprint 3. Tactical tools for constant recalibration.**
- **The success of MGNREGS** shows govt schemes can make a difference on the ground with skillful use of technology.
- **A minimum wage policy** for the bottom rung of wage earners to drive up demand and strengthening the middle class.
- **Indian MSMEs** need to be freed from shackles that convert them into dwarfs. MSMEs need to be seen as a source of innovation, growth and job creation.
- **The policy should enable MSMEs to grow,** create greater profits for their owners and contribute to job creation and productivity in the economy.
- India needs to increase per capita energy consumption to raise real per capita **GDP by US$ 5000 and improve its HDI ranking.**

- **The Survey is inspired by Gandhiji's Talisman: "...Recall** the face of the poorest man [woman], and ask yourself, if the step you contemplate is going to be of any use to him [her].
- India will enjoy the "demographic dividend" phase in the next two decades but some states will start transitioning to an a**ging society by the 2030s.**
- India moving forward from **Swachch Bharat to Swasth and Sundar Bharat.**
- Investment rate seems to have bottomed out.
- **Govt stands by the fiscal consolidation path.**
- Jan-March economic slowdown due to poll-related activity.
- Greenshoots in investment seems to be taking hold.
- **NBFC** stress reason for **Financial Year 2019 slowdown.**
- Decline in **NPAs should push up CAPEX cycle.**
- The general fiscal deficit is seen at **5.8%** in **Financial Year 20**19 Vs. 6.4% in **Financial Year 20**18.
- Investment rate seen higher in **Financial Year 2020** on improved demand.
- Oil prices are seen declining in **Financial Year 2020.**
- Accommodative **MPC policy to help cut real lending rates.**
- From **'Beti Baco Beti Padhao' to 'BADLAV'** (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi).
- From '**Give it up" for the LPG subsidy to 'Think about the Subsidy'.**
- From **'Tax evasion' to 'Tax compliance'.**

Fundamental of Economics

What Are Fundamentals?

Fundamentals include the basic qualitative and quantitative information that contributes to the financial or economic well-being and the subsequent financial valuation of a company, security or currency. Where qualitative information includes elements that cannot be directly measured such as management experience, quantitative analysis (QA) uses mathematics and statistics to understand the asset and predict movement.

Analysts and investors examine these fundamentals to develop an estimate as to whether the underlying asset is considered a worthwhile investment, and if there is fair valuation in the market. For businesses, information such as profitability, revenue, assets, liabilities and growth potential are considered fundamentals. Through the use of fundamental analysis, you may calculate a company's financial ratios to determine the feasibility of the investment.

Fundamentals Explained

In business and economics, fundamentals represent the primary characteristics and business data necessary to determine the stability and health of an asset. This business data can include macroeconomic, large scale and microeconomic, smaller scale, factors to set a value on securities.

KEY TAKEAWAYS

Fundamentals provide a method to set the financial value of a company, security or currency.

Included in the fundamental analysis is basic qualitative and quantitative information that contributes to the asset's financial or economic well-being.

Macroeconomic fundamentals include topics that affect an economy at large.

Microeconomic fundamentals focus on the activities within smaller segments of the economy.

What is Economics?

Economics Definition: Economics is essentially a study of the usage of resources under specific constraints, all bound with an audacious hope that the subject under scrutiny is a rational entity which seeks to improve its overall well-being.

Two branches within the subject have evolved thus: microeconomics (individual choices) which deals with entities and the interaction between those entities, while macroeconomics (aggregate outcomes) deals with the entire economy as a whole.

A typical college student (or an overburdened husband?) appreciates the lessons of economics in day-to-day life. Semester books and carton of cigarettes (choices) are to be purchased with a limited amount of pocket money (constraints).

The aim of studying economics is to understand the decision process behind allocating the currently available resources, the needs always unlimited but resources being limited.

Adam Smith wrote 'An inquiry into the Nature and Causes of the Wealth of Nations' which as the name suggests, was an attempt at understanding the reasons behind the economic growth (or lack thereof) of a nation.

An interesting backdrop to consider here — the fundamental assumption that we need to make for the whole economic system (as we know it today) to work is that human beings are motivated by pure self-interest and will take decisions that they think will make them 'better off' now or sometime in the future.

The economic and political systems of a country are closely inter-linked and jointly determine the well-being of its citizens.

Understanding Economics

One of the earliest recorded economic thinkers was the 8th-century BC Greek farmer/poet Hesiod, who wrote that labor, materials, and time needed to be allocated efficiently to overcome scarcity. But the founding of modern Western economics occurred much later, generally credited to the publication of Scottish philosopher Adam Smith's 1776 book, An Inquiry Into the Nature and Causes of the Wealth of Nations.

The principle (and problem) of economics is that human beings have unlimited wants and occupy a world of limited means. For this reason, the concepts of efficiency and productivity are held paramount by economists. Increased productivity and a more efficient use of resources, they argue, could lead to a higher standard of living.

Despite this view, economics has been pejoratively known as the "dismal science," a term coined by Scottish historian Thomas Carlyle in 1849. He used it to criticize the liberal views on race and social equality of contemporary economists like John Stuart Mill, though some sources suggest Carlyle was actually describing the gloomy predictions by Thomas Robert Malthus that population growth would always outstrip the food supply.

Economic Level Fundamental

While fundamentals are most often considered factors that relate to particular businesses or securities, national economies, and their currencies also have a set of fundamentals that can be analyzed. For example, interest rates, gross domestic product (GDP) growth, trade balance surplus/deficits, and inflation levels are some macroeconomic factors that are considered to be fundamentals of a currency's value. Large scale, macroeconomic fundamentals are also part of the top-down analysis of individual companies.

Types of Economics

The study of economics is generally broken down into two disciplines.

Microeconomics focuses on how individual consumers and firm make decisions; these individuals can be a single person, a household, a business/organization or a government agency. Analyzing certain aspects of human behavior, microeconomics tries to explain they respond to changes in price and why they demand what they do at particular price levels. Microeconomics tries to explain how and why different goods are valued differently, how individuals make financial decisions, and how individuals best trade, coordinate and cooperate with one another. Microeconomics' topics range from the dynamics of supply and demand to the efficiency and costs associated with producing goods and services; they also include how labor is divided and allocated, uncertainty, risk, and strategic game theory.

Macroeconomics studies an overall economy on both a national and international level. Its focus can include a distinct geographical region, a country, a continent, or even the whole world. Topics studied include foreign trade, government fiscal and monetary policy, unemployment rates, the level of inflation and interest rates, the growth of total production output as reflected by changes in the Gross Domestic Product (GDP), and business cycles that result in expansions, booms, recessions, and depressions.

Micro- and macroeconomics are intertwined; as economists gain an understanding of certain phenomena, they can help us make more informed decisions when allocating resources. Many believe that microeconomics' foundations of individuals and firms acting in aggregate constitute macroeconomic phenomena.

KEY TAKEAWAYS

Economics is the study of how people allocate scarce resources for production, distribution, and consumption, both individually and collectively.

Two major types of economics are microeconomics, which focuses on the behavior of individual consumers and producers, and macroeconomics, which examine overall economies on a regional, national, or international scale.

Economics is especially concerned with efficiency in production and exchange and uses models and assumptions to understand how to create incentives and policies that will maximize efficiency.

Economists formulate and publish numerous economic indicators, such as gross domestic product (GDP) and the Consumer Price Index (CPI).

Capitalism, socialism, and communism are types of Economics system.

Schools of Economic Theory

There are also schools of economic thought. Two of the most common are monetarist and Keynesian. Monetarists have generally favorable views on free markets as the best way to

allocate resources and argue that stable monetary policy is the best course for managing the economy. In contrast, the Keynesian approach believes that markets often don't work well at allocating resources on their own and favors fiscal policy by an activist government in order to manage irrational market swings and recessions.

Economic analysis often progresses through deductive processes, including mathematical logic, where the implications of specific human activities are considered in a "means-ends" framework. Some branches of economic thought emphasize empiricism, rather than formal logic—specifically, macroeconomics or Marshallian microeconomics, which attempt to use the procedural observations and falsifiable tests associated with the natural sciences.

Since true experiments cannot be created in economics, empirical economists rely on simplifying assumptions and retroactive data analysis. However, some economists argue economics is not well suited to empirical testing, and that such methods often generate incorrect or inconsistent answers.

The Economics of Labor, Trade, and Human Behavior

The building blocks of economics are the studies of labor and trade. Since there are many possible applications of human labor and many different ways to acquire resources, it is difficult to determine which methods yield the best results.

Economics demonstrates, for example, that it is more efficient for individuals or companies to specialize in specific types of labor and then trade for their other needs or wants, rather than trying to produce everything they need or want on their own. It also demonstrates trade is most efficient when coordinated through a medium of exchange, or money.

Economics focuses on the actions of human beings. Most economic models are based on assumptions that humans act with rational behavior, seeking the most optimal level of benefit or utility. But of course, human behavior can be unpredictable or inconsistent, and based on personal, subjective values (another reason why economic theories often are not well suited to empirical testing). This means that some economic models may be unattainable or impossible, or just not work in real life.

Still, they do provide key insights for understanding the behavior of financial markets, governments, economies—and human decisions behind these entities. As it is, economic laws tend to be very general, and formulated by studying human incentives: economics can say profits incentivize new competitors to enter a market, for example, or that taxes disincentivize spending.

Economic Indicators

Economic indicators are reports that detail a country's economic performance in a specific area. These reports are usually published periodically by governmental agencies or private

organizations, and they often have a considerable effect on stocks, fixed income, and forex markets when they are released. They can also be very useful for investors to judge how economic conditions will move markets and to guide investment decisions.

Below are some of the major U.S. economic reports and indicators used for fundamental analysis.

Gross Domestic Product (GDP)

The Gross Domestic Product (GDP) is considered by many to be the broadest measure of a country's economic performance. It represents the total market value of all finished goods and services produced in a country in a given year or another period (the Bureau of Economic Analysis also issues a report monthly during the later part of the month). Many investors, analysts, and traders don't actually focus on the final annual GDP report, but rather on the two reports issued a few months before: the advance GDP report and the preliminary report. This is because the final GDP figure is frequently considered a lagging indicator, meaning it can confirm a trend but it can't predict a trend. In comparison to the stock market, the GDP report is somewhat similar to the income statement a public company reports at year-end.

Retail Sales

Reported by the Department of Commerce during the middle of each month, the retail sales report is very closely watched and measures the total receipts, or dollar value, of all merchandise sold in stores. The report estimates the total merchandise sold by taking sample data from retailers across the country—a figure that serves as a proxy of consumer spending levels. Because consumer spending represents more than two-thirds of GDP, this report is very useful to gauge the economy's general direction. Also, because the report's data is based on the previous month sales, it is a timely indicator. The content in the retail sales report can cause above normal volatility in the market, and information in the report can also be used to gauge inflationary pressures that affect Fed rates.

Industrial Production

The industrial production report, released monthly by the Federal Reserve, reports on the changes in the production of factories, mines, and utilities in the U.S. One of the closely watched measures included in this report is the capacity utilization ratio, which estimates the portion of productive capacity that is being used rather than standing idle in the economy. It is preferable for a country to see increasing values of production and capacity utilization at high levels. Typically, capacity utilization in the range of 82-85 percent is considered "tight" and can increase the likelihood of price increases or supply shortages in the near term. Levels below 80 percent are usually interpreted as showing "slack" in the economy, which might increase the likelihood of a recession.

Employment Data

The Bureau of Labor Statistics (BLS) releases employment data in a report called the non-farm payrolls, on the first Friday of each month. Generally, sharp increases in employment indicate prosperous economic growth. Likewise, potential contractions may be imminent if significant decreases occur. While these are general trends, it is important to consider the current position of the economy. For example, strong employment data could cause a currency to appreciate if the country has recently been through economic troubles because the growth could be a sign of economic health and recovery. Conversely, in an overheated economy, high employment can also lead to inflation, which in this situation could move the currency downward.

Consumer Price Index (CPI)

The Consumer Price Index (CPI), also issued by the BLS, measures the level of retail price changes (the costs that consumers pay) and is the benchmark for measuring inflation. Using a basket that is representative of the goods and services in the economy, the CPI compares the price changes month after month and year after year. This report is one of the more important economic indicators available, and its release can increase volatility in equity, fixed income, and forex markets. Greater-than-expected price increases are considered a sign of inflation, which will likely cause the underlying currency to depreciate.

