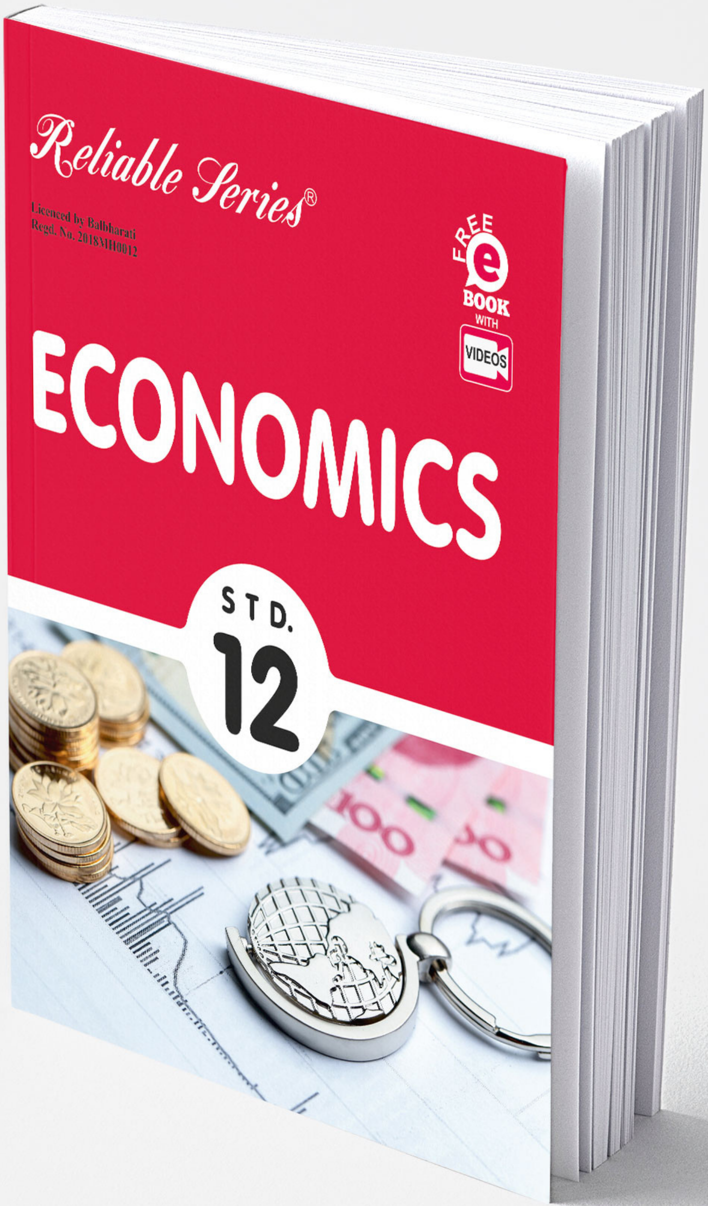


Reliable Series®

FREE MEMORY MAPS

ALL CHAPTERS

1 INTRODUCTION TO MICRO ECONOMICS AND MACRO ECONOMICS

(Total Marks : 07) **(Marks with Option : 10)**

MEMORY CHART

1 BRANCHES OF MODERN ECONOMICS

Micro Economics
- Derived from Greek word "*Mikros*" – 'small' or 'millionth part'.

Micro Economics
- Derived from Greek word "*Makros*" – mean 'large'.

Norwegian Economist Ragnar Frisch of Oslo University in 1933.

2 MICRO ECONOMICS

Definitions

Prof A. P. Lerner
- "Micro economics consists of looking at the economy through a microscope, as it were, to see how the millions of cells in the body of economy – the individuals or households as consumers and individuals or firms as producers play their part in the working of the whole economic organism."

Maurice Dobb
- "Micro economics is in fact a microscopic study of the economy."

3 SCOPE OF MICRO ECONOMICS

Theory of Product Pricing
- Demand Analysis
- Supply Analysis

Theory of Factor Pricing
- Rent
- Wages
- Interest
- Profit

Theory of Economic Welfare
- Efficiency in Production
- Efficiency in Consumption
- Overall Economic Efficiency

4 FEATURES OF MICRO ECONOMICS

(1) Study of Individual Units
(2) Price Theory
(3) Partial Equilibrium
(4) Based on Assumptions (Ceteris Paribus)
(5) Slicing Method
(6) Use of Marginalism Principle
(7) Analysis of Market Structure
(8) Limited Scope

5 IMPORTANCE OF MICRO ECONOMICS

(Reduced Syllabus for 2020 - 21)

6

MACRO ECONOMICS

Definitions

J. L. Hansen

- "Macro economics is that branch of economics which considers the relationship between large aggregates such as the volume of employment, total amount of savings, investment, national income, etc."

Prof Carl Shapiro

- "Macro economics deals with the functioning of the economy as a whole."

7

SCOPE OF MACRO ECONOMICS

- **Theory of Income and Employment**
  - **Theory of Consumption Function**
  - **Theory of Investment Function**
    - **Theory of Business Cycles**
- **Theory of General Price Level and Inflation**
- **Theory of Economic Growth and Development**
- **Macro Theory of Distribution**

8

FEATURES OF MACRO ECONOMICS

(1) Study of Aggregates
(2) Income Theory
(3) General Equilibrium Analysis
(4) Interdependence
(5) Lumping Method
(6) Growth Models
(7) General Price Level
(8) Policy-oriented

9

IMPORTANCE OF MACRO ECONOMICS

(Reduced Syllabus for 2020 - 21)

Focus on the following questions: Chatur's Important Questions

Q.1. Define Micro Economics. What are the features of Micro Economics?
Q.2. Define Macro Economics. What are the features of Macro Economics?
Q.3. Distinguish between Micro Economics and Macro Economics.

2 UTILITY ANALYSIS

(Total Marks : 07) **(Marks with Option : 10)**

MEMORY CHART

1 **UTILITY** Utility is a power or capacity of a commodity or service to satisfy a human want. E.g. Water, pen, doctor service, lawyer service, etc.

2 **FEATURES OF UTILITY**

(1) It is a **relative concept**. E.g. Woollen clothes → in winter.
(2) It is a **subjective concept**. E.g. Walking stick to an old man.
(3) It is ethically **neutral concept**. E.g. Knife, gun, rope.
(4) It **differs from usefulness**. E.g. Liquor, drugs.
(5) It **differs from pleasure**. E.g. Medicines, injections.
(6) It **differs from satisfaction**. E.g. Washing powder, soap.
(7) It **cannot be measured**.
(8) It is **multipurpose**. E.g. Electricity, wood, steel.
(9) It **depends on intensity of want**. E.g. Food for hungry person.
(10) It forms **the basis of demand**.

3 **TYPES OF UTILITY**

(1) Form Utility
- Created due to change in shape of material.
  E.g. Toys from clay, furniture from wood, etc.

(2) Place Utility
- Created due to change in place of commodity.
  E.g. Woollen clothes at cold places than at warm places.

(3) Service Utility
- Created due to services provided by professionals.
  E.g. Services of doctors, lawyers, etc.

(4) Knowledge Utility
- Created due to increase in knowledge of a product.
  E.g. Mobile phone, computer, etc.

(5) Possession Utility
- Arises due to transfer of ownership.
  E.g. Transfer of goods from sellers to buyers.

(6) Time Utility
- Created due to change in time of utilization of a commodity.
  E.g. Blood bank, a duster to a teacher

4 **CONCEPT OF UTILITY**

Total Utility (TU)
- It refers to the aggregate of utility derived by a consumer from all the units of a commodity available at his disposal and consumed at a particular point of time.

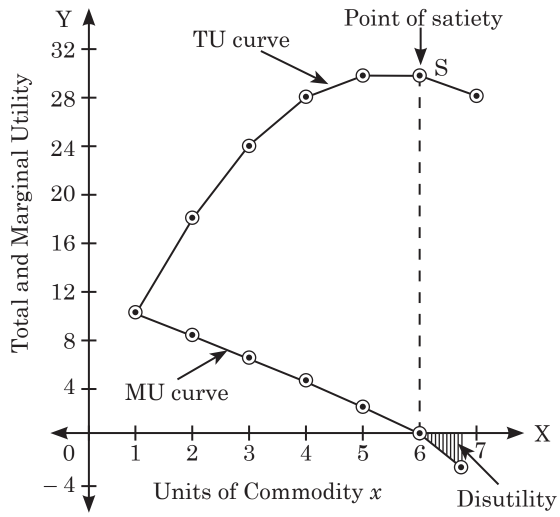
Marginal Utility (MU)
- It refers to the additional utility derived by a consumer from an additional unit of a commodity consumed.