Types of Economic Systems

Economic systems are defined either by the way that stuff is produced or by how that stuff is allocated to people. For example, in primitive agrarian societies, people tend to self-produce all of their needs and wants at the level of the household or tribe. Family members would build their own dwellings, grow their own crops, hunt their own game, fashion their own clothes, bake their own bread, etc. This self-sufficient economic system is defined by very little division of labor and is also based on reciprocal exchange with other family or tribe members. In such a primitive society, the concept of private property didn't typically exist as the needs of the community were produced by all for the sake of all.

Later, as civilizations developed, economies based on production by social class emerged, such as feudalism and slavery. Slavery involved production by enslaved individuals who lacked personal freedom or rights and existed as the property of their owner. Feudalism was a system where a class of nobility, known as lords, owned all of the lands and leased out small parcels to peasants to farm, with peasants handing over much of their production to the lord. In return, the lord offered the peasants relative safety and security, including a place to live and food to eat.

Capitalism

Capitalism emerged with the advent of industrialization. Capitalism is defined as a system of production whereby business owners (capitalists) produce goods for sale in order to make a profit and not for personal consumption. In capitalism, capitalists own the business including the tools used for production as well as the finished product. Workers are hired in return for wages, and the worker owns neither the tools he uses in the production process nor the finished product when it's complete. If you work at a shoe factory and you take home a pair of shoes at the end of the day, that's stealing even though you made them with your own hands. This is because capitalist economies rely on the concept of private property to distinguish who legally owns what.

Capitalist production relies on the market for the allocation and distribution of the goods that are produced for sale. A market is a venue that brings together buyers and sellers, and where prices are established that determine who gets what and how much of it. The United States and much of the developed world today can be described as capitalist market economies.

Capitalism Alternatives

Alternatives to capitalist production exist. Two of the most significant ones developed in the 19th century as a response to what was seen as capitalism's abuses.

Socialism is a system of production whereby workers collectively own the business, the tools of production, the finished product, and share the profits – instead of having business owners who retain private ownership of all of the business and simply hire workers in return for wages. Socialist production often does produce for profits and utilizes the market to distribute goods and services. In the U.S., worker co-ops are an example of socialist production organized under a broader capitalist system.

Communism is a system of production where private property ceases to exist and the people of a society collectively own the tools of production. Communism does not use a market system, but instead relies on a central planner who organizes production (tells people who will work in what job) and distributes goods and services to consumers based on need. Sometimes this is called a command economy.

Traditional Economic System

The traditional economic system is the most traditional and ancient types of economies in the world. Vast portions of the world still function under a traditional economic system. These areas tend to be rural, second- or third-world, and closely tied to the land, usually through farming. In general, in this type of economic system, a surplus would be rare. Each member of a traditional economy has a more specific and pronounced role, and these societies tend to be very close-knit and socially satisfied. However, they do lack access to technology and advanced medicine.

Command Economic System

In a command economic system, a large part of the economic system is controlled by a centralized power. For example, in the USSR most decisions were made by the central government. This type of economy was the core of the communist philosophy.

Since the government is such a central feature of the economy, it is often involved in everything from planning to redistributing resources. A command economy is capable of creating a healthy supply of its resources, and it rewards its people with affordable prices. This capability also means that the government usually owns all the critical industries like utilities, aviation, and railroad.

In a command economy, it is theoretically possible for the government to create enough jobs and provide goods and services at an affordable rate. However, in reality, most command economies tend to focus on the most valuable resources like oil.

China or D.P.R.K. (North Korea) are examples of command economies.

Advantages of Command Economic Systems

If executed correctly, the government can mobilize resources on a massive scale. This mobility can provide jobs for almost all of the citizens.

The government can focus on the good of society rather than an individual. This focus could lead to a more efficient use of resources.

Disadvantages of Command Economic Systems

It is hard for central planners to provide for everyone's needs. This challenge forces the government to ration because it cannot calculate demand since it sets prices.

There is a lack of innovation since there is no need to take any risk. Workers are also forced to pursue jobs the government deems fit.

Market Economic System

In a free market economy, firms and households act in self-interest to determine how resources get allocated, what goods get produced and who buys the goods. This is opposite to how a command economy works, where the central government gets to keep the profits.

There is no government intervention in a pure market economy ("laissez-faire"). However, no truly free market economy exists in the world. For example, while America is a capitalist nation, our government still regulates (or attempts to control) fair trade, government programs, honest business, monopolies, etc.

In this type of economy, there is a separation of the government and the market. This separation prevents the government from becoming too powerful and keeps their interests aligned with that of the markets.

Historically, Hong Kong is considered an example of a free market society.

Advantages of a Free Market Economy

Consumers pay the highest price they want to, and businesses only produce profitable goods and services. There is a lot of incentive for entrepreneurship.

This competition for resources leads to the most efficient use of the factors of production since businesses are very competitive.

Businesses invest heavily in research and development. There is an incentive for constant innovation as companies compete to provide better products for consumers.

Disadvantages of a Free Market Economy

Due to the fiercely competitive nature of a free market, businesses will not care for the disadvantaged like the elderly or disabled. This lack of focus on societal benefit leads to higher income inequality.

Since the market is driven solely by self-interest, economic needs have a priority over social and human needs like providing healthcare for the poor. Consumers can also be exploited by monopolies.

Mixed Economic System

A mixed economy is a combination of different types of economic systems. This economic system is a cross between a market economy and command economy. In the most common types of mixed economies, the market is more or less free of government ownership except for a few key areas like transportation or sensitive industries like defense and railroad.

However, the government is also usually involved in the regulation of private businesses. The idea behind a mixed economy was to use the best of both worlds – incorporate policies that are socialist and capitalist.

To a certain extent, most countries have a mixed economic system. For example, India and France are mixed economies.

Advantages of Mixed Economies

There is less government intervention than a command economy. This results in private businesses that can run more efficiently and cut costs down than a government entity might.

The government can intervene to correct market failures. For example, most governments will come in and break up large companies if they abuse monopoly power. Another example could be the taxation of harmful products like cigarettes to reduce a negative externality of consumption.

Governments can create safety net programs like healthcare or social security.

In a mixed economy, governments can use taxation policies to redistribute income and reduce inequality.

Disadvantages of Mixed Economies

There are criticisms from both sides arguing that sometimes there is too much government intervention, and sometimes there isn't enough.

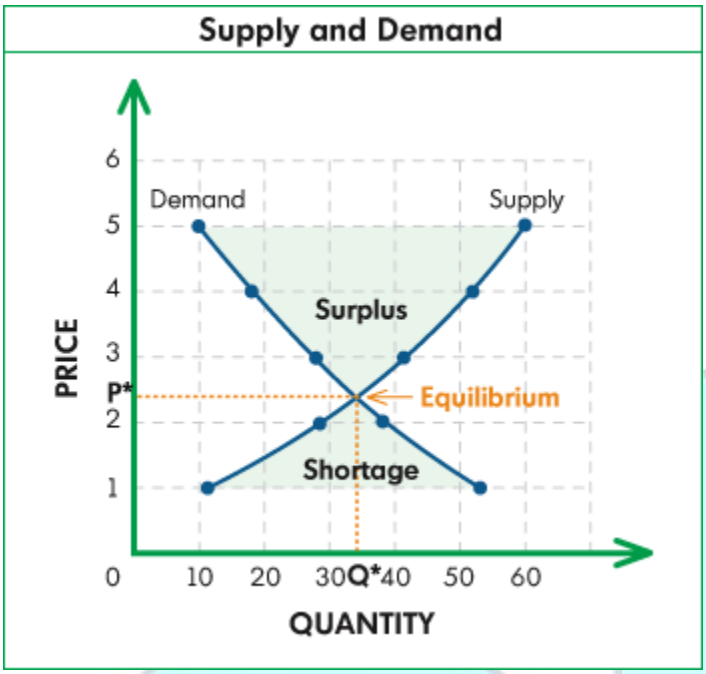
A common problem is that the state run industries are often subsidized by the government and run into large debts because they are uncompetitive.

Demand & Supply

It is perhaps one of the most fundamental tenets and provides a fundamental framework in which to assess the actions of an economy.

Definition of Demand: Demand is the quantity of a good (or service) the buyers are willing to purchase at a particular price.

Definition of Supply: Supply is the quantity of a good the sellers are willing to deliver at a particular price. Meanwhile price is a result of the constant tug-of-war between the demand and supply.



And all other random things kept constant for a good (brand, quality etc.); higher the price— lower will be the demand from the consumer (to save up for other purchases).

Higher the price, higher will be the supply from the manufacturers (make hay while the sun shines!).

The former is called the law of demand, and latter is called the law of supply.

Time also plays a huge role in a free-market economy, more so in the case of entities in a competition to serve the consumers. Stock-outs are no good for a supplier as it affects the brand and the consumer can move elsewhere.

If there is an excess of demand, the producers have to gauge the nature of demand first (seasonal, increasing trend) to react in a swift fashion, to corner the market and retain the existing customers.

The stable state of equilibrium in an economic system makes the economy efficient, the suppliers are moving their goods and the consumers are getting what they are demanding.

The only point worth noting: the point of equilibrium is ever-elusive and fluctuates like a wild boar in each minute quantum of time.

What Is the Law of Supply and Demand?

The law of supply and demand is a theory that explains the interaction between the sellers of a resource and the buyers for that resource. The theory defines how the relationship

between the availability of a particular product and the desire (or demand) for that product has on its price. Generally, low supply and high demand increase price and vice versa.

KEY TAKEAWAYS

The law of demand says that at higher prices, buyers will demand less of an economic good.

The law of supply says that at higher prices, sellers will supply more of an economic good.

These two laws interact to determine the actual market prices and volume of goods that are traded on a market.

Several independent factors can affect the shape of market supply and demand, influencing both the prices and quantities that we observe in markets.

Factors Affecting Supply

Production capacity, production costs such as labor and materials, and the number of competitors directly affect how much supply businesses can create. Ancillary factors such as material availability, weather, and the reliability of supply chains also can affect supply.

Factors Affecting Demand

The number of available substitutes, consumer preferences, and the shifts in the price of complementary products affect demand. For example, if the price of video game consoles drops, the demand for games for that console may increase as more people buy the console and want games for it.

BASIS FOR COMPARISON	DEMAND	SUPPLY
Meaning	Demand is the desire of a buyer and his ability to pay for a particular commodity at a specific	Supply is the quantity of a commodity which is made available by the producers to its

BASIS FOR COMPARISON	DEMAND	SUPPLY
	price.	consumers at a certain price.
Curve	Downward-sloping	Upward-sloping
Inter-relationship	When demand increases supply decreases, i.e. inverse relationship.	When supply increases demand decreases, i.e. inverse relationship.
Effect of Variations	Demand increases with the supply remaining the same leads to shortage while demand decreases with the supply remaining the same leads to surplus.	Supply increases with the demand remaining the same leads to surplus while supply decreases with the demand remaining the same leads to shortage.
Impact of Price	With an increase in price the demand decreases and vice versa i.e. indirect relationship.	Supply increases along with the increase in price. So it has a direct relationship.
Who represents what?	Demand represents the consumer.	Supply represents the firm.

Factors Affecting Demand and Supply

Price of the commodity

If the price of the commodity rises, then it is less demanded by the people, because people finds less utility in the product, and at that much price they can buy the other products having more utility for them. In this way, demand decreases while the supply increases.

Price of inputs

The price of the inputs has a great impact on the price of the commodity, i.e. if the cost of production rises, it ultimately results in the fall of demand and supply for the goods will also fall because now at the same amount less quantity of goods are produced and vice versa.

Price of related goods

It can simply be understood by an example- If the price of the petrol or diesel rises the demand for motorcycles or cars falls while its supply increases, but if the prices of petrol or diesel falls, then people can easily afford to travel on motorcycles or cars and this will result in the rise in demand while the supply decreases.

Substitute Products

This can also be understood by an example- If there is a rise in the price of a coffee, then most people will drop consuming coffee and will start consuming tea this will suddenly affect the demand and supply for both the products, i.e. the demand for tea will rise and its supply will fall while the demand for coffee will fall and supply will rise.

Personal Disposable Income

If there is an increase in the income of the consumer then a slight change in the price of the commodity will not affect its demand and supply. While, if the income of the consumer remains same or decreases, then a slightest change in the price will affect its demand and supply because the consumer have to spend more income on the same product which he was previously purchasing at a low price. In this way either he will demand less or will switch to some other product.

Consumer choices and preferences

If the product offered by the supplier suits the consumer choice, then he will surely demand more and its supply will fall short because of its high demand.

Demand and Supply for money

The amount of money needed for various purposes, such as purchase of commodities, acquisition of land, hiring of labor etc, that creates demand for money in the economy. On the other hand, supply for money largely depends on the country's credit control policies, which are governed by the banking system of the economy.

Conclusion

The market is flooded with several substitutes in each product category and a sudden rise or fall in the prices will have an impact on these products and their demand and supply may increase or decrease. In such a situation, an equilibrium must be maintained in the quantity demanded and the quantity supplied without neglecting the price factor at which the product is supplied.

The equilibrium in the quantity demanded and supplied will help the firm to stabilize and survive in the market for a longer duration while the disequilibrium in these will have

severe effects on the firm, markets, other products and the whole economy will suffer as a whole.

Money Supply and Inflation

Supplying the money in the market is the sole responsibility of the central bank of the country (Reserve Bank of India in case of India). RBI prints the currency and supplies money in the economy. Coins are minted by the Ministry of Finance but circulated by the RBI in the whole country. Supply of money decides the rate of inflation in the economy. If supply of money increases in the economy then inflation starts rising and vice versa.

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The currency issued by the central bank is in fact a liability of the central bank and the government. In general therefore this liability must be backed by an equal value of assets consisting mainly of gold and foreign exchange reserves, especially in terms of high power foreign currencies.

In India money supply is done on the basis of Minimum Reserve System since 1956. The RBI required holding a reserve of Gold and foreign securities and it is empowered to issue currency to any extent. Since 1957, the Minimum Reserve System changed to Gold reserve of Rs. 115 cr. and rupee securities of 85 cr. Hence RBI needs to keep 200 cr. as security to print any amount of currency in the economy.

Monetary Aggregates according to RBI

M0 (Reserve Money): Currency in circulation + Bankers' deposits with the RBI + 'Other' deposits with the RBI = Net RBI credit to the Government + RBI credit to the commercial sector + RBI's claims on banks + RBI's net foreign assets + Government's currency liabilities to the public – RBI's net non-monetary liabilities.

M1 (Narrow Money): Currency with the public + Deposit money of the public (Demand deposits with the banking system + 'Other' deposits with the RBI).

M2: M1 + Savings deposits with Post office savings banks.

M3 (Broad Money): M1+ Time deposits with the banking system = Net bank credit to the Government + Bank credit to the commercial sector + Net foreign exchange assets of the

banking sector + Government's currency liabilities to the public – Net non-monetary liabilities of the banking sector (Other than Time Deposits).

M4 (Broad Money): M3 + All deposits with post office savings banks (excluding National Savings Certificates).

Money Supply M3 in India increased to 112200.55 INR Billion in October from 110835.65 INR Billion in September of 2015. Money Supply M3 in India averaged 18279.23 INR Billion from 1972 until 2015, reaching an all time high of 112200.55 INR Billion in October of 2015 and a record low of 123.52 INR Billion in January of 1972. Money Supply M3 in India is reported by the Reserve Bank of India.

Quantity Theory

The quantity theory of money proposes that the exchange value of money is determined like any other good, with supply and demand. The basic equation for the quantity theory is called The Fisher Equation because it was developed by American economist Irving Fisher. In it's simplest form, it looks like this:

(M)(V)=(P)(T)

where:

M=Money Supply

V=Velocity of circulation (the number of times

money changes hands)

P=Average Price Level

T=Volume of transactions of goods and services

Some variants of the quantity theory propose that inflation and deflation occur proportionately to increases or decreases in the supply of money. Empirical evidence has not demonstrated this, and most economists do not hold this view.

A more nuanced version of the quantity theory adds two caveats:

New money has to actually circulate in the economy to cause inflation.

Inflation is relative—not absolute.

In other words, prices tend to be higher than they otherwise would have been if more dollar bills are involved in economic transactions.

Challenges to Quantity Theory

Keynesian and other non-monetarist economists reject orthodox interpretations of the quantity theory. Their definitions of inflation focus more on actual price increases, with or without money supply considerations.

According to Keynesian economists, inflation comes in two varieties: demand-pull and cost-push. Demand-pull inflation occurs when consumers demand goods, possibly because of a larger money supply, at a rate faster than production. Cost-push inflation occurs when the input prices for goods tend to rise, possibly because of a larger money supply, at a rate faster than consumer preferences change.

How to Measure Inflation in India

1. GDP Deflator: The GDP deflator is another indicator of inflation, which is often considered to be broader than the CPI and the WPI. The GDP deflator in most countries is obtained by using a variety of primary price indices. These are used to deflate individual components of the GDP valued at current prices (either from the production or the demand side estimates) to obtain volume estimates.

2. The GDP deflator is then defined implicitly as the ratio of the estimate at current prices to the one at constant prices. When this process is followed, the GDP deflator is legitimately recognized as a high quality measure of inflation. Nonetheless, given the delay in publication of national accounts it is seldom used as a headline indicator of inflation in a real-time setting.

3. Consumer Price Index: The overall CPI is meant to represent the cost of a representative basket of goods and services consumed by an average household. However, in India, the existing CPIs refer to specific segments of the population.

Types of CPI

1. Consumer Price Index for Agricultural Labourers (CPI-AW)

2. Consumer Price Index for Industrial Workers (CPI-IW)

3. Consumer Price Index for Urban Non-Manual Employees (CPI-UNME)

Consumer Price Index for Urban Non Manual Employees was earlier computed by Central Statistical Organisation. However this index has been discontinued since April 2008.The CPI (IW) and CPI (AL& RL) compiled is occupation specific and centre specific and are compiled by Labour Bureau.

This means that these index numbers measure changes in the retail price of the basket of goods and services consumed by the specific occupational groups in the specific centre. CPI

(Urban) and CPI (Rural) are new indices in the group of Consumer price index and has a wider coverage of population.

This index compiled by Central Statistical Organisation tries to encompass the entire population and is likely to replace all the other indices presently compiled. In addition to this, Consumer Food Price Indices (CFPI) for all India for rural, urban and combined separately are also released w.e.f May, 2014.

Conclusion: Supply of money and inflation are positively co-related to each other. If supply of money increases in an economy and production/ supply of goods/ services do not follow it, then inflation increases inevitably.

Money

Money is a concept which we all understand but which is difficult to define in exact terms.

Money is anything serving as a medium of exchange. Most definitions of money take 'functions of money' as their starting point. 'Money is that which money does.' According to Prof. Walker, 'Money is as money does.'

This means that the term money should be used to include anything which performs the functions of money, viz., medium of exchange, measure of value, unit of account, etc. Since general acceptability is the fundamental characteristic of money, therefore, money may be defined as 'anything which is generally acceptable by the people in exchange of goods and services or in repayment of debts.'

Functions of Money:

In general terms, the main function of money in an economic system is "to facilitate the exchange of goods and services and help in carrying out trade smoothly." Its basic characteristic is general acceptability. Functions of money are reflected in the following well- known couplet:

"Money is a matter of functions four A medium, a measure, a standard, a store."

Thus conventionally money performs the following four main functions, each of which overcomes one or the other difficulty of barter. Medium of exchange and measure of value are primary functions because they are of prime Importance whereas standard of deferred payment and store of value are called secondary functions because they are derived from primary functions.

Money as the Medium of Exchange:

Money came into use to remove the inconveniences of barter as money has separated the act of purchase from sale. Medium of exchange is the basic or primary function of money. People exchange goods and services through the medium of money. Money acts as a

medium of exchange or as a medium of payments. Money by itself has no utility (except perhaps to the miser). It is only an intermediary.

Money as a Unit of Account or Measure of Value: Money serves as a unit of account or a measure of value. Money is the measuring rod, i.e., it is the units in terms of which the values of other goods and services are measured in money terms and expressed accordingly Different goods produced in the country are measured in different units like cloth m metres, milk in litres and sugar in kilograms.

Without a common unit, exchange of goods becomes very difficult Values of all goods and services can be expressed easily in a single unit called money Again without a measure of value, there can be no pricing process. Without a pricing process organised marketing and production is not possible. Thus, the use of money as a measure of value is the basis of specialised production.

The measuring rod of money is also indispensable to all forms of economic planning. Consumers compare the values of alternative purchases m terms of money Producers also compare the values of alternative purchases m terms of money. Producers compare the relative costliness of the factors of production in terms of money and also plan their output on the basis of the money yield. It is, therefore, highly important that the value of money should be stable.

Money as the Standard of Deferred Payments:

Deferred payments are payments which are made some time in the future. Debts are usually expressed in terms of the money of account. Loans are taken and repaid in terms of money.

The use of money as the standard of deterred or delayed payments immensely simplifies borrowing and lending operations because money generally maintains a constant value through time. Thus, money facilitates the formation of capital markets and the work of financial intermediaries like Stock Exchange, Investment Trust and Banks. Money is the link which connects the values of today with those of the future.

Money as a Store of Value:

Wealth can be stored in terms of money for future. It serves as a store value of goods in liquid form. By spending it, we can get any commodity in future. Keynes places great emphasis on this function of money. Holding money is equivalent to keeping a reserve of liquid assets because it can be easily converted into other things.

People therefore normally wish to keep a part of their wealth in the form of money because savings in terms of goods is very difficult. This desire is known as liquidity preference. Clearly money is the best form of store of value. Wheat or any other product which will

command a value cannot be stored for a long period.Another Function 'Liquidity of Money' is added these days. Money is perfectly liquid. Liquidity means convertibility into cash. Thus, the ability to convert an asset into money quickly and without loss of value is called liquidity of asset. Modern economists are laying stress on liquidity of money.

Since, by definition, money is the most generally accepted commodity, it is also the most liquid of all resources. Possession of money enables one to get hold of almost any commodity in any place and money never locks a buyer. It is this peculiarity which distinguishes money from all other commodities. A preference for liquidity is preference for money.

Money, thus, acts as common medium of exchange, a common measure of value, as standard of deferred payments and a store of value.

The use of money facilitates exchange, exchange promotes specialisation Increases productivity and efficiency A good monetary system is, therefore, of immense utility to human society. Money is also called a bearer of options or generalised purchasing power because it provides freedom of choice to buy things he wants most from those who offer best bargain.

Theories of Interest

Productivity Theory:

According to productivity theory, interest can be defined as a reward for availing the services of capital for the production purpose.

Labor that is having good amount of capital produces more as compared to the labor who is not assisted by good amount of capital.

For example, farmer having tractor to plough the field produces more as compared to the farmer who does not have it. Thus, interest is the payment for the productivity of capital.

However, the productivity theory is criticized on the following grounds:

i. Focuses only on the causes for what the interest is paid, not on the determination of interest rates.

ii. Assumes that interest is paid due to the productivity of capital. In such a case, pure interest should vary as per the productivity of the capital. However, pure interest is the same in money market during the same period of time.

iii. Lays emphasis on the demand of interest, but ignores the supply side of capital.

iv. Fails to explain how the interest is paid for the loan borrowed for consumption purposes.

Abstinence or Waiting Theory:

The abstinence theory was propounded by Senior. According to him, interest is a reward for abstinence. When an individual saves money out of his/her income and lends it to other individual, he/she makes sacrifice. The term sacrifice implies that the individual refrains from consuming his/her whole income that he/she could spent easily. Senior advocated that abstaining from consumption is unpleasant. Therefore, the lender must be rewarded for this. Thus, as per Senior, interest can be regarded as the reward for refraining from the use of capital.

Abstinence theory was also criticized by a number of economists. According to the theory, an individual feels unpleasant when they save as it reduces his/her consumption. However, rich people do not feel unpleasant while saving because they are able to meet their requirements.

Therefore, Marshall has replaced the term abstinence with waiting and described saving in terms of waiting. He states that saving is done by transferring the present requirement to the future and the person needs to wait for meeting those requirements. However, people do not want to wait rather they are motivated to save money by providing a certain amount of interest.