5

RELATIONSHIP BETWEEN TOTAL UTILITY AND MARGINAL UTILITY

(a) Total Utility increases → Marginal Utility decreases.
(b) Total Utility becomes constant → Marginal Utility becomes zero.
(c) Total Utility declines → Marginal Utility becomes negative

Units of x	Total utility	Marginal Utility
1	10	12
2	18	8
3	24	6
4	28	4
5	30	2
6	30	0
7	28	–2



6

LAWS OF DIMINISHING MARGINAL UTILITY

(a) Proposed by : Prof. Gossen
(b) Propounded by : Prof. Alfred Marshall, "Principles of Economics" – 1890
(c) Meaning : Utility derived from a commodity diminishes with reduction in the intensity of a want.
(d) Definition : "Other things remaining constant, the additional benefit which a person derives from a given increase in his stock of a thing, diminishes with every increase in the stock that he already has."

7

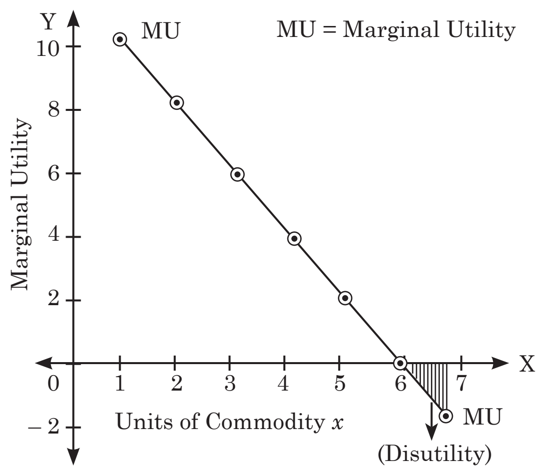
ASSUMPTIONS TO LAW OF DIMINISHING MARIGNAL UTILITY

(1) Rationality
(2) Cardinal measurement
(3) Homogeneity
(4) Continuity
(5) Reasonability
(6) Constancy
(7) Divisibility
(8) Single want

8

LAWS OF DIMINISHING MARGINAL UTILITY

Units of x	Marginal Utility
1	10
2	8
3	6
4	4
5	2
6	0
7	–2



9 EXCEPTIONS TO THE LAW OF DIMINISHING MARGINAL UTILITY

(1) Hobbies
(2) Miser
(3) Addictions
(4) Power
(5) Money

10 CRITICISMS OF THE LAW OF DIMINISHING MARIGNAL UTILITY

(1) Unrealistic Assumptions
(2) Cardinal Measurement
(3) Invisible Goods
(4) Constant Marginal Utility of Money
(5) A Single Want

11 SIGNIFICANCE OF LAW OF DIMINISHING MARGINAL UTILITY

(Reduced Syllabus for 2020 - 21)

12 RELATIONSHIP BETWEEN MARGINAL UTILITY AND PRICE

Relation	Conclusion
MU x > Price x	— Intra Marginal Units → Consumer willing to buy
MU x = Price x	— Marginal Unit → Consumer's Equilibrium
MU x < Price x	— Extra Marginal Units → Consumer not willing to buy

The following schedule explains relationship between Marginal Utility and Price:

No. of units	MU units of x	MU in terms of money 1 unit = ₹ 10	Market Price unit 1 unit = ₹ 10	Comparison between MU and price
1	10	100 (10 × ₹ 10)	₹ 50	100 MU > ₹ 50
2	8	80 (8 × ₹ 10)	₹ 50	80 MU > ₹ 50
3	7	70 (7 × ₹ 10)	₹ 50	70 MU > ₹ 50
4	5	50 (5 × ₹ 10)	₹ 50	50 MU = ₹ 50
5	3	30 (3 × ₹ 10)	₹ 50	30 MU < ₹ 50
6	1	10 (1 × ₹ 10)	₹ 50	10 MU < ₹ 50

Focus on the following questions: Chatur's Important Questions

Q.1. State and explain the law of diminishing marginal utility with exceptions.
[**Note:** *All laws have to be explained with the help of schedule, graph and assumptions.*]

Q.2. Explain the relationship between Total Utility and Marginal Utility.

Q.3. Explain the relationship between Marginal Utility and Price.

3(A) DEMAND ANALYSIS

(Total Marks : 08) **(Marks with Option : 12)**

MEMORY CHART

1 DEMAND UTILITY

Ordinary Sense
- Demand means desire.

Economic Sense
- Demand is a desire backed by willingness and ability to pay.

- Demand = Desire + Willingness to purchase + Ability to pay

2 DEFINITION OF DEMAND

According to **Benham**, "the demand for anything at a given price is the amount of it, which will be bought per unit of time at that price."

3 FEATURES OF DEMAND

(1) It is a relative concept.

(2) It is expressed with reference to time and price.

4 DEMAND SCHEDULE

- It is a tabular representation of the functional relationship between price and quantity demanded for a particular commodity.

Individual Demand Schedule
- It is a tabular representation showing different quantities of commodities that an individual consumer buys at various prices at a given period of time.

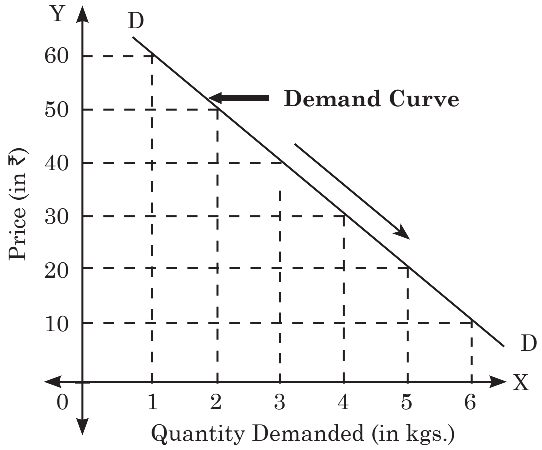
Market Demand schedule
- It is a tabular representation showing different quantities of commodity which all consumers are prepared to buy at various prices over a given period of time.

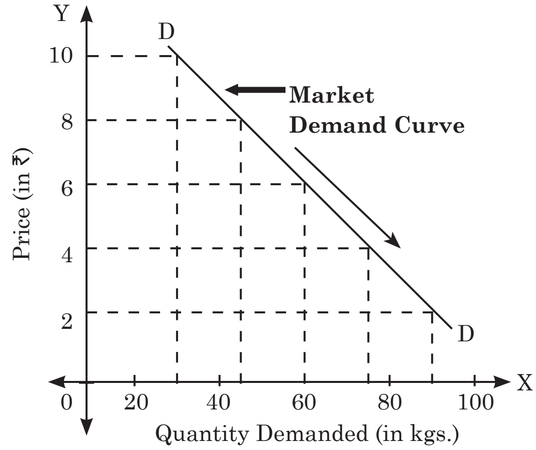
Demand Schedule

Price of commodity 'x' (in ₹)	Quantity demanded of commodity 'x' (in kgs)
50	1
40	2
30	3
20	4
10	5

Market Demand Schedule

Price of commodity 'x' (in ₹)	Quantity of commodity 'x' (in kgs)			Market Demand
	Consumer A	Consumer B	Consumer C	A + B + C
10	5	10	15	30
8	10	15	20	45
6	15	20	25	60
4	20	25	30	75
2	25	30	35	90





5

REASONS FOR DOWNWARD SLOPPING DEMAND CURVE

- (1) Law of Diminishing Marginal Utility
- (2) Income Effect
- (3) Substitution Effect
- (4) Multipurpose Uses
- (5) New Consumers

6

TYPES OF DEMAND

(1) Direct Demand
- Consumer goods. E.g. Cloth, sugar, mobile etc.

(2) Indirect Demand
- Capital goods. E.g. Machinery, tools, labour, etc.

(3) Complementary or Joint Demand
- E.g. Car and fuel, pen and ink, etc.

(4) Composite Demand
- E.g. Electricity, steel, wood, coal, etc.

(5) Competitive Demand
- E.g. Tea or coffee, sugar or jaggery, etc.

7

DETERMINANTS OF DEMAND

(1) Price of a commodity
(2) Income of a consumer
(3) Price of substitute goods
(4) Price of complementary goods
(5) Nature of product
(6) Size of population
(7) Expectations about future prices
(8) Advertisement
(9) Tastes, habits and fashions
(10) Level of Taxation
(11) Other factors

8

LAW OF DEMAND

Definitions

Prof. Alfred Marshall ('Principles of Economics', 1890)
- "Other things being equal, higher the price of a commodity, smaller is the quantity demanded and lower the price of a commodity, larger is the quantity demanded."