Austrian or Agio Theory:

Austrian theory is also termed as psychological theory of interest. This theory was advocated by John Rae and Bohm Bawerk in an Austrian school. According to Austrian theory, interest came into existence because present goods are preferred over future goods. Therefore, the present goods have premium with them in the form of interest. In other words, present satisfaction is of greater concern as compared to future satisfaction.

Therefore, future satisfaction has certain type of discount if compared with present satisfaction. The interest is the discounted amount that is required to be paid for motivating people to invest or transfer their present requirements to future. For example, an individual has to make a choice between two options.

He/she can either have Rs. 500 now or the same amount after a year. In such a case, he/she would prefer to have Rs. 500 in present. However, in case, the individual has a choice of getting Rs. 500 in present and Rs. 600 after one year.

In such a case, he/she would be more inclined toward getting Rs. 600 after a year. Thus, the extra payment of Rs. 100 would compensate the sacrifice involved in delaying his/her present satisfaction. The extra payment of Rs. 100 in the given case is considered as interest.

Agio theory' has been criticized by various economists on the following grounds:

i. Lays too much emphasis on the supply aspect and ignores the demand aspect

ii. Does not focus on the determination of rate of interest

Classical or Real Theory:

Classical theory helps in the determination of rate of interest with the help of demand and supply forces. Demand refers to the demand of investment and supply refers to the supply of savings. According to this theory, rate of interest refers to the amount paid for saving.

Therefore, the rate of interest can be determined with the help of demand for saving money to be invested in the capital goods and the supply of savings. Let us understand the concept of demand of investment. Capital goods are used for the production of consumer goods and provide returns continuously for many years.

However, a certain degree of uncertainty is associated with capital goods due to their future use. In addition, operation and maintenance costs are involved in using capital goods. This makes organizations to calculate the net expected return on the marginal cost that is represented as the percentage of cost of capital good.

In case, an organization has similar type of capital goods, then the increase in one more capital good would not yield them high revenue. The increase in the rate of interest would result in the fall of demand of capital goods.

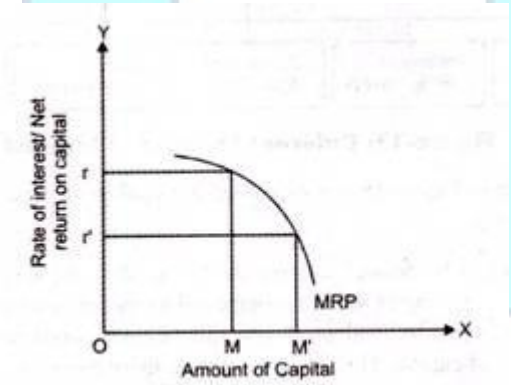

Figure-18: Demand for Investment

In Figure, MRP represents the marginal revenue productivity curve. When the demand of capital is OM, then the rate of interest is Or. The net rate of return becomes equal to the current rate of interest (Or) at the OM demand of capital.

In case, the rate of interest decreases to Or', then the demand of capital increases to OM'. The net rate of return is equal to Or' when the amount of capital demanded is OM'. The demand for capital goods increases with a decrease in the rate of interest.

O the other hand, the supply of capital increases by the amount saved by an individual and the saving is done by transferring the present requirement to the future requirement. The rate of interest would increase with the increase in the amount of saving by an individual.

The rate of interest can be determined with the help of demand of investment and supply of savings. It would be the point of equilibrium where demand and supply intersects each other or get equal.

Determination of rate of interest with the help of demand and supply curves:

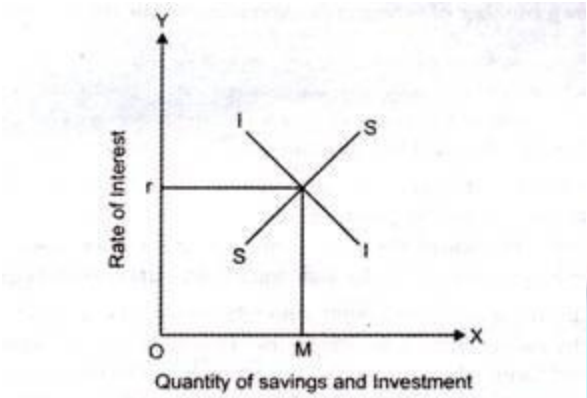

Figure-19: Determination of Rate of Interest

In Figure, SS is the supply curve of saving and II is the demand curve of investment that intersect each other at Or rate of interest with quantity of saving and investment is OM. OM represents the amount that is lent, borrowed and used for investment. The rate of interest can be changed by changing the demand and supply of savings and investment.

The classical theory is criticized by Keynes due to various reasons, which are as follows:

i. Assumes the full employment of resources, which is not true in reality. This is because if one resource is reduced from one production process, then it would be utilized for other production process. On the contrary, if resources are available in abundant, then there is no need to save them.

ii. Assumes that investment can be increased only when individuals reduce their consumption. This is because if the consumption is less, then the saving would increase, which would lead to the increase in investment. However, if the demand of capital goods decreases, then the incentive to produce capital goods would also decrease. This would result in the decrease of investment.

iii. Assumes that there is no change in the income level of an individual. Thus, according to classical theory, saving and investment become equal due to change in rate of interest. However, according to Keynes theory, savings and investment become equal because of changes occur in the income level of an individual.

Business Cycle

What Is a Business Cycle?

The business cycle describes the rise and fall in production output of goods and services in an economy. Business cycles are generally measured using the rise and fall in the real gross domestic product (GDP) or the GDP adjusted for inflation.

The business cycle should not be confused with market cycles, which are measured using broad stock market indices. The business cycle is also different from the debt cycle, which refers to the rise and fall in household and government debt.

The business cycle is also known as the economic cycle or trade cycle.

History Business Cycles

Business cycles are fluctuations in economic activity that an economy experiences over a period of time. Actual fluctuations in real GDP, however, are far from consistent. These fluctuations include output from all sectors including households, nonprofits, governments, as well as business output. "Output cycle" is thus a better description of what is measured.

The business cycle is characterized by expansion and contraction. During expansion, the economy experiences growth, while a contraction is a period of economic decline. Contractions are also called recessions.

After World War II, expansions were mostly associated with population growth, urban sprawl, and the advent of consumerism. By the 1970s, growth came more from debt injections through consumer credit cards, mortgages, commercial, and industrial loans—as opposed to equity funding—followed by the dot-com speculation and then more mortgage debt.

KEY TAKEAWAYS

Business cycles are the rise and fall in production output of goods and services in an economy.

The stages in the business cycle include expansion, peak, recession or contraction, depression, trough, and recovery.

Business cycles are measured by the National Bureau of Economic Research in the United States.

After the 1990s, the average expansion lasted 95 months, while the average contraction lasted 11 months.

Stages of the Business Cycle

All business cycles are characterized by several different stages, as seen below.

Boom

This is the first stage. When the expansion occurs, there is an increase in employment, incomes, production, and sales. People generally pay their debts on time. The economy has a steady flow in the money supply and investment is booming.

The second stage is a peak when the economy hits a snag, having reached the maximum level of growth. Prices hit their highest level, and economic indicators stop growing. Many people start to restructure as the economy's growth starts to reverse.

Recession

These are periods of contraction. During a recession, unemployment rises, production slows down, sales start to drop because of a decline in demand, and incomes become stagnant or decline.

Depression

Economic growth continues to drop while unemployment rises and production plummets. Consumers and businesses find it hard to secure credit, trade is reduced, and bankruptcies start to increase. Consumer confidence and investment levels also drop.

Recovery

In this stage, the economy starts to turn around. Low prices spur an increase in demand, employment and production start to rise, and lenders start to open up their credit coffers. This stage marks the end of one business cycle.

Measuring the Business Cycle

Expansion is measured from the trough (or bottom) of the previous business cycle to the peak of the current cycle, while a recession is measured from the peak to the trough.

The National Bureau of Economic Research (NBER) determines the dates for business cycles in the United States. Committee members look at real GDP and other indicators including real income, employment, industrial production, and wholesale-retail sales. Combining these measures with debt and market measures helps understand the causes of expansions.

According to the NBER, the average expansion lasted 58 months while the average contraction lasted 11 months since 1945. After the 1990s, the NBER estimates the average expansion lasted 95 months, while the average contraction remained the same.

Choosing June 2009 as the trough for the most recent recession was difficult for NBER committee members. When they looked at the data, ten measures hit lows in the period from June to December 2009. The recession began in December 2007 and lasted 18 months, making it the longest downturn recession since World War II. The longest postwar recessions were those of 1973 to 1975 and 1981 to 1982, both of which lasted 16 months.

Indian Economy & GDP

Indian Economy

India has the world's sixth largest economy in measures of GDP. It has the third largest purchasing power in the world. When we talk about the global economy, India is one of its fastest emerging players. Since our liberalization in 1991, the economy has opened up and given us plenty of opportunities to succeed. Let us look at some of the important features of the Indian Economy & GDP and solve some questions relevant to the bank exams.

Important Features of the Indian Economy & GDP

Gross Domestic Product

India had a GDP of 2.26 lac crore dollars in the year 2016. It showed a healthy growth rate of 7.1%. The World Bank has forecasted a healthy growth rate of 7.3% in the year 2018-19 as well and this augments well for the Indian economy. It is predicted that if the current flow of events continues, by 2028 India will be the third largest economy in the world, overtaking Japan's economy.

Low Per Capita Income

While our GDP is quite healthy, the per capita income of Indians is very low in comparison to other developed economies. One reason is the vast 1.2 billion population of India. For the first time in 2016-17, the per capita income rose above 1 lac, roughly recorded at 1861.50$. To better understand the low levels, the same per capita income in the USA was $ 52,195.

Indian Economy is a Mixed Economy

In the Indian economy, both private sector and public sector companies co-exist in perfect harmony. The big industries, especially those for vast public use, are public sector companies. Some examples are MTNL, Mahanagar Gas etc. And the economy has seen a huge boost in the private sector as well since the liberalization in 1991. Hence India is the perfect example of a mixed economy.

Agriculture is the most important sector

It would not be incorrect to call the Indian economy an agricultural based economy. Agriculture to date employs more than fifty percent of India's workforce either directly or indirectly. The agricultural sector contributes to some 18% of our GDP. In 2017 it accounted for 12.7% of our total exports as well.

Uneven Wealth Distribution

The income and wealth disparity in the Indian economy is one of the worst in the world. According to some reports, the top 1% of the rich population has amassed 53% of the wealth in India. And even with the fast-growing economy, the rich just become richer and the poor stay the same. It is the second worst unequal wealth distribution in the world after Russia.

Human Capital

One major advantage of India's vast population is within the scope of human capital. And most of these human resources are youths. They are educated and skilled, giving India a huge advantage in the global market. They now need adequate employment opportunities to be successful.

Immense Growth of Service Sector

India has one of the fastest growing service industries in the world. Due to the immense growth in sectors like e-commerce, IT sectors, BPO etc. the service sector of India is booming. It employs nearly 28.6% of the total population and contributes 54% to the GVA.

Indian Economy Reforms

Indian economy is one of the fastest growing economies in the world. But it was a completely different scenario in 1991. The year when new policies and reforms were introduced. The year which serves as a backbone to many of the current policies and decisions. So, how exactly was the situation of India during the time of 1991? What were the major economic reforms in India that took place and changes the scenario? Let us study this in detail.

Economic Reforms in India

It was during Narasimha Rao's government in 1991, that India met with the economic crisis which occurred due to its external debt. Due to debt, the government was not able to make the payments for the borrowings it had made from the foreign countries.

As a result, the government had to adopt new measures to reform the conditions of the Indian economy. There were many programs and initiatives introduced primarily consisted of liberalization, privatization, and globalization.

The Crisis of 1991 and the Reforms

The crisis of 1991 happened largely due to inefficient management of the economy of India in the 1980s. The revenues that government was generating were not enough to meet the ever increasing expenses. Thus, the government had to borrow to pay for the debts and thus was caught in a term called debt-trap. Debt-trap is the deficit that occurs due to an increase in government expenses in comparison to the government's revenue.

Due to the failure of earlier economic policies till 1990 there was a need for need for new economic policies. The situation was worsening as India had foreign reserves which could last only for the next two weeks. There was a shortage of new loans and Indian people living abroad (NRIs) were withdrawing money in large amounts.

There was a little confidence for international investors towards the Indian economy. These points will highlight the need for a new economic policy in India. Crisis in Gulf countries, increase in fiscal deficit, prices rising, the worse balance of payments, public sector units (PSUs) performing badly, and many more.

The Emergence of New Reforms

India approached the world and international monetary fund for loan and received $7 million to manage their crisis. As a result to this, international firms and agencies expected that India will open up the door in the country by removing various restrictions majorly on private sector and thereby removing the trade restrictions between India and the other foreign countries.

India agreed to the terms and conditions and as a result, new reforms were introduced. These economic reforms in India are structurally classified as liberalization, globalization, and privatization.

Liberalization

Liberalization was brought up with the fact that any restrictions which became a hindrance to development and growth will be put to an end. Largely, this reforms made government

regulations and policies lose. It allowed for opening up of economic borders for foreign investment as well as multinationals.

There were many economic reforms introduced under liberalization. These included expansion of production capacity, abolishing industrial licensing by the government, de-reserving producing areas, and freedom to import goods.

Privatization

Privatization largely refers to giving more opportunities to the private sector, such that the role of the public sector is reduced. The main objectives of privatization are reducing the workload of the public sector, providing better goods and services to the end users, improving the government's financial condition, and many more. Privatization is a way to allow the entry of foreign direct investments and bringing healthy competition into the economy.

Globalization

Globalization in simpler terms is to connect with the world. In this context, globalization means the integration of the economy of India with that of the world. Thus, it encourages private and foreign investment and also foreign trade. Globalization attempts to establish the links in such a way that the Indian happenings can be met by the world or vice versa.

Major Highlights on the Economic Reforms in India

During the reform period, the growth in service was increasing, while the agriculture sector saw a decline, and the industrial sector was fluctuating.

The opening up of the Indian economy led to a sharp increase in the FDIs and foreign exchange reserve.

This foreign investment includes foreign institutional investment and direct investment.

India is one of the successful exporters of engineering goods, auto parts, IT software, textiles during the time of the reforms.

The price rise during the reforms was also kept under control.

Failures of the Economic Reforms in India

The agriculture sector was neglected and the public investment in this sector was reduced and hence the infrastructure areas were affected.

The subsidies on the fertilizers were removed and hence it led to an increase in the cost of production which affected many marginal and small farmers.

Further, many policies were introduced which reduce the import duties on agriculture products, reduce the minimum support price increased the threat of international organizations competing with th3 the local farmers.

The industrial sector saw uneven growth.

The imports were made cheaper as a result of which the demand for the industrial goods reduced.

The globalization which allowed for free trade between the countries affected adversely on the local industries and thus affected employment opportunities.

The reforms led to an increase in economic colonialism.

It also led to the erosion of culture.

The investments in many infrastructural facilities like power supply were inadequate.

Fiscal and Monetary Policy

Fiscal Policy

Fiscal policy relates to the impact of government spending and tax on aggregate demand and the economy.

Expansionary fiscal policy is an attempt to increase aggregate demand and will involve higher government spending and lower taxes.

Expansionary fiscal policy will lead to a larger budget deficit.

Deflationary fiscal policy is an attempt to reduce aggregate demand and will involve lower spending and higher taxes.

This deflationary fiscal policy will help reduce a budget deficit.

Monetary Policy

The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth. Price stability is a necessary precondition for sustainable growth.

To maintain price stability, inflation needs to be controlled. The government of India sets an inflation target for every five years. RBI has an important role in the consultation process regarding inflation targeting. The current inflation targeting framework in India is flexible in nature.

Monetary Policy Instruments

There are several direct and indirect instruments that are used for implementing monetary policy.

Repo Rate: The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).

Reverse Repo Rate: The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.

Liquidity Adjustment Facility (LAF): The LAF consists of overnight as well as term repo auctions. Progressively, the Reserve Bank has increased the proportion of liquidity injected under fine-tuning variable rate repo auctions of a range of tenors. The aim of term repo is to help develop the inter-bank term money market, which in turn can set market-based benchmarks for pricing of loans and deposits, and hence improve the transmission of monetary policy. The Reserve Bank also conducts variable interest rate reverse repo auctions, as necessitated under the market conditions.

Marginal Standing Facility (MSF): A facility under which scheduled commercial banks can borrow an additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.

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

Bank Rate: It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

Cash Reserve Ratio (CRR): The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such percent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.

Statutory Liquidity Ratio (SLR): The share of NDTL that a bank is required to maintain in safe and liquid assets, such as unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.

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

Market Stabilisation Scheme (MSS): This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through the sale of short-dated government securities and treasury bills. The cash so mobilised is held in a separate government account with the Reserve Bank.

Similarities and differences between Fiscal and Monetary Policy

	Monetary Policy	Fiscal Policy
Tool	Interest rates	Tax and government spending
Effect	Cost of borrowing/mortgages	Budget deficit
Distribution	Higher interest rates hit homeowners but benefit savers	Depends which taxes you raise.
Exchange rate	Higher interest rates cause appreciation	No effect on exchange rate
Supply-side	Limited impact	Higher taxes may affect incentives to work
Politics	Monetary policy set by independent Central Bank	Changing tax and government spending highly political.
Liquidity trap	Cuts in interest rates may not work in liquidity trap	Fiscal policy advised in very deep recessions

Third Bi-Monthly Monetary Policy Of RBI 2019-20 (Updated- 6th August 2019)

Repo Rate	5.40 %
Reverse Repo Rate	5.15 %
Marginal standing facility (MSF) Rate	5.65 %

Bank Rate	5.65 %

Cash reserve Ratio(CRR)	4%
Statutory Liquidity Ratio(SLR)(will change on October 12, 2019)	18.75%

GDP

What Is GDP?

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of the country's economic health.

Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. In the United States, for example, the government releases an annualized GDP estimate for each quarter and also for an entire year. Most of the individual data sets will also be given in real terms, meaning that the data is adjusted for price changes, and is, therefore, net of inflation.

The Basics of GDP

GDP includes all private and public consumption, government outlays, investments, additions to private inventories, paid-in construction costs, and the foreign balance of trade (exports are added, imports are subtracted).

There are several types of GDP measurements:

Nominal GDP is the measurement of the raw data.

Real GDP takes into account the impact of inflation and allows comparisons of economic output from one year to the next and other comparisons over periods of time.

GDP growth rate is the increase in GDP from quarter to quarter.

GDP per capita measures GDP per person in the national populace; it is a useful way to compare GDP data between various countries.

The balance of trade is one of the key components of a country's (GDP) formula. GDP increases when the total value of goods and services that domestic producers sell to foreigners exceeds the total value of foreign goods and services that domestic consumers buy, otherwise known as a trade surplus. If domestic consumers spend more on foreign products than domestic producers sell to foreign consumers —a trade deficit—then GDP decreases.

KEY TAKEAWAYS

Gross Domestic Product (GDP) is the monetary value of all finished goods and services made within a country during a specific period.

GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

GDP can be calculated in three ways, using expenditures, production, or incomes. It can be adjusted for inflation and population to provide deeper insights.

Though it has limitations, GDP is a key tool to guide policymakers, investors, and businesses in strategic decision making.

How Is the GDP of India Calculated?

Gross domestic product (GDP) is the single standard indicator used across the globe to indicate the health of an economy. Policy makers, investors, economists, businesses, bankers, politicians, and even the media keep a close watch on GDP estimates. GDP provides one single number that represents the monetary value of all the finished goods and services produced within a country's borders in a specific period. GDP may be easy to define but it is complex to calculate, and countries across the globe have different methods to arrive at their country's GDP. This article discusses how India calculates its GDP.

The Data Collection Process

The Central Statistics Office (CSO), under the Ministry of Statistics and Program Implementation, is responsible for macroeconomic data gathering and statistical record keeping. Its processes involve conducting an annual survey of industries and compilation of various indexes like the Index of Industrial Production (IIP), Consumer Price Index (CPI), etc.

The CSO coordinates with various federal and state government agencies and departments to collect and compile the data required to calculate the GDP and other statistics. For example, data points specific to manufacturing, crop yields, or commodities, which are used for the Wholesale Price Index (WPI) and CPI calculations, are gathered and calibrated by the Price Monitoring Cell in the Department of Consumer Affairs under the Ministry of Consumer Affairs. Similarly, production-related data used for calculating IIP is sourced

from the Industrial Statistics Unit of the Department of Industrial Policy and Promotion under the Ministry of Commerce and Industry.

All the required data points are collected and aggregated at the CSO and used to arrive at GDP numbers.

The GDP Calculation Process

The GDP in India is calculated using two different methods, leading to differing figures that are nonetheless close in range.

The first method is based on economic activity (at factor cost), and the second is based on expenditure (at market prices). Further calculations are made to arrive at nominal GDP (using current market price) and real GDP (inflation-adjusted). Among the four released numbers, the GDP at factor cost is the most commonly followed figure and reported in the media. A sample GDP report that indicates the GDP calculation for all four figures can be accessed here. (See related: Nominal vs. Real GDP, and the GDP Deflator.)

The factor cost figure is calculated by collecting data for the net change in value for each sector during a particular time period. The following eight industry sectors are considered in this cost:

i)Agriculture, forestry, and fishing

ii) Mining and quarrying

iii) Manufacturing

iv) Electricity, gas and water supply

v) Construction

vi) Trade, hotels, transport, and communication

vii) Financing, insurance, real estate, and business services

viii) Community, social and personal services

Challenges facing Indian economy

Providing Essential Public Services for the Poor:

The most important challenge is how to provide essential public services such as education, health to large parts of our population who are denied these services at present. The performance of education and health sector is disappointing. There are large gaps in respect of educational facilities, health care and in related services such as maternal and

child care, clean drinking water and access to basic sanitation facilities for the mass of our population especially the poor who do not have even minimum access.

Regaining Agricultural Dynamism:

One of the major challenges of the Eleventh Plan must be to reverse the deceleration in agricultural growth from 3.2 per cent observed between 1980 and 1996-97 to a trend average of only 1.5 per cent subsequently. This deceleration is undoubtedly at the root of the problem of rural distress that has surfaced in many parts of the country. This deceleration is affecting all farm size classes. A second green revolution is urgently needed to raise the growth rate of agricultural GDP to around 4 per cent. The challenge posed is to at least double the rate of agricultural growth. This calls for action on both the demand side and supply side.

Increasing Manufacturing Competitiveness:

The manufacturing sector has also not grown as rapidly as might have been expected. The average growth rate of this sector has accelerated compared to the Ninth Plan but is unlikely to exceed 8 per cent in the Tenth Plan. It should be targeted to grow around 12 per cent or so if we want to achieve a GDP growth rate of 9 per cent.

India's performance in IT enabled services and other high end services is clearly a source of strength that we must build upon. However, India cannot afford to neglect manufacturing activities. We have a dynamic entrepreneurial class that has gained confidence in its ability to compete. We have skilled labour and excellent management capability.

However, there are other constraints that limit our competitiveness, especially in labour intensive manufacturing. The Eleventh Plan must address these on a priority basis. The most important constraint in achieving a faster growth of manufacturing is the fact that infrastructure, consisting of roads, railways, ports, airports, communication and electric power, is not up to the standards prevalent in our competitor countries.

This must be substantially rectified with the next 5 to 10 years if our enterprises are to compete effectively. Indian industry expects a level playing field in terms of quality of infrastructure. This should have high priority in the Eleventh Plan.

Shortage of electric power and the unreliability of power supply are universally recognized as a drag on the pace of India's development. Our competitors benefit from round the clock supply of power at stable voltage and frequency, but this remains elusive in most parts of India. The management of power systems, especially distribution's the responsibility of state governments and a decisive improvement in this area is a critical challenge.

Developing Human Resources:

Development of human resources is very much crucial for attaining economic development which poses as an important challenge before the Eleventh Plan. In order to ensure a continuous and growing supply of quality of manpower we need large investments in public sector institutions of higher learning, combined with fundamental reforms of the curriculum and also service conditions to attract high quality faculty.

The scope for expanding capacity through private sector initiatives in higher learning must also be fully exploited, while also ensuring that quality standards are not diluted. Unless this is done on an urgent basis, we will fail to attain global standards. India has historically lagged behind in the area of technical/vocational training and even today enrolment rates in ITIs and others Vocational institutes, including nursing and computer training schools, is only about a third of that in higher education.