- $Dx = f P(x)$
- Inverse relationship between price and quantity demanded.

9

ASSUMPTIONS TO LAW OF DEMAND

(1) No change in income of consumer
(2) No change in size of population
(3) No change in price of substitute goods
(4) No change in price of complementary goods
(5) No change in tastes, habits, preference of consumer
(6) No expectations about future changes in prices
(7) No change in taxation policy.

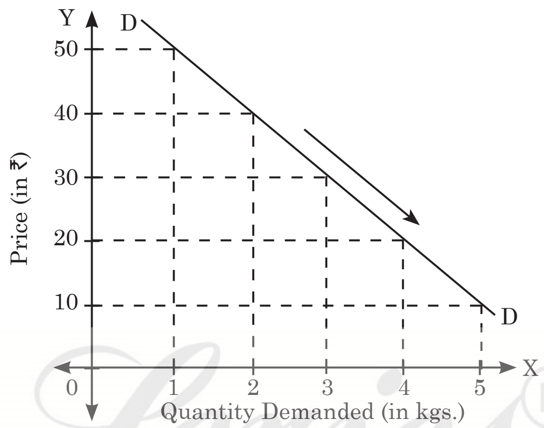
10

DEMAND SCHEDULE AND DEMAND CURVE

(a) Demand Schedule

Price of commodity 'x' (₹)	Quantity demanded of commodity 'x' (in kgs)
50	1
40	2
30	3
20	4
10	5

(b) Demand Curve



Conclusion:

(i) As price decreases → Demand increases.
(ii) As price increases → Demand decreases.
(ii) Demand curve →
- Slopes downwards
- From left to right
- Shows inverse relation between price and demand
- Indicates negative slope

11

EXCEPTIONS TO THE LAW OF DEMAND

- Habitual goods
- Giffen's paradox
- Prestige goods
- Ignorance
- Speculation
- Price illusion

- Exceptional demand curve **slopes upwards** from **left to right** showing **positive slope** indicating that as price increases, demand decreases and vice a - versa

12

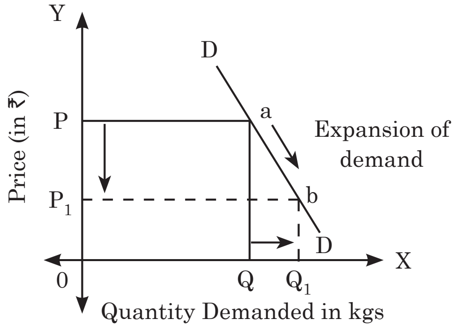
VARIATION IN DEMAND

- It is due to change in price alone, other factors remaining constant.

2 Types

(1) Expansion of Demand

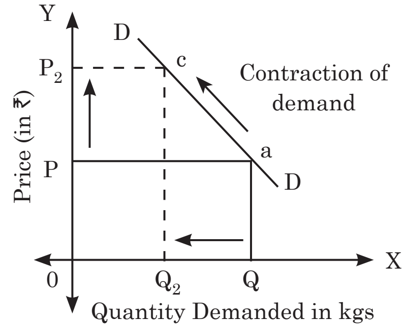
- Rise in quantity demanded, due to fall in price alone, other factors remaining constant.



- Downward movement on same demand curve.

(2) Contraction of Demand

- Fall in quantity demanded due to rise in price alone other factors remaining constant.



- Upward movement on same demand curve.

13

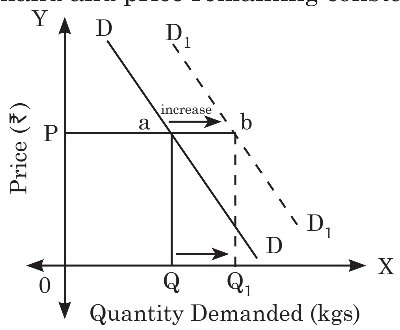
CHANGE IN DEMAND

- It is due to change in other factors, price of a commodity remaining constant.

2 Types

(1) Increase in Demand

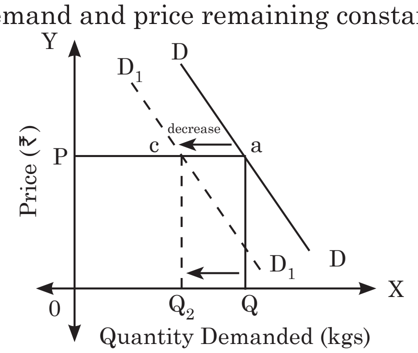
- Rise is quantity demanded, due to favourable changes in other factors of demand and price remaining constant.



- DD - curve shifts to right of original DD - curve.

(2) Decrease in Demand

- Fall in quantity demanded, due to unfavourable changes in other factors of demand and price remaining constant.



- DD - curve shifts to left of original DD - curve.

Focus on the following questions: Chatur's Important Questions

Q.1. State and explain the law of demand with exceptions.

[**Hint:** *(A) Meaning and Definition* *(B) Schedule and Graph*
(C) Assumptions in brief *(D) Exceptions to the Law of Demand.*]

Q.2. Explain the determinants or factors of demand.

Q.3. Explain the concept of variation and changes in demand.

3(B) ELASTICITY OF DEMAND

(Total Marks : 08) **(Marks with Option : 12)**

MEMORY CHART

1 ELASTICITY OF DEMAND (Ed)

(A) Meaning:

- Elasticity of Demand (Ed) refers to the degree of responsiveness of quantity demanded to a change in its price or any other factor.

(B) Definition:

- **Prof. Marshall**, "Elasticity of demand is great or small according to the amount demanded which rises much or little for a given fall in price and quantity demanded falls much or little for a given rise in price."

2 TYPES OF ELASTICITY OF DEMAND

(A) Income Elasticity

- It refers to the degree of responsiveness of a change in quantity demanded to a change in the income only, other factors remaining constant.
- **Formula:**

$$Ey = \frac{\text{\% Change in Qty. Demanded}}{\text{\% Change in Income}}$$

$$Ey = \frac{\Delta Q}{\Delta Y} \times \frac{Y}{Q}$$

- **Result:**
  Normal goods → +ve Ey
  Inferior goods → −ve Ey
  Necessary goods → Zero Ey

(B) Cross Elasticity

- It refers to degree of responsiveness of a change in quantity demanded to a change in the price of the other commodity (i.e. complementary or substitute goods).
- **Formula:**

$$Ec = \frac{\text{\% Change in Qty. Demanded of commodity 'A'}}{\text{\% Change in Price of commodity 'B'}}$$

$$Ey = \frac{\Delta Q_A}{\Delta P_B} \times \frac{P_B}{Q_A}$$

- **Result:**
  Substitute goods → +ve Ec
  Complementary goods → −ve Ec
  Non-related goods → Zero Ec

(C) Price Elasticity

- It refers to degree of responsiveness of a change in quantity demanded to a change in the price of same commodity.
- **Formula:**

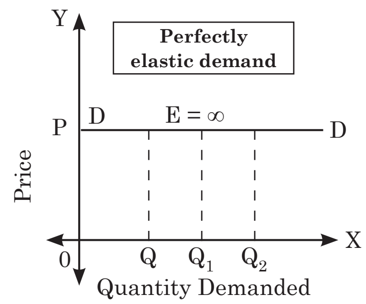
$$Ey = \frac{\text{\% Change in Qty. Demanded of commodity 'X'}}{\text{\% Change in Price of commodity 'X'}}$$

$$Ed = \frac{\Delta Q_x}{\Delta P_x} \times \frac{P_x}{Q_x}$$

3 TYPES OF PRICE ELASTICITY OF DEMAND

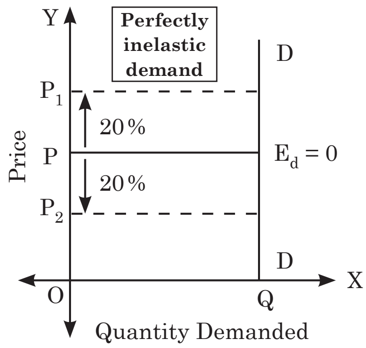
(A) Perfectly Elastic Demand (Ed = ∞):

- Slight or zero change in the price brings about an infinite change in the quantity demanded of that commodity.
- E.g. 10% fall in price may lead to an infinite rise in demand.
- **Slope of curve:** Horizontal straight line parallel to 'X' axis.