This is quite the opposite of other Asian Countries which have outperformed use in labour intensive manufactures. Our ITIs will have to be substantially expanded not only in terms of the persons they train but also in the number of different skills and trades they teach. The quality and range of their training should keep pace with the changing needs of the economy.

Protecting the Environment:

Environmental concerns are growing globally as well as within the country. While there may appear to be a trade-off between environmental sustainability and economic growth in the short run, it has to be recognized, that in the longer run environmental sustainability and human well-being are not necessarily in conflict.

Neglect of environmental considerations, as for example in profligate use of water or deforestation can lead to adverse effects very quickly. The threat of climate change also poses real challenge to the well being of future generations which we can ill afford to ignore. Our developmental strategy has to be sensitive to these growing concerns and should ensure that these threats and trade-offs are appropriately evaluated.

Improving Rehabilitation and Resettlement Practices:

Another important challenges before the Government is to improve the rehabilitation and resettlement practices. Our practices regarding rehabilitation of those displaced from their land because of development projects are seriously deficient and are responsible for a growing perception of exclusion and marginalization.

The costs of displacement born by our tribal population have been unduly high and compensation has been tardy and inadequate, leading to serious unrest in many tribal regions and also in some other regions. Such unrest is also visible in respect of land acquisitions related to Special Economic Zones (SEZs).

This discontent is likely to grow exponentially if the benefits from enforced land acquisition are seen accruing to private interests, or even to the state, at the cost of those displaced. In order to prevent even greater conflict and threat to peace and development, it is necessary to frame a transparent set of policy rules that address compensation and make the affected persons beneficiaries of the projects and to given these rules a legal format in terms of the rights of the displaced. In addition to those displaced by development projects, those displaced by social upheavals should also be properly resettled.

Improving Governance:

Improving the governance is another serious challenge faced by the country at this moment. All our efforts to achieve rapid and inclusive development will come to naught if we cannot ensure good governance both in the manner public programmes are implemented and, equally important, in the way the government interests with the ordinary citizen.

Corruption is now seen to be endemic in all spheres and this problem needs to be addressed urgently. Better design of projects and implementation mechanisms and procedures can reduce the scope of corruption.

Glossary of Economic

A

Aggregate demand (AD)

Also called domestic final demand (DFD) or effective demand.

The total demand for final goods and services in an economy at a given time. It specifies the amounts of goods and services that will be purchased at all possible price levels. Aggregate demand can also be interpreted as the demand for the gross domestic product of a country. It is often called effective demand, though this term also has a distinct meaning.

agricultural economics

An applied field of economics concerned with the application of economic theory in optimizing the production and distribution of food.

allocative efficiency

A state of the economy in which production represents consumer preferences; in particular, every good or service is produced up to the point where the last unit provides a marginal benefit to consumers equal to the marginal cost of producing. In the single-price model, at the point of allocative efficiency, price is equal to marginal cost.

antitrust law

Also called a competition law or anti-monopoly law.

Any law that promotes or seeks to maintain market competition by regulating anti-competitive conduct by companies. Competition law is implemented through public and private enforcement. It is also known as "antitrust law" in the United States for historical reasons and as "anti-monopoly law" in China and Russia.

applied economics

The application of economic theory and econometrics in specific settings. As one of the two sets of fields of economics (the other being the core), it is typically characterized by the application of the core, i.e. economic theory and econometrics, to address practical issues in a range of fields.

appropriate technology

A movement (and its manifestations) encompassing technological choice and application that is small-scale, decentralized, labor-intensive, energy-efficient, environmentally sound, and locally autonomous.

arbitrage

The practice of taking advantage of a price difference between two or more markets by striking a combination of matching deals that capitalize upon the imbalance, with the profit being the difference between the market prices.

average cost

Also called unit cost.

A quantity equal to the total cost divided by the number of goods produced (the output quantity, Q). It is also equal to the sum of variable costs (total variable costs divided by Q) plus average fixed costs (total fixed costs divided by Q).

average fixed cost

The fixed costs (FC) of production divided by the quantity (Q) of output produced. Fixed costs are those costs that must be incurred in fixed quantity regardless of the level of output produced.

average variable cost

A firm's variable costs (labour, electricity, etc.) divided by the quantity of output produced. Variable costs are those costs which vary with the output.

average tax rate

The ratio of the total amount of taxes paid to the total tax base (taxable income or spending), expressed as a percentage

B

Backward induction

The process of reasoning backwards in time, from the end of a problem or situation, to determine a sequence of optimal actions. It proceeds by first considering the last time a decision might be made and choosing what to do in any situation at that time. Using this information, one can then determine what to do at the second-to-last time of decision. This process continues backwards until one has determined the best action for every possible situation (i.e. for every possible information set) at every point in time.

Balance of payments

Also called balance of international payments and abbreviated B.O.P. or BoP.

A record or summary of all economic transactions between the residents of a country and the rest of the world in a particular period of time (e.g. over a quarter of a year or, more commonly, over a year). These transactions are made by individuals, firms and government bodies. Thus the balance of payments includes all external visible and non-visible transactions of a country.

Balance of trade

Also called commercial balance or net exports (NX).

The difference between the monetary value of a nation's exports and imports over a certain period. Sometimes a distinction is made between a balance of trade for goods versus one for services. "Balance of trade" can be a misleading term because trade measures a flow of exports and imports over a given period of time, rather than a balance of exports and imports at a given point in time. Also, balance of trade does not necessarily imply that exports and imports are "in balance" with each other or anything else.

Balanced budget

A budget, particularly that of a government, in which revenues are equal to expenditures. Thus, neither a budget deficit nor a budget surplus exists (the accounts "balance"). The term may also refer more generally to a budget that has no budget deficit but could possibly have a budget surplus. A cyclically balanced budget is a budget that is not

necessarily balanced year-to-year, but is balanced over the economic cycle, running a surplus in boom years and running a deficit in lean years, with these offsetting over time.

Bank

A financial institution that accepts deposits from the public and creates credit. Lending activities can be performed either directly or indirectly through capital markets. Due to their importance in the financial stability of a country, banks are highly regulated in most countries. Most nations have institutionalized a system known as fractional reserve banking, under which banks hold liquid assets equal to only a portion of their current liabilities. In addition to other regulations intended to ensure liquidity, banks are generally subject to minimum capital requirements based on an international set of capital standards, known as the Basel Accords.

Bankruptcy

The inability to pay debt due to loss of income, increased spending, or an unforeseen financial crisis.

Barriers to entry

In theories of competition in economics, a cost that must be incurred by a new entrant into a market that incumbents do not have or have not had to incur. Because barriers to entry protect incumbent firms and restrict competition in a market, they can contribute to distortionary prices and are therefore most important when discussing antitrust policy. Barriers to entry often cause or aid the existence of monopolies or give companies market power.

Barter

In trade, a system of exchange in which participants in a transaction directly exchange goods or services for other goods or services without using a medium of exchange, such as money. Economists distinguish barter from gift economies in many ways; barter, for example, features immediate reciprocal exchange that is not delayed in time. Barter usually takes place on a bilateral basis, but may be multilateral (i.e. mediated through a trade exchange). In most developed countries, barter usually only exists parallel to monetary systems to a very limited extent. Market actors use barter as a replacement for money as the method of exchange in times of monetary crisis, such as when currency becomes unstable (e.g. by hyperinflation or a deflationary spiral) or simply unavailable for conducting commerce.

Behavioral economics

The branch of economics that studies the effects of psychological, cognitive, emotional, cultural and social factors on the economic decisions of individuals and institutions and how those decisions vary from those implied by classical theory.

Bellman equation

Bequest motive

Seeks to provide an economic justification for the phenomenon of intergenerational transfers of wealth; in other words, to explain why people leave money behind when they die.

Bertrand–Edgeworth model

A microeconomic model of price-setting oligopoly which studies what happens when there is a homogeneous product (i.e. consumers want to buy from the cheapest seller) where there is a limit to the output of firms which they are willing and able to sell at a particular price. This differs from the Bertrand competition model where it is assumed that firms are willing and able to meet all demand. The limit to output can be considered a physical capacity constraint which is the same at all prices (as in Edgeworth's work) or to vary with price under other assumptions.

Black–Scholes model

Also called the Black–Scholes–Merton model.

A mathematical model for the dynamics of a financial market containing derivative investment instruments. From the partial differential equation in the model, known as the Black–Scholes equation, one can deduce the Black–Scholes formula, which gives a theoretical estimate of the price of European-style options and shows that the option has a unique price regardless of the risk of the security and its expected return (instead replacing the security's expected return with the risk-neutral rate). The formula led to a boom in options trading and provided mathematical legitimacy to the activities of the Chicago Board Options Exchange and other options markets around the world. It is widely used, although often with adjustments and corrections, by options market participants.

Board of governors

The main governing body that directs the operations of the United States Federal Reserve System. Its seven members supervise the 12 Federal Reserve Districts.

Bond

In finance, an instrument of indebtedness of the bond issuer to the holders. The most common types of bonds include municipal bonds and corporate bonds. The bond is a debt security, under which the issuer owes the holders a debt and (depending on the terms of

the bond) is obliged to pay them interest (the coupon) or to repay the principal at a later date, termed the maturity date. Interest is usually payable at fixed intervals (semiannual, annual, or sometimes monthly). Very often the bond is negotiable, that is, the ownership of the instrument can be transferred in the secondary market. This means that once the transfer agents at the bank medallion stamp the bond, it is highly liquid on the secondary market.

Borrower

See debtor.

Break-even

Also called the break-even point (BEP).

The point at which total cost and total revenue are equal, i.e. "even". There is no net loss or gain, and one has "broken even", though opportunity costs have been paid and capital has received the risk-adjusted, expected return. In short, all costs that must be paid are paid, and there is neither profit nor loss.

Bretton Woods system

A monetary system which established the rules for commercial and financial relations among the United States, Canada, Western Europe, Australia, and Japan after the 1944 Bretton Woods Agreement. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent states. The chief features of the Bretton Woods system were an obligation for each country to adopt a monetary policy that maintained its external exchange rates within 1 percent by tying its currency to gold and the ability of the IMF to bridge temporary imbalances of payments. Also, there was a need to address the lack of cooperation among other countries and to prevent competitive devaluation of the currencies.

Budget deficit

Deficit spending is the amount by which spending exceeds revenue over a particular period of time, also called simply deficit, or budget deficit; the opposite of budget surplus. The term may be applied to the budget of a government, private company, or individual.

Budget set

Also called an opportunity set.

All possible consumption bundles that someone can afford given the prices of goods and the person's income level. The budget set is bounded above by the budget line. Graphically

speaking, all the consumption bundles that lie inside and on the budget constraint form the budget set. By most definitions, budget sets must be compact and convex.

Budget surplus

big push model

A concept in development economics or welfare economics that emphasizes that a firm's decision whether to industrialize or not depends on its expectation of what other firms will do. It assumes economies of scale and oligopolistic market structure and explains when industrialization would happen.

Business cycle

Also called the economic cycle or trade cycle.

The downward and upward movement of gross domestic product (GDP) around its long-term growth trend. The length of a business cycle is the period of time containing a single boom and contraction in sequence. These fluctuations typically involve shifts over time between periods of relatively rapid economic growth (expansions or booms) and periods of relative stagnation or decline (contractions or recessions).

Business economics

A branch of applied economics which uses economic theory and quantitative methods to analyze business enterprises and the factors contributing to the diversity of organizational structures and the relationships of firms with labour, capital and product markets.

Business sector

Also called the corporate sector or sometimes simply business.

The part of the economy made up by companies. It is generally considered a subset of the domestic economy, excluding the economic activities of general government, of private households, and of non-profit organizations serving individuals.

C

Capacity utilization

The extent to which an enterprise or a nation uses its installed productive capacity. It is the relationship between output that is produced with the installed equipment and the potential output which could be produced with it if capacity was fully used.

Capital

Any asset that can enhance one's power to perform economically useful work. Capital goods, real capital, or capital assets are already-produced, durable goods or any non-financial asset that is used in production of goods or services. Capital is distinct from land (or non-renewable resources) in that capital can be increased by human labor. At any given moment in time, total physical capital may be referred to as the capital stock (which is not to be confused with the capital stock of a business entity).

Capital cost

A fixed, one-time expense incurred on the purchase of land, buildings, construction, and equipment used in the production of goods or in the rendering of services. In other words, it is the total cost needed to bring a project to a commercially operable status. Whether a particular cost is capital or not depends on many factors, such as accounting, tax laws, and materiality.

Capital flight

Occurs when money or assets rapidly flow out of a country due to an event of economic consequence. Such events may include an increase in taxes on capital or capital holders or the government of the country defaulting on its debt that disturbs investors and causes them to lower their valuation of the assets in that country or otherwise to lose confidence in its economic strength.

Capital good

A durable good that is used in the production of goods or services. Capital goods are one of the three types of producer goods, the other two being land and labour, which are also known collectively as primary factors of production. This classification originated with classical economics and has remained the dominant method for classification.

Central bank

Also called a reserve bank or monetary authority.

An institution that manages the currency, money supply, and interest rates of an entire state or nation. Central banks also usually oversee the commercial banking system of their respective countries. In contrast to a commercial bank, a central bank possesses a monopoly on increasing the monetary base in the state, and usually also prints the national currency,[39] which usually serves as the state's legal tender. Central banks also act as a "lender of last resort" to the banking sector during times of financial crisis. Most central banks usually also have supervisory and regulatory powers to ensure the solvency of member institutions, prevent bank runs, and prevent reckless or fraudulent behavior by member banks.

Certificate of Deposit (CD or COD)

A savings instrument that usually earns more interest than a savings account but is bound by limits set within a contract.

Circular flow of income

Also simply called circular flow.

A model of the economy in which the major exchanges are represented as flows of money, goods and services, etc. between economic agents. The flows of money and goods exchanged in a closed circuit correspond in value, but run in the opposite direction. The circular flow analysis is the basis of national accounts and hence of macroeconomics.

Circulation

Classical economics

Or classical political economy, is a school of thought in economics that flourished, primarily in Britain, in the late 18th and early-to-mid 19th century. Its main thinkers are held to be Adam Smith, Jean-Baptiste Say, David Ricardo, Thomas Robert Malthus, and John Stuart Mill. These economists produced a theory of market economies as largely self-regulating systems, governed by natural laws of production and exchange (famously captured by Adam Smith's metaphor of the invisible hand).

Commerce

Relates to "the exchange of goods and services, especially on a large scale". It includes legal, economic, political, social, cultural and technological systems that operate in a country or in international trade.

Commodity

Is an economic good or service that has full or substantial fungibility: that is, the market treats instances of the good as equivalent or nearly so with no regard to who produced them.

Comparative advantage

Also called opportunity cost advantage.

The ability to produce most efficiently given all of the other products that could be produced.

Competition law

Also called an antitrust law or anti-monopoly law.

Any law that promotes or seeks to maintain market competition by regulating anti-competitive conduct by companies.

Complementary goods

Goods that are bought and used together.

Compound interest

The addition of interest to the principal sum of a loan or deposit; it is often interpreted as "interest on interest". Compound interest is the result of reinvesting interest, rather than paying it out, so that interest in the next period is then earned on the principal sum plus any previously accumulated interest. Contrast simple interest.

Computational economics

A research discipline at the interface of economics, computer science, and management science which encompasses computational modeling of economic systems, whether agent-based, general-equilibrium, macroeconomic, or rational-expectations, computational econometrics and statistics, computational finance, computational tools for the design of automated internet markets, programming tools specifically designed for computational economics, and pedagogical tools for the teaching of computational economics.

Consumer choice

A theory of microeconomics that relates preferences to consumption expenditures and to consumer demand curves. It analyzes how consumers maximize the desirability of their consumption as measured by their preferences subject to limitations on their expenditures, by maximizing utility subject to a consumer budget constraint.

Consumer confidence

An economic indicator that measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation.

Consumer price index (CPI)

Measures changes in the price level of market basket of consumer goods and services purchased by households. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically. Sub-indices and sub-sub-indices are computed for different categories and sub-categories of goods and services, being combined to produce the overall index with weights reflecting their shares in the total of the consumer expenditures covered by the index. It is one of several price indices calculated by most national statistical agencies. The annual percentage change in a CPI is used as a measure of inflation. A CPI can be used to index (i.e. adjust for the effect of inflation) the real value of wages, salaries, and pensions; to regulate prices; and to deflate monetary magnitudes to show changes in real values. In most countries, the CPI, along with the population census, is one of the most closely watched national economic statistics.

Consumer surplus

Is the difference between the maximum price a consumer is willing to pay and the actual price they do pay. If a consumer is willing to pay more for a unit of a good than the current asking price, they are getting more benefit from the purchased product than they would if the price was their maximum willingness to pay. They are receiving the same benefit, the obtainment of the good, with a smaller cost as they are spending less than they would if they were charged their maximum willingness to pay.

Consumerism

Economic policies which emphasize consumption.

Consumption

According to mainstream economists, only the final purchase of goods and services by individuals constitutes consumption, while other types of expenditure — in particular, fixed investment, intermediate consumption, and government spending — are placed in separate categories (see consumer choice). Other economists define consumption much more broadly, as the aggregate of all economic activity that does not entail the design, production and marketing of goods and services (e.g. the selection, adoption, use, disposal and recycling of goods and services).

Consumption function

A mathematical function which describes a relationship between consumption and disposable income. The concept is believed to have been introduced into macroeconomics by John Maynard Keynes in 1936, who used it to develop the notion of a government spending multiplier.

Contract curve

In microeconomics, the contract curve is the set of points representing final allocations of two goods between two people that could occur as a result of mutually beneficial trading between those people given their initial allocations of the goods. All the points on this locus are Pareto efficient allocations, meaning that from any one of these points there is no reallocation that could make one of the people more satisfied with his or her allocation without making the other person less satisfied. The contract curve is the subset of the Pareto efficient points that could be reached by trading from the people's initial holdings of the two goods.

Contract theory

Studies how economic actors can and do construct contractual arrangements, generally in the presence of asymmetric information. Because of its connections with both agency and incentives, contract theory is often categorized within a field known as law and economics.

Convexity

In the Arrow–Debreu model of general economic equilibrium, agents have convex budget sets and convex preferences: At equilibrium prices, the budget hyperplane supports the best attainable indifference curve. The profit function is the convex conjugate of the cost function. Convex analysis is the standard tool for analyzing textbook economics. Non-convex phenomena in economics have been studied with nonsmooth analysis, which generalizes convex analysis.

Corporation

A type of business organization owned by many people but treated by law as though it were a person; it can own property, pay taxes, make contracts, and contribute to political causes.

Cost

In production, research, retail, and accounting, a cost is the value of money that has been used up to produce something or deliver a service, and hence is not available for use anymore. In business, the cost may be one of acquisition, in which case the amount of money expended to acquire it is counted as cost. In this case, money is the input that is gone in order to acquire the thing. This acquisition cost may be the sum of the cost of production as incurred by the original producer, and further costs of transaction as incurred by the acquirer over and above the price paid to the producer. Usually, the price also includes a mark-up for profit over the cost of production. More generalized in the field of economics, cost is a metric that is totaling up as a result of a process or as a differential for the result of a decision. Hence cost is the metric used in the standard modeling paradigm applied to economic processes. Costs (pl.) are often further described based on their timing or their applicability.

Cost curve

Is a graph of the costs of production as a function of total quantity produced. In a free market economy, productively efficient firms optimize their production process by minimizing cost consistent with each possible level of production, and the result is a cost curve; and profit maximizing firms use cost curves to decide output quantities. There are various types of cost curves, all related to each other, including total and average cost curves; marginal ("for each additional unit") cost curves, which are equal to the differential of the total cost curves; and variable cost curves. Some are applicable to the short run, others to the long run.

Cost of living

Is the cost of maintaining a certain standard of living. Changes in the cost of living over time are often operationalized in a cost-of-living index. Cost of living calculations are also used to compare the cost of maintaining a certain standard of living in different geographic areas. Differences in cost of living between locations can also be measured in terms of purchasing power parity rates.

Cost overrun

Also known as a cost increase or budget overrun, involves unexpected incurred costs. When these costs in are in excess of budgeted amounts due to an underestimation of the actual cost during budgeting, they are known by these terms.

Cost-benefit analysis (CBA)

Sometimes called benefit costs analysis (BCA).

A systematic approach to estimating the strengths and weaknesses of alternatives (for example in transactions, activities, or functional business requirements). It is used to determine options that provide the best approach to achieve benefits while preserving savings. It may be used to compare potential (or completed) courses of actions; or estimate (or evaluate) the value against costs of a single decision, project, or policy. Common areas of application include commercial transactions, functional business decisions, policy decisions (especially government policy), and project investments.

Cost-of-production theory of value

Is the theory that the price of an object or condition is determined by the sum of the cost of the resources that went into making it. The cost can comprise any of the factors of production (including labor, capital, or land) and taxation.

Credit bureau

An agency that tracks the credit, employment, and housing history of consumers and assigns them a credit score.

Credit card

Is a payment card issued to users (cardholders) to enable the cardholder to pay a merchant for goods and services based on the cardholder's promise to the card issuer to pay them for the amounts plus the other agreed charges. The card issuer (usually a bank) creates a revolving account and grants a line of credit to the cardholder, from which the cardholder can borrow money for payment to a merchant or as a cash advance.

Credit score

A numerical value assigned to a person's potential ability to repay debt. A good credit score in the United States is approximately 700.

Credit rating

Is an evaluation of the credit risk of a prospective debtor (an individual, a business, company or a government), predicting their ability to pay back the debt, and an implicit forecast of the likelihood of the debtor defaulting. The credit rating represents an evaluation of a credit rating agency of the qualitative and quantitative information for the prospective debtor, including information provided by the prospective debtor and other non-public information obtained by the credit rating agency's analysts. Credit reporting (or credit score) – is a subset of credit rating – it is a numeric evaluation of an individual's credit worthiness, which is done by a credit bureau or consumer credit reporting agency.

Credit union

A financial institution that is usually local and owned by its members.

Creditor

A person or a firm that lends money to a borrower.

Crowding out

Is a phenomenon that occurs when increased government involvement in a sector of the market economy substantially affects the remainder of the market, either on the supply or demand side of the market.

Cultural economics

Is the branch of economics that studies the relation of culture to economic outcomes. Here, 'culture' is defined by shared beliefs and preferences of respective groups. Programmatic issues include whether and how much culture matters as to economic outcomes and what its relation is to institutions.[62] As a growing field in behavioral economics, the role of culture in economic behavior is increasingly being demonstrate to cause significant differentials in decision-making and the management and valuation of assets.

Currency

Money in any form when in actual use or circulation as a medium of exchange, especially circulating banknotes and coins. A more general definition is that a currency is a "system" of money (monetary units) in common use, especially within a particular nation.

Current account

A country's current account is one of the two components of its balance of payments, the other being the capital account (also known as the financial account). The current account

consists of the balance of trade, net primary income or factor income (earnings on foreign investments minus payments made to foreign investors) and net cash transfers, that have taken place over a given period of time. The current account balance is one of two major measures of a country's foreign trade (the other being the net capital outflow). A current account surplus indicates that the value of a country's net foreign assets (i.e. assets less liabilities) grew over the period in question, and a current account deficit indicates that it shrank. Both government and private payments are included in the calculation. It is called the current account because goods and services are generally consumed in the current period.

Cyclical unemployment

Unemployment resulting from the business cycle. It is unpredictable.

D

Deadweight loss

Also known as excess burden or allocative inefficiency, is a loss of economic efficiency that can occur when the free market equilibrium for a good or a service is not achieved. That can be caused by monopoly pricing in the case of artificial scarcity, an externality, a tax or subsidy, or a binding price ceiling or price floor such as a minimum wage.

Debt

Total money owed.

Debtor

Is an entity that owes a debt to another entity. The entity may be an individual, a firm, a government, a company or other legal person. The counterparty is called a creditor. When the counterpart of this debt arrangement is a bank, the debtor is more often referred to as a borrower.

Deficit spending

Is the amount by which spending exceeds revenue over a particular period of time, also called simply deficit, or budget deficit; the opposite of budget surplus. The term may be applied to the budget of a government, private company, or individual.

Deflation

Is a decrease in the general price level of goods and services. Deflation occurs when the inflation rate falls below 0% (a negative inflation rate). Inflation reduces the value of

currency over time, but deflation increases it. This allows more goods and services to be bought than before with the same amount of currency. Deflation is distinct from disinflation, a slow-down in the inflation rate, i.e. when inflation declines to a lower rate but is still positive.