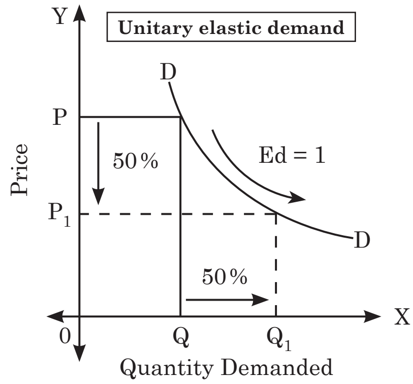
(B) Perfectly Inelastic Demand (Ed = 0):

- Change in price brings no effect on quantity demanded.
- E.g. 20% fall or rise in price will have no effect on quantity demanded.
- **Slope of curve:** Vertical straight line parallel to 'Y'-axis.



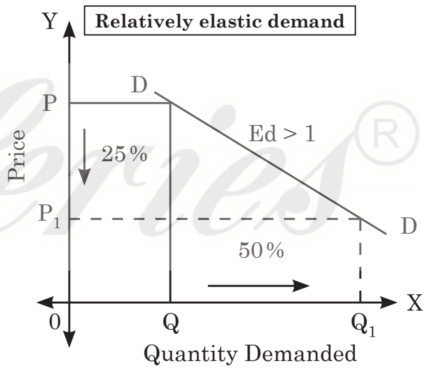
(C) Unitary Elastic Demand (Ed = 1):

- Change in price brings proportionate change in quantity demanded.
- E.g. 50% fall in price of a commodity leads to 50% rise in quantity demanded.
- **Slope of curve:** Rectangular hyperbola.



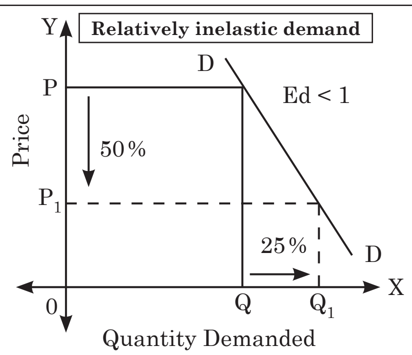
(D) Relatively Elastic Demand (Ed >1):

- Change in price brings more than proportionate change in quantity demanded.
- E.g. 25% fall in price of commodity leads to 50% rise in quantity demanded.
- **Slope of curve:** Flatter slope.



(E) Relatively Inelastic Demand (Ed < 1):

- Change in price brings less than proportionate change in quantity demanded.
- E.g. 50% fall in price leads to 25% rise in quantity demanded.
- **Slope of curve:** Steeper slope.



4

METHODS OF MEASURING PRICE ELASTICITY OF DEMAND

(A)	(B)	(C)
Ratio or Percentage Method	**Total Expenditure Method**	**Point Method**
• Elasticity of Demand is measured by dividing the percentage change in demand by the percentage change in price.	• Total Expenditure refers to the product of price and quantity demanded.	• Elasticity of Demand is measured by dividing upper segment of demand curve by the lower segment of demand curve.

(A)

Ratio or Percentage Method

- Also known as Arithmetic Method.
- **Formula:**

$$Ed = \frac{\Delta Qx}{\Delta Px} \times \frac{Px}{Qx}$$

(B)

Total Expenditure Method

- Also known as Total Outlay Method.
- **Formula:**

Total Expenditure

= Price × Quantity demanded

- **Result:**

Total Outlay increases → Ed > 1

Total Outlay remains constant → Ed = 1

Total Outlay decreases → Ed < 1

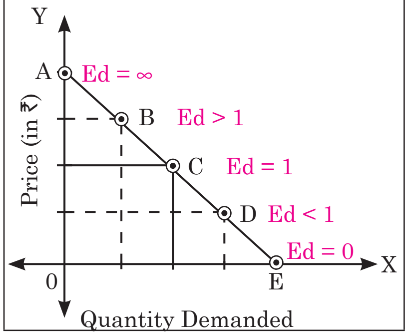
(C)

Point Method

- Also known as Geometric Mean.
- **Formula:**

$$Ed = \frac{\text{Lower segment of Demand curve below a given point}}{\text{Upper segment of Demand curve below a given point}}$$

Linear Demand Curve:



5 FACTORS INFLUENCING ELASTICITY OF DEMAND

(Reduced Syllabus for 2020-21)

6 IMPORTANCE OF ELASTICITY OF DEMAND

- To Government
- To Producer
- Factor Pricing
- Proportion of Expenditure
- Foreign Trade
- Public Utilities

Focus on the following questions: Chatur's Important Questions

Q.1. Define elasticity of demand. Explain the types of price elasticity of demand.

Q.2. Explain the importance of elasticity of demand.

Q.3. Explain the Total Outlay Method of measuring elasticity of demand.

Q.4. Explain the Point Geometric Method of measuring elasticity of demand.

4 SUPPLY ANALYSIS

(Total Marks : 07) **(Marks with Option : 10)**

MEMORY CHART

1 TOTAL OUTPUT It is the sum total of the quantity of the commodity produced at a given period of time in the economy.

2 STOCK
- It is the total quantity of commodity available for sale with a seller at a particular point of time.
- Stock is a source of supply.
- Stock exceeds supply or equals to supply.

3 SUPPLY

It is a flow concept.

It is a relative term i.e. related to time and price

Meaning:
- It means the various quantities of a commodity offered for sale by producers during a given period of time at a given price.

Definition:
- Supply refers to the relation between market prices and the amount of goods that producers are willing to supply — **Paul Samuelson**

4 SUPPLY SCHEDULE AND SUPPLY CURVE

(A) Individual Supply Schedule
- It refers to a tabular representation showing various quantities of a commodity that a producer is willing to sell at various prices during a given period of time.

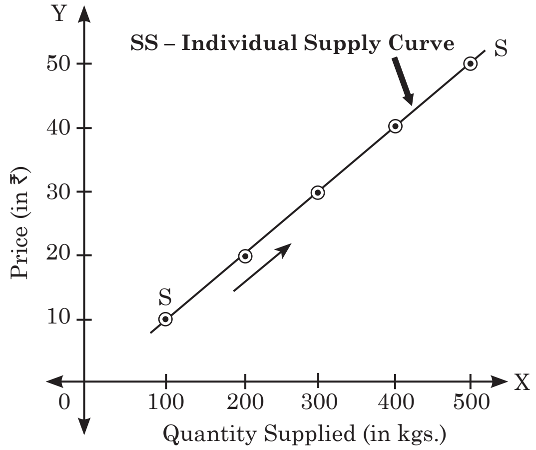
Price of commodity x (in ₹ per kgs.)	Supply of commodity x (in kgs.)
10	100
20	200
30	300
40	400
50	500

(B) Market Supply Schedule
- It refers to a tabular representation showing different quantities of commodity which all producers are prepared to sell at different prices at a given period of time.

Price of commodity (in ₹)	Quantity supplied (in kgs.)			Market supply (in kgs.) (A + B + C)
	Seller A	Seller B	Seller C	
10	100	200	300	600
20	200	300	400	900
30	300	400	500	1200
40	400	500	600	1500
50	500	600	700	1800

Individual Supply Curve

- It is a graphical presentation of Individual 'SS' Schedule.

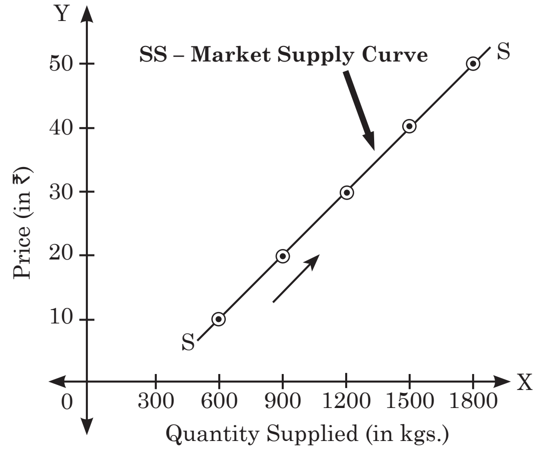


Conclusion:

- Individual 'SS' curve **slopes upwards** from **left to right**, indicating a **direct relationship** between price and quantity supplied.
- It has a **positive** slope.

Market Supply Curve

- It is a graphical presentation of Market 'SS' Schedule.



Conclusion:

- It is Market 'SS' curve **slopes upwards** from **left to right** indicating a **direct relationship** between price and market supply.
- It has a **positive** slope.

5 **DETERMINANTS OF SUPPLY**

(Reduced Syllabus for 2020 - 21)

6 **LAW OF SUPPLY**

Definition

Prof. Alfred Marshall (Principle of Economics – 1890)

- "Other things being constant, higher the price of a commodity, more is the quantity supplied and lower the price of a commodity less is the quantity supplied"

- $Sx = f(Px)$
- Direct relationship between price and quantity supplied.

7 **ASSUMPTIONS TO THE LAW OF SUPPLY**

(1) No change in cost of production
(2) No change in technique of production
(3) No change in weather conditions
(4) No change in Government Policy
(5) No change in transport cost
(6) No change in price of other goods
(7) No future expectations

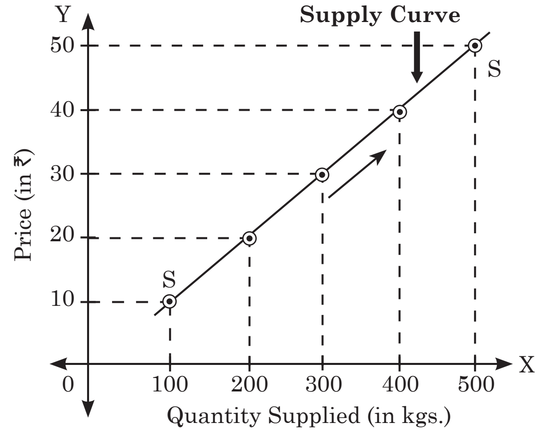
8

SUPPLY SCHEDULE AND SUPPLY CURVE

(a) Supply Schedule

Price of commodity 'x' (₹)	Supply of commodity 'x' (in kgs)
10	100
20	200
30	300
40	400
50	500

(b) Supply Curve



- **Conclusion:**
  - (i) As price increases ➡ Supply increases.
  - (ii) As price decreases ➡ Supply decreases.
  - (ii) Supply curve ➡
    - Slopes upward
    - from left to right
    - Shows direct relationship between price and supply
    - Indicates positive slope.

9

EXCEPTIONS TO THE LAW OF SUPPLY

- Agricultural goods
- Supply of Labour
- Urgent need for cash
- Rare goods
- Perishable goods

10

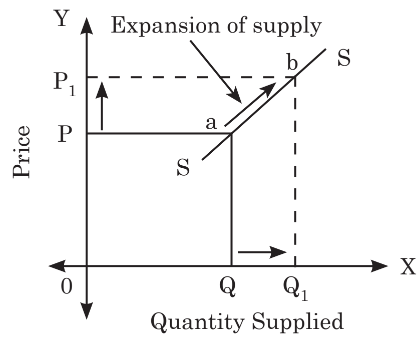
VARIATION IN SUPPLY

- It is due to change in price alone, other factors remaining constant.

2 Types

(1) Expansion of Supply

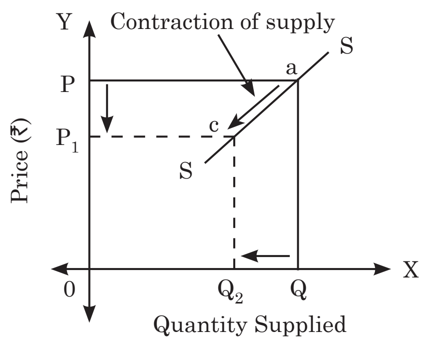
- Rise in quantity supplied due to rise in price alone, other factors remaining constant.



- **Upward** movement on same supply curve.

(2) Contraction of Supply

- Fall in quantity supplied due to fall in price alone other factors remaining constant.



- **Downward** movement on same suppply curve.

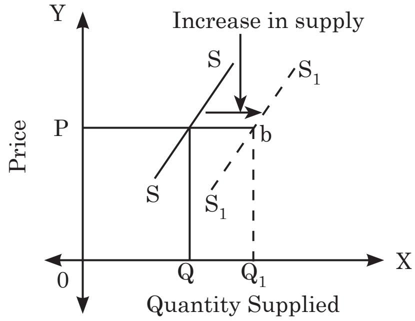
11 CHANGES IN SUPPLY

- It is due to change in other factors, price of commodity remaining constant.

2 Types

(1) Increase in Supply

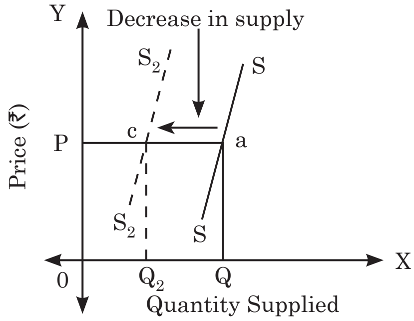
- Rise in quantity supplied due to favourable changes in other factors of supply and price remaining constant.



- Supply curve shifts to the right of original supply curve.

(2) Decrease in Supply

- Fall in quantity supplied due to unfavourable changes in other factors of supply and price remaining constant.



- Supply curve shifts to the left of original supply curve.

12 CONCEPTS OF COSTS

(A) Total Cost (TC)

- It is the total expenditure incurred by a firm on the factors of production of goods and services.
- TC = TFC + TVC

(B) Average Cost (AC)

- It refers to the cost of production per unit.
- $AC = \dfrac{TC}{TQ}$

(C) Marginal Cost (MC)

- It is the net addition made to total cost by producing one more unit of output.
- $MC_n = TC_n - TC_{n-1}$

- **TFC:** Expenses incurred on fixed factors i.e. land, machinery, etc.
- **TVC:** Expenses incurred on variable factors i.e. raw materials, labour, power, fuel, etc.

13 COST OF REVENUE

(A) Total Revenue (TR)

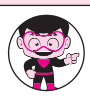
- It is the total sales proceeds of a firm by selling a commodity at a given price.
- TR = Price × Quantity

(B) Average Revenue (AR)

- It refers to the revenue per unit of output sold.
- $AR = \dfrac{TR}{TQ}$

(C) Marginal Revenue (MR)

- It refers to net addition made to total revenue by selling an extra unit of a commodity.
- $MR_n = TR_n - TR_{n-1}$



Focus on the following questions: Chatur's Important Questions

Q.1. State and explain the law of supply with exceptions.
[**Hint:** *(A) Meaning and Definition* *(B) Schedule and Graph*
(C) Assumptions in brief *(D) Exceptions to the Law of Demand.*]

Q.2. Explain the concept of variation and changes in demand.

5 FORMS OF MARKET

(Total Marks : 07) **(Marks with Option : 10)**

MEMORY CHART

1

MARKET

- A place where goods are sold and purchased.
- An arrangement through which buyers and sellers come in contact with each other directly or indirectly and exchange of goods and services takes place among them.

Definition

- "Economists understand the term market, not any particular market place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such a close contact with one another that the prices of the same goods tend to equality easily and quickly." — **Augustin Cournot**

2

CLASSIFICATION OF MARKET

(I) Place
- (A) Local
- (B) National
- (C) International

(II) Time
- (A) Very Short Period
- (B) Short Period
- (C) Long Period
- (D) Very Long Period

(III) Competition
- (A) Perfect Competition
- (B) Imperfect Competition
  - (i) Monopoly
  - (ii) Oligopoly
  - (iii) Monopolistic competition

3

PERFECT COMPETITION

(A) Meaning:
- A perfectly competitive market is one in which the number of buyers and sellers is very large.

(B) Definition:
- **Mrs. Joan Robinson**, "Perfect competition prevails when the demand for the output of each producer is perfectly elastic."

(C) Features of Perfect Competition
- (1) Large number of sellers and buyers
- (2) Homogeneous product
- (3) Free entry and exit
- (4) Single price
- (5) Perfect knowledge of market
- (6) Perfect mobility of factors of production
- (7) Absence of transport cost
- (8) No government intervention

4

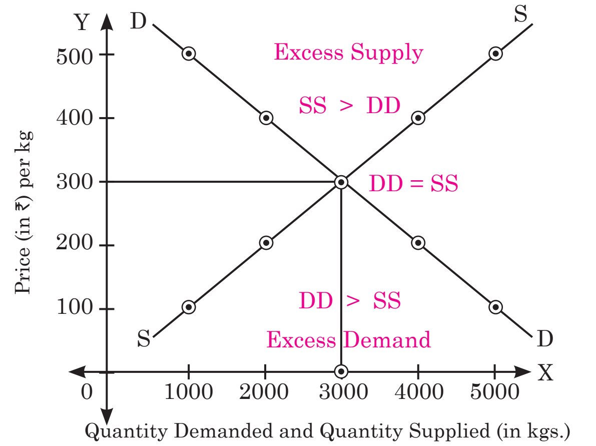
PRICE DETERMINATION UNDER PERFECT COMPETITION:

- The interaction of demand and supply determine price of the commodity in perfect competition. This is known as 'equilibrium price.'