Deflator

Is a value that allows data to be measured over time in terms of some base period, usually through a price index, in order to distinguish between changes in the money value of a gross national product (GNP) that come from a change in prices, and changes from a change in physical output. It is the measure of the price level for some quantity. A deflator serves as a price index in which the effects of inflation are nulled. It is the difference between real and nominal GDP.

Demand deposit

Demand deposits, bank money or scriptural money are funds held in demand deposit accounts in commercial banks. These account balances are usually considered money and form the greater part of the narrowly defined money supply of a country.

Demand shock

Is a sudden event that increases or decreases demand for goods or services temporarily.

Demographic economics

Or population economics, is the application of economic analysis to demography, the study of human populations, including size, growth, density, distribution, and vital statistics.

Deregulation

Is the process of removing or reducing regulations, typically in the economic sphere. It is the repeal of governmental regulation of the economy. It became common in advanced industrial economies in the 1970s and 1980s, as a result of new trends in economic thinking about the inefficiencies of government regulation, and the risk that regulatory agencies would be controlled by the regulated industry to its benefit, and thereby hurt consumers and the wider economy.

Diminishing returns

Is the decrease in the marginal (incremental) output of a production process as the amount of a single factor of production is incrementally increased, while the amounts of all other factors of production stay constant. The law of diminishing returns states that in all productive processes, adding more of one factor of production, while holding all others constant ("ceteris paribus"), will at some point yield lower incremental per-unit returns.

The law of diminishing returns does not imply that adding more of a factor will decrease the total production, a condition known as negative returns, though in fact this is common.

Depreciation

Is the gradual decrease in the economic value of the capital stock of a firm, nation or other entity, either through physical depreciation, obsolescence or changes in the demand for the services of the capital in question. If the capital stock is {\displaystyle K_{t}}K_{t} in one period {\displaystyle t}t, gross (total) investment spending on newly produced capital is {\displaystyle I_{t}}I_t and depreciation is {\displaystyle D_{t}}D_{t}, the capital stock in the next period, {\displaystyle K_{t+1}}{\displaystyle K_{t+1}}, is {\displaystyle K_{t}+I_{t}-D_{t}}{\displaystyle K_{t}+I_{t}-D_{t}}. The net increment to the capital stock is the difference between gross investment and depreciation, and is called net investment.

Depression

Is a sustained, long-term downturn in economic activity in one or more economies. It is a more severe economic downturn than a recession, which is a slowdown in economic activity over the course of a normal business cycle.

Discretionary income

Money available after one pays taxes.

Disinflation

Is a decrease in the rate of inflation – a slowdown in the rate of increase of the general price level of goods and services in a nation's gross domestic product over time. It is the opposite of reflation. Disinflation occurs when the increase in the "consumer price level" slows down from the previous period when the prices were rising.

Disposable income

Money available after one pays taxes and obligatory bill payments.

Dissaving

Is negative saving. If spending is greater than disposable income, dissaving is taking place. This spending is financed by already accumulated savings, such as money in a savings account, or it can be borrowed.

Distribution

Is the way total output, income, or wealth is distributed among individuals or among the factors of production (such as labour, land, and capital). In general theory and the national income and product accounts, each unit of output corresponds to a unit of income.

Duopoly

A situation in which there are only two suppliers for a good or service.

Dynamic stochastic general equilibrium (DSGE)

Dynamic stochastic general equilibrium modeling (abbreviated as DSGE, or DGE, or sometimes SDGE) is a method in macroeconomics that attempts to explain economic phenomena, such as economic growth and business cycles, and the effects of economic policy, through econometric models based on applied general equilibrium theory and microeconomic principles.

E

Econometrics

Is the application of statistical methods to economic data in order to give empirical content to economic relationships. More precisely, it is "the quantitative analysis of actual economic phenomena based on the concurrent development of theory and observation, related by appropriate methods of inference".

Economic development

Broad improvement of the economic well-being or quality of life of a nation, region, or community, often but not necessarily as a consequence of economic growth.

Economic efficiency

Economic equilibrium

Is a situation in which economic forces such as supply and demand are balanced and in the absence of external influences the (equilibrium) values of economic variables will not change. For example, in the standard textbook model of perfect competition, equilibrium occurs at the point at which quantity demanded and quantity supplied are equal.Market equilibrium in this case is a condition where a market price is established through competition such that the amount of goods or services sought by buyers is equal to the amount of goods or services produced by sellers. This price is often called the competitive price or market clearing price and will tend not to change unless demand or supply changes, and the quantity is called the "competitive quantity" or market clearing quantity. However, the concept of equilibrium in economics also applies to imperfectly competitive markets, where it takes the form of a Nash equilibrium.

Economic growth

Is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP.

Economic indicator

Any measurable unit of the economy which helps economists assess the past or make predictions about the future, such as unemployment rate and gross domestic product.

Economic interdependence

The existence of necessary relationships between different sectors of the economy and how the decisions and actions of one will impact the others.

Economic model

Is a theoretical construct representing economic processes by a set of variables and a set of logical and/or quantitative relationships between them. The economic model is a simplified, often mathematical, framework designed to illustrate complex processes. Frequently, economic models posit structural parameters. A model may have various exogenous variables, and those variables may change to create various responses by economic variables. Methodological uses of models include investigation, theorizing, and fitting theories to the world.

Economic rent

Economic shortage

A shortage, or excess demand, is a situation in which the demand for a product or service exceeds its supply in a market. It is the opposite of an excess supply (surplus).

Economic surplus

The state in which supply of a good exceeds demand, usually as a result of the current price being below the economic equilibrium.

Economic system

Or economic order, is a system of production, resource allocation and distribution of goods and services within a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes and patterns of consumption that comprise the economic structure of a given community. As such, an economic system is a type of social system. The mode of production is a related concept. All economic systems have three basic questions to ask: what to produce, how to produce and in what quantities and who receives the output of production.

Economics

Is the social science that studies the production, distribution, and consumption of goods and services.

Economies of agglomeration

Economies of scale

Are the cost advantages that enterprises obtain due to their scale of operation (typically measured by amount of output produced), with cost per unit of output decreasing with increasing scale. At the basis of economies of scale there may be technical, statistical, organizational or related factors to the degree of market control.

Economies of scope

Are "efficiencies formed by variety, not volume" (the latter concept is "economies of scale"). (In economics, "scope" is synonymous with broadening production through diversified products.) For example, a gas station that sells gasoline can sell soda, milk, baked goods, etc. through their customer service representatives and thus achieve gasoline companies economies of scope.

Economist

Is a practitioner in the social science discipline of economics.

Economy

An economy is an area of the production, distribution and trade, as well as consumption of goods and services by different agents. Understood in its broadest sense, 'The economy is defined as a social domain that emphasize the practices, discourses, and material expressions associated with the production, use, and management of resources'.[92]

Effective demand

Elastic demand

Demand that is sensitive to changes in price, such that changes in price have a relatively large effect on the quantity of the good demanded. Contrast inelastic demand.

Entrepreneurship

The efforts by a person, known as an entrepreneur, in organizing resources for the creation of something new or taking risks to create new innovations and production.

Equilibrium

The point at which quantity demanded and quantity supplied are equal and both consumer and producer are satisfied.

Equilibrium price

The market price at which both the supplier and consumer will trade and both are satisfied.

F

Federal Open Market Committee (FOMC)

The 12-member committee in the U.S. Federal Reserve that meets several times a year to decide the course of action that the Fed should take to control the money supply of the United States.

Federal Reserve System

Often simply called the Federal Reserve or abbreviated as the Fed.

The central bank of the United States, created by Congress in 1913 and charged with the duty of regulating the money supply and monitoring its member banks.

Financial institution

Any firm, such as a bank, that is in the business of holding money for those who save and lending money to those who need loans.

Financial planning

A series of steps used by a person or a firm to achieve a financial goal.

Financial risk

The risk assumed by a saver or investor on future outcomes that involve financial losses and gains.

Financial transaction

Is an agreement, or communication, carried out between a buyer and a seller to exchange an asset for payment.

Foreign exchange market

Also called the currency market or abbreviated Forex or FX.

A global decentralized or over-the-counter market for the trading of currencies. This market determines the foreign exchange rate. It includes all aspects of buying, selling and exchanging currencies at current or determined prices. In terms of trading volume, it is by far the largest market in the world, followed by the credit market.

Free trade

Trading with other countries with little or no trade barriers.

Frictional unemployment

Unemployment that is a result of workers moving from one job to another, as opposed to structural unemployment.

Functions of money

The four classic functions or uses of money as summarized by William Stanley Jevons in 1875: a medium of exchange, a common measure of value (or unit of account), a standard of value (or standard of deferred payment), and a store of value. This analysis later became a fundamental concept of macroeconomics. Most modern textbooks now list only three functions, that of medium of exchange, unit of account, and store of value, not considering a standard of deferred payment as a distinguished function, but rather subsuming it in the others.

I

Investment

Spending for the production and accumulation of capital and additions to inventories.

L

law of demand

An economic rule stating that quantity demanded and price move in opposite directions, i.e. as demand increases, price decreases, and vice versa.

Law of Diminishing Marginal Utility

An economic rule stating that the additional satisfaction a consumer gets from purchasing one more unit of a product will decrease with each additional unit purchased.

liability

Financial responsibility for something.

M

Marginal revenue

The additional income from selling one more unit of a good; sometimes equal to price.

Marginal utility

The additional usefulness from consuming one more unit of a product.

P

Per capita

A unit of account per person, usually placed at the end of an economic indicator.

Perfect competition

A market structure in which a large number of firms all produce identical products.

Personal property

Possessions such as jewelry, furniture, and real estate that people can amass through time.

Physical capital

All human-made goods that are used to produce other goods and services, such as tools, machines, and buildings.

Q

Quantity demanded

The amount of a good or service that a consumer is able and willing to purchase at a given market price.

Quantity supplied

The amount of a good or service that a supplier is able and willing to produce at a given market price.

R

Recession

Part of the business cycle in which a nation's output (real GDP) does not grow for at least six months.

Regressive tax

A tax schedule that states that the more income one earns, the lower the tax burden.

Regulation

Government restrictions on a business firm.

Retail sales

Purchases of finished goods and services by households and firms.

Revenue

Total income from sales of output.

U

Underemployment

Working at a job for which one is overqualified, or working part-time when full-time work is desired.

Unemployment

Under-utilization of any factor of production, most commonly referring to labor.

Quiz

1.The Supply Curve is upward-sloping because:

a) As the price increases, so do costs.

b) As the price increases, consumers demand less.

c) As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.

d) None of the Above

2. All the following shift the demand curve for automobiles to the right except:

a) the local factory gives a big raise to its employees.

b) a brand new automobile dealership opens in town.

c) the price of gasoline falls.

d) None of the Above

3. If the cost of computer components falls, then

a) the demand curve for computers shifts to the right.

b) the demand curve for computers shifts to the left.

c) the supply curve for computers shifts to the right

d) the supply curve for computers shifts to the left

4. What happens in the market for airline travel when the price of traveling by rail decreases?

a) The demand curve shifts left.

b) The demand curve shifts right.

c) The supply curve shifts left.

d) The supply curve shifts right.

5. When a price ceiling is imposed above the equilibrium price,

a) a shortage results.

b) a surplus results.

c) the equilibrium outcome prevails.

d) there is not enough information to determine the outcome.

6. The trough of a business cycle occurs when ____ hits its lowest point.

a)aggregate economic activity

b) inflation

c) Money supply

d) None of these

7. The low point in the business cycle is referred to as the

a)expansion

b) boom

c) low

d) Trough

8. The tendency of many different economic variables to have regular and predictable patterns The tendency of many different economic variables to have regular and predictable patterns :

a) persistence

b) comovement

c) comovement

d) recurrence

9)Which of these is NOT a monetary policy tool?

a) Discount Rate
b) Open Market Operations
c) Balance Accounts
d) Reserve Requirements

10. The goals of monetary policy do NOT include the promotion of _____

a) Maximum employment
b) Low Taxes
c) Stable Prices
d) Moderate long-term interest rates

11. Inflation is a sustained increase in the general level of _____.

a) Accounts
b) Income
c) Prices
d) Profit

Answer:

1.C

2. B

3. C

4. A

5. C

6. A

7. D

8. B

9. C

10. B

11. C

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