Demand and Supply Schedule:

Price per Kg. of Apples (in ₹)	Quantity Demand (in kg)	Quantity Supplied (in kg)	Relationship between DD and SS
100	5000	1000	DD > SS
200	4000	2000	DD > SS
300	**3000**	**3000**	**DD = SS**
400	2000	4000	DD < SS
500	1000	5000	DD < SS

Graph:



5

- Derived from Greek word '**Mono**' which means '**single**' and '**Poly**' which means '**seller**'.
- One seller controlling the entire Market Supply for a product which has no close substitute.

MONOPOLY

Definition:

- "Monopoly refers to a single firm which has control over the supply of a product which has no close substitute."

Features of Monopoly

(1) Single seller
(2) No close substitutes
(3) Barriers to entry
(4) Complete control over market supply
(5) Price maker
(6) Price discrimination
(7) No distinction between firm and industry

Types of Monopoly
(Reduced Syllabus for 2020-21)

6

- Derived from Greek word '**Oligo**' which means '**few**' and '**Poly**' means '**seller**'.
- A market where there are a few firms (sellers) in the market producing either a homogeneous product or a differentiated product.
- E.g. mobile service providers, cement companies etc.

OLIGOPOLY

Features of Oligopoly

(1) Few firms or sellers
(2) Interdependence
(3) Advertising
(4) Entry barriers
(5) Lack of uniformity
(6) Uncertainty

7

MONOPOLISTIC COMPETITION

- Mixed features of Perfect Competition and Monopoly.

- Coined by Prof. E. H. Chamberlin - in his book "Theory of Monopolistic Competition" - 1933.

Definition:

- "It refers to competition among a large number of sellers producing close but not perfect substitutes."

Features of Monopolistic Competition

(1) Fairly large number of sellers
(2) Fairly large number of buyers
(3) Product differentiation
(4) Free entry and exit
(5) Selling cost
(6) Close substitutes
(7) Concept of group

Focus on the following questions: Chatur's Important Questions

Q.1. Explain the meaning and features of Perfect Competition.
Q.2. Explain the meaning and features of Monopoly.
Q.3. Explain the meaning and features of Monopolistic Competition.

6 INDEX NUMBERS

(Total Marks : 08) **(Marks with Option : 11)**

MEMORY CHART

1

INDEX NUMBERS

- Statistical Tools in Economics.
- Device to measure changes in an economic variable over a period of time.

Definitions

(A) Spiegel:

- It is a statistical measure designed to show changes in a variable or a group of related variables with reference to time, geographical location and other characteristics such as income, profession, etc.

(B) Crorton and Cowden:

- Index numbers are devices for measuring differences in the magnitude of a group of related variable.

2

FEATURES OF INDEX NUMBERS

(1) Statistical Device

(2) Specialized Averages

(3) Expressed in Percentage

(4) Measures net change in one or more related variables

(5) Called as 'barometer of economic activity

(6) Base year index assumed as 100

(7) Computed from single or group of variables

3

TYPES OF INDEX NUMBERS

- **Price Index Number** → measures → General changes in price of goods
- **Quantity Index Number** → measures → Changes in the level of output → also called as → **Volume Index Number**
- **Value Index Number** → measures → Changes in value of a variable in terms of rupee
- **Special Purpose Index Number** → Constructed for some specific purpose

4

SIGNIFICANCE OF INDEX NUMBERS

- (1) Helps in framing policies
- (2) Helps in studying trends and tendencies
- (3) Helps in forecasting future economic activity
- (4) Helps in measurement of inflation
- (5) Helps in presenting financial data in real terms
- (6) Helps in determining depreciation cost
- (7) Helps the government to adjust National Income

5

CONSTRUCTION OF INDEX NUMBERS

STEPS FOR CONSTRUCTION

- (7) Formula
- (6) Assigning Proper Weightage
- (5) Selection of Suitable Average
- (4) Selection of Prices
- (3) Selection of Items
- (2) Selection Base Year
- (1) Purpose of Index Number

6

METHODS OF CONSTRUCTING INDEX NUMBERS

(A) Simple Index Number

- Price Index Number: $P_{01} = \frac{\Sigma p_1}{\Sigma p_0} \times 100$
- Quantity Index Number: $Q_{01} = \frac{\Sigma q_1}{\Sigma q_0} \times 100$
- Value Index Number: $V_{01} = \frac{\Sigma p_1 q_1}{\Sigma p_0 q_0} \times 100$

(B) Weighted Index Number

- Laspeyre's Price Index Number: $P_{01} = \frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times 100$
- Paasche's Price Index Number: $P_{01} = \frac{\Sigma p_1 q_1}{\Sigma p_0 q_1} \times 100$

7

LIMITATIONS OF INDEX NUMBERS

(Reduced Syllabus for 2020 - 21)

Focus on the following questions: Chatur's Important Questions

Q.1. What are the features of index number?

Q.2. Explain the significance or importance of index numbers in economics.

Q.3. Explain the steps involved in the construction of index numbers.

7 NATIONAL INCOME

(Total Marks : 08) **(Marks with Option : 12)**

MEMORY CHART

1

NATIONAL INCOME
- Central Statistical Organisation (CSO)
- Subject matter of Macro - Economics
- National Income Committee (NIC) (1949)
- Measure of all economic activities
- Indicator of economic welfare of the people in a country

2

MEANING OF NATIONAL INCOME

(1) Total income of the nation is called national income.

(2) National Income is the flow of goods and services produced in an economy during a year.

3

DEFINITION OF NATIONAL INCOME

(1) National Income Committee

- Appointed by → Government of India.
- In → August, 1949
- Chairman → Prof. P. C. Mahalanobis
- Members → Prof. D. R. Gadgil → Dr. V. K. R. V. Rao
- Definition: "A national estimate measures the volume of commodities and services turned out during a given period counted without duplication."

(2) Prof. A.C. Pigou

- "National dividend is that part of objective income of the community including ofcourse income derived from abroad which can be measured in money."

(3) Prof. Irving Fisher

- "National dividend or income consists solely of services as received by ultimate consumers, whether from their material or from their human environments."

4

FEATURES OF NATIONAL INCOME

(1) Macro Economic Concept

(2) Value of only Final Goods and Services

(3) Net Aggregate Value

(4) Net Income from Abroad

(5) Financial Year

(6) Flow Concept

(7) Money Value

5 CIRCULAR FLOW OF NATIONAL INCOME

- It refers to the process whereby an economy's money receipts and payments flow in a circular manner continuously through time.

2 Sector Economy

Households + Business Firms

$Y = C + I$

3 Sector Economy

Households + Business Firms + Government

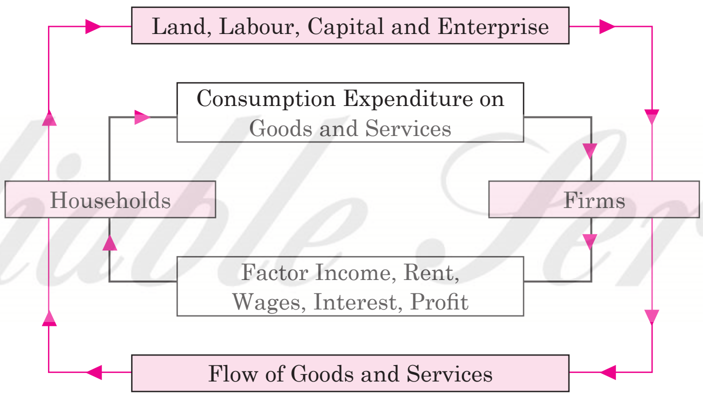
$Y = C + I + G$

4 Sector Economy

Households + Business Firms + Government + Foreign Sector

$Y = C + I + G + (X - M)$

6 TWO SECTOR MODEL OF CIRCULAR FLOW OF NATIONAL INCOME



7 CONCEPTS IN NATIONAL INCOME

(1) Gross Domestic Product (GDP)

- It is the gross market value of all final goods and services produced within the domestic territory of a country, during a period of one year.
- $GDP = C + I + G + (X - M)$

(2) Net Domestic Product (NDP)

- It is the net market value of all final goods and services produced, within the territorial boundaries of a country, during a period of one year.
- $NDP = GDP - Depreciation$

(3) Gross National Product (GNP)

- It is the gross value of final goods and services produced annually in a country, which is estimated according to the price prevailing in the market.
- $GDP = C + I + G + (X - M) + (R - P)$

(4) Net National Product (NNP)

- It is the net market value of all final goods and services produced by the residents of a country, during a period of one year.
- $NNP = GNP - Depreciation$

8 METHODS OF MEASURMENT OF NATIONAL INCOME

- **Output Method**
  - also known as: Product Method or Inventory Method
    - Final Goods Approach or Final Product Approach
    - Value Added Approach or Value Added Method
- **Income Method**
  - also known as: Factor Cost Method
  - **NI = R + W + I + P + MI + (X – M)**
- **Expenditure Method**
  - also known as: Outlay Method
  - **NI = C + I + G + (X – M) + (R – P)**

9 DIFFICULTIES IN THE MEASUREMENT OF NATIONAL INCOME

(A) Theoretical Difficulties or Conceptual Difficulties

(1) Transfer payments
(2) Illegal income
(3) Unpaid services
(4) Production for self consumption
(5) Income of foreign firms
(6) Valuation of Government Services
(7) Changing price level

(B) Practical Difficulties or Statistical Difficulties

(1) Problem of double counting
(2) Existence of non-monetized sector
(3) Inadequate and unreliable data
(4) Depreciation
(5) Capital gains or losses
(6) Illiteracy and ignorance
(7) Difficulties in the classification of working population
(8) Valuation of inventories

10 IMPORTANCE OF NATIONAL INCOME

(Reduced Syllabus for 2020 - 21)

Focus on the following questions: Chatur's Important Questions

Q.1. Explain two sector model of circular flow of national income.
Q.2. Explain the theoretical and practical difficulties in the measurement of national income.
Q.3. Explain the income and expenditure method of measuring national income.

8 PUBLIC FINANCE IN INDIA

(Total Marks : 08) **(Marks with Option : 12)**

MEMORY CHART

1 FUNCTIONS OF GOVERNMENT

(A) Obligatory Functions

- Examples:

(1) Protection from external attacks.
(2) Maintaining internal law and order, etc.

(B) Optional Functions

- Examples:

(1) Provision for education and health services.
(2) Provision of social security like pensions and other welfare measures, etc.

2 PUBLIC FINANCE (Meaning)

- '**Public**' means 'Government' and '**Finance**' means 'Income and Expenditure of government at central, state and local levels.'

3 PUBLIC FINANCE (Definitions)

Hugh Dalton

- "Public finance is one of those subjects which are on the borderline between economics and politics. It is concerned with the income and expenditure of public authorities and with the adjustment of one with the other."

Prof. Findlay Shirras

- "Public finance is the study of the principles underlying the spending and raising of funds by public authorities."

4 STRUCTURE OF PUBLIC FINANCE AT A GLANCE

I Public Expenditure
- (A) Revenue expenditure
- (B) Capital expenditure
- (C) Developmental expenditure
- (D) Non- Developmental expenditure

II Public Revenue
- (A) Tax
  - Direct
    - (1) Proportionate
    - (2) Progressive
    - (3) Regressive
  - Indirect
    - Goods and Services Tax (GST)
- (B) Non - Tax
  - (1) Fees
  - (2) Prices of public good and service
  - (3) Special Assessment
  - (4) Fines and penalties
  - (5) Gifts, grants and donations
  - (6) Special levy
  - (7) Borrowings

III Public Debt
- Internal
- External

IV Fiscal Policy
- (1) Public expenditure
- (2) Public revenue
- (3) Public debt

V Financial Administration
- Revenue expenditure and debit policy for overall growth

5

PUBLIC EXPENDITURE

- Expenditure incurred by the public authority (Central, State and Local Bodies) for protection of their citizens, for satisfying their collective needs and for promoting their economic and social welfare.

6

CLASSIFICATION OF PUBLIC EXPENDITURE

(Reduced Syllabus for 2020 - 21)

7

REASONS FOR GROWTH IN PUBLIC EXPENDITURE

(1) Increase in the Activities of the Government
(2) Rapid Increase in Population
(3) Growing Urbanization
(4) Increasing Defence Expenditure
(5) Spread of Democracy
(6) Inflation
(7) Industrial Development
(8) Disaster Management

8

PUBLIC REVENUE

Meaning:

- Aggregate collection of income with the government through various sources.

Sources:

(A) Tax Revenue
(B) Non - Tax Revenue

9

TAXES

Definitions

(A) Prof. Taussig

- "The essence of a tax as distinguished from other charges by government is the absence of a direct quid pro quo between the tax payer and the public authority."

(B) Prof. Seligman

- "A tax is a compulsory contribution from the person to the government without reference to special benefits conferred."

FEATURES OF TAX

- Imposed on income, property or commodities or service
- Compulsory contribution to the government by the citizen.
- Enables government to incur expenses in common interest of the country
- No direct and proportionate benefit to citizens.
- Major source of revenue to government

TYPES OF TAXES

(A) Direct Tax

(a) Paid by the taxpayer on income and property.
(b) Burden of tax is borne by the person on whom it is levied.
(c) Impact and incidence of tax falls on same person.
(d) E.g. Personal income tax, Wealth Tax, etc.

(B) Indirect Tax

(a) Levied on goods or services.
(b) Paid at the time of production or sale and purchase of a commodity
(c) Burden of tax can be shifted by the tax payers to other persons.
(d) Impact and incidence of tax falls on different person or persons.
(e) E.g. GST in India.

10

NON-TAX REVENUE

Meaning:

- Revenue received by the government administration through other sources than tax is called as non-tax revenue.

SOURCES

- Borrowings
- Special levies
- Gifts, Grants and Donations
- Fines and Penalties
- Fees
- Prices of Public goods and Services
- Special Assessment

11

PUBLIC DEBT

Meaning

- Loans and borrowings by the government authorities.

TYPES OF DEBT

Internal Debt

- Borrowing within the country, i.e. from citizens, banks, financial institutions, central bank, business houses, etc.
- Use of domestic currency.

External Debt

- Borrowing from outside the country, i.e. from foreign governments, foreign banks, foreign institutions, IMF, World Bank, etc.
- Use of foreign currency.

12

FISCAL POLICY

- It is the financial policy implemented by the government through which it adjusts its spending levels and tax rates.

13

FINANCIAL ADMINISTRATION

- A smooth and efficient implementation of revenue, expenditure and debt policy of the Government, is referred to as financial administration.
- It includes preparation and implementation of the Government budgets.

14

GOVERNMENT BUDGET

- A set of seven budget documents describe the details of Government finance in India.
- Article 112 of the Constitution of India has a provision for annual financial statement.
- Instrument of financial administration
- Statement showing the expected receipts and proposed expenditures of the government in the coming financial year.
- Financial year in India — 1st April to 31st March.

15

BUDGET

- '**Budget**' derived from **French** word '**Bougette**' means **a bag** or **a wallet** containing the financial proposals.

Divided into 2

- Revenue Budget
  - Revenue Receipts
    - Tax Revenue
    - Non - Tax Revenue
  - Revenue Expenditure
- Capital Budget
  - Capital Receipts
  - Capital Payments

TYPES OF BUDGET

(Reduced Syllabus for 2020 - 21)

Focus on the following questions: Chatur's Important Questions

Q.1. Explain the various reasons for the growth of public expense.

Q.2. Explain the main components of budget.

Q.3. Explain the sources of tax and non - tax revenue.

9 MONEY MARKET AND CAPITAL MARKET IN INDIA

(Total Marks : 07) **(Marks with Option : 10)**

MEMORY CHART

1

INDIAN FINANCIAL SYSTEM

(1) Financial Institutions

(2) Financial Markets

(3) Financial Instruments

(4) Financial Services

2

MEANING OF FINANCIAL MARKET

- It refers to a market where sale and purchase of financial assets like bonds, stocks, derivatives, government securities, foreign currency, etc. is undertaken.
- It operates through banks, non-banking financial institutions, brokers, mutual funds, discount houses, etc.

Includes

- Money Market
- Capital Market

3

MONEY MARKET

Meaning

- It is a market for lending and borrowing of short term funds.
- It is a market for 'near money'.

STRUCTURE OF MONEY MARKET

Organized Sector

(1) RBI
(2) Government Banks
(3) Co-operative Banks
(4) Development Financial Institutions
(5) Discount and Finance House of India

Unorganized Sector

(1) Indigenous Bankers
(2) Money lenders
(3) Unregulated Non-Bank Financial Intermediaries

4

RESERVE BANK OF INDIA

(1) It is the Central Bank of India.

(2) It was was set up on the basis of the recommendations of the Hilton Young Commission.

(3) The RBI Act of 1934 provides the basis of the functions of the bank

(4) It started its operations on 1st April, 1935 as a private shareholders' bank.

(5) It was nationalized on 1st January, 1949.

5

DEFINITIONS OF RBI (CENTRAL BANK)

Dr. M. H. de Kock

- "Central bank is one which constitutes the apex of the monetary and banking structure of the country."

Prof. W. A. Shaw

- "Central bank is a bank which controls credit."

6

FUNCTIONS OF RESERVE BANK OF INDIA

(1) Issue of Currency Notes
(2) Banker to the Government
(3) Banker's Bank
(4) Custodian of Foreign Exchange Reserves
(5) Controller of Credit
(6) Collection and Publication of Data
(7) Promotional and Developmental Functions

7

COMMERCIAL BANKS

(1) Profit seeking financial institutions.

(2) Acceptance of deposits and granting loans and advances are the primary functions.

(3) Plays an important role in mobilizing savings and allocating them to various sectors of the economy.

(4) Includes scheduled commercial banks and non - scheduled commercial banks.

(5) Four categories
(a) Public sector banks (b) Private sector banks
(c) Regional rural banks (d) Foreign banks

8

DEFINITIONS OF COMMERCIAL BANK

Banking Regulation Act of 1949

- "Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, demand draft, order or otherwise."

Prof. Cairncross

- "A bank is a financial intermediary, a dealer in loans and debts."

9

FUNCTIONS OF COMMERCIAL BANKS

(1) Acceptance of Deposits

Demand Deposits
(a) Current Account
(b) Saving Account

Time Deposits
(a) Recurring Deposits
(b) Fixed Deposits

(2) Providing Loans and Advances
(a) Call loans
(b) Short, medium and long term loans.
(c) Cash credit
(d) Overdraft facility
(e) Discounting of Bills.

(3) Ancillary functions
(a) Transfer of funds
(b) Collection of money
(c) Periodical payments
(d) Merchant banking
(e) Foreign exchange
(f) Safe deposit lockers
(g) Demat facility
(h) Internet banking
(i) Mobile Banking

(4) Credit Creation

Primary deposit → Derivative deposit

10

CO-OPERATIVE BANKS

(1) It came into existence with the enactment of the Co-operative Credit Societies Act of 1904.

(2) It supplements the efforts of commercial banks.

(3) It fulfills the banking needs of small and medium income groups.

(4) It comprises of:
  (a) Primary co-operative credit societies → Primary level
  (b) District central co-operative banks → District level
  (c) State co-operative banks (Apex Bank) → State level

11

DEVELOPMENT FINANCIAL INSTITUTIONS (DFIs)

(1) Agencies providing medium and long-term financial assistance

(2) Helps in the development of industry, agriculture and other key sectors.

(3) First development financial institution established in 1948 was Industrial Finance Corporation of India (IFCI)

(4) Provides various services like - commercial banking, consumer finance, broking, venture capital finance, infrastructural financing, e-commerce, etc.

12

DISCOUNT AND FINANCE HOUSE OF INDIA (DFHI)

(1) Set up in 1988 as a money market institution.

(2) Formed on the recommendations of the Vaghul Committee.

(3) Jointly owned by the RBI, public sector banks and financial institutions.

13

UNORGANISED SECTOR

Comprises of

(1) Indigenous bankers
(a) Deals in hundi.
(b) Provides loans to agriculture, trade and industry.
(c) Rate of interest differs from one market to another.

(2) Money lenders
(a) Operate in villages.
(b) Charge high rate of interest.
(c) Provide loans for productive and unproductive purpose.

(3) Unregulated Non-Bank Financial Intermediaries
(a) Includes:
  (i) Chit Funds (Kerala and Tamil Nadu)
  (ii) Nidhi
  (iii) Loan companies
(b) Charge high rate of interest

Activities

Largely confined to the rural areas.

14

ROLE OF MONEY MARKET IN INDIA

(1) Fulfills short-term financial needs.
(2) Facilitates better management of liquidity and money in the economy
(3) Helps in portfolio management
(4) Helps in establishing equilibrium between demand for and supply of short term funds.
(5) Helps government to fulfill its short term financial requirements.
(6) Helps in implementing monetary policy of Central Bank.
(7) Helps in economizing the use of cash.
(8) Facilitates growth of commerce, industry and trade.

15

PROBLEMS OF INDIAN MONEY MARKET

(Reduced Syllabus for 2020 - 21)

16

REFORMS IN THE MONEY MARKET

(1) Introduction of Treasury bills, Commercial Papers (CPs), Certificate of Deposits (CDs) and Money Market Mutual Funds (MMMFs).
(2) Introduction of Repos and Reverse Repos by RBI under Liquidity Adjustment Facility (LAF).
(3) Determination of interest rates by market forces.
(4) Introduction of National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS).
(5) Introduction of electronic dealing system

17

CAPITAL MARKET IN INDIA

- Market for long term funds (Equity and Debt).
- Promotes investment for achieving economic growth.

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STRUCTURE OF CAPITAL MARKET IN INDIA

- **Government Securities**
- **Industrial Securities Market**
  - New Issues Market
  - Old Issues Market
- **Development Financial Institutions**
  - IFCI
  - ICICI
  - SFCs
  - IDBI
  - IIBI
  - UTI
- **Financial Intermediates**
  - Merchant Banks
  - Mutual Funds
  - Leasing Companies
  - Venture Capital Companies
  - Others

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ROLE OF CAPITAL MARKET IN INDIA

- (1) Mobilises long term savings
- (2) Provides equity capital
- (3) Quick valuation of equity and debt.
- (4) Brings integration among real and financial sector, equity and debt instruments, government and private sector, etc.
- (5) Bring operational efficiency.

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PROBLEMS OF CAPITAL MARKET IN INDIA

(Reduced Syllabus for 2020 - 21)

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REFORMS INTRODUCED IN THE CAPITAL MARKET

- (1) Establishment of SEBI in 1998.
- (2) Establishment of NSE in 1992.
- (3) Introduction of Computerized Screen Based Trading System (SBTS).
- (4) Introduction of Demat account since 1996.
- (5) Access to global funds through ADRs and GDRs.
- (6) Establishment of Investors Education and Protection Fund (IEPF) in 2001.

Focus on the following questions: Chatur's Important Questions

Q.1. Explain the functions of commercial bank.
Q.2. Explain the role of capital market in India.
Q.3. Explain the role of money market in India.
Q.4. Explain the functions of RBI.

10 FOREIGN TRADE OF INDIA

(Total Marks : 04) **(Marks with Option : 06)**

MEMORY CHART

1. INTERNAL TRADE

Buying and selling of goods and services within the boundaries of a nation are referred to as '**Internal Trade**' or '**Domestic Trade**' or '**Home Trade**'.

2. FOREIGN TRADE

Meaning

- Trade between the different countries of the world is called '**Foreign Trade**' or '**International Trade**' or '**External Trade**'.

Definition:

- **Wasserman and Hultman:** "International Trade consists of transaction between residents of different countries".

TYPES OF FOREIGN TRADE

Import Trade

- Purchase of goods and services by one country from another country.
- E.g. India importing petroleum from Iraq, Kuwait, Saudi Arabia, etc.

Export Trade

- Sale of goods and services from one country to foreign country.
- E.g. India exporting tea, rice, jute to China, Hong Kong, Singapore etc.

Entrepot Trade

- Purchase of goods and services from one country and selling them to another country after processing.
- E.g. Japan importing raw materials for making electronic goods from England, Germany, etc. and selling them after processing to various countries in the world.

3. ROLE OF FOREIGN TRADE

(1) To earn foreign exchange

(2) To encourage investment

(3) Leads to division of labour and specialization

(4) To optimize allocation and utilization of resources

(5) To stabilize price level in economy

(6) To provide multiple choices of imported goods

(7) To bring reputation and earn goodwill

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COMPOSITION OF INDIA'S FOREIGN TRADE

(1) Increase in share of Gross National Income
(2) Increase in volume and value of trade
(3) Change in the composition of exports
(4) Change in the composition of imports
(5) Oceanic trade
(6) Development of new ports.

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TRENDS IN INDIA'S FOREIGN TRADE SINCE 2001

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CONCEPT OF BALANCE OF PAYMENTS

Definitions

Ellsworth

- "Balance of payments is a summary statement of all the transactions between the residents of one country and the rest of the world."

Walter Krause

- "It is a systematic record of all economic transactions completed between its residents and the rest of the world during a given period of time usually a year."

Meaning

- It is the value of exchange of goods and services among the citizens, businessmen, firms and government, etc.

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CONCEPT OF BALANCE OF TRADE

Definitions

Bentham

- "Balance of trade of a country is the relation over a period between the values of her exports and imports of physical goods."

Samuelson

- "If export value is greater than the import value it is called as **trade surplus** and if import value is greater than export value, then it is called as **trade deficit**."

Meaning

- Balance of trade includes the value of imports and exports of visible goods and invisible goods.

Focus on the following questions: Chatur's Important Questions

Q.1. Explain the concept of foreign trade and its types.
Q.2. Explain the meaning and role of foreign trade.
Q.3. Explain the concept of balance of payments and balance of trade.