Ch I - Determination Of National Income

Unit 1 - National Income Accounting

Different Concepts of National Income

Gross – GNP, GDP

GNP = GDP + Net Factor Income From Abroad.

GDP = Irrespective of Nationality, Goods & Services Produced Within Domestic Territory Of a Country are to be Considered.

Net – MNP, NDP

NNP = GNP - Depreciation

NDP = GDP - Depreciation

Price – MP, FC, Nom, Real

Factor Cost = MP - Net Indirect Taxes

Nominal= Market Price Will Vary From Case To Case

Real = Market Price Will Remain Constant.

Per Capita Income (PCI)

$$PCI = \frac{\text{Total National Income}}{\text{Population}}$$

Disposable Personal Income

DPI = Personal Income - Personal Income Taxes

Measurement Of National Income In India

Production (value added)

Prd- It is a sum total of net value added at factor cost across all producing units within domestic ternyory. Less - Intermediate Purchase

Income

Inc- It is a summation of factor income paid out by all the production units within the domestic territory of a country as wages, interest, rent& profit.

*It includes payments to non-resident also.

Expenditure

Exp- It is the aggregate of Final expenditure (Cons+Savings)

** Irrespective of any method GDP will remain same.

Limitations and Challenges Of National Income Computation

*Limitations

- It does not consider health, safety, pollution, standard of living, education etc.
- Per Capita Income could be incorrect.
- Illegal services are not considered
- unreported income is also not considered.
- Volunteer work is ignored.

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Chapter 1 Unit 2 The Keynesian Theory Of Determination Of National Income

Sector Mode

2
- Firm
- Household
- $Y = C+I$

3
- Firm
- Household
- Government
- $Y = C+I+G$

4
- Firm
- household
- Government
- export / import
- $Y = C+I+G+NET\ EXP$

i.e Export – import

ie. C = Consumption
I = Investments
G = Government

Misc

CONSUME

MPC

$MPC = \frac{\Delta C}{\Delta Y}$

$MPC = 1 - MPS$

APC

$APC = \frac{C}{Y}$

$APC = 1 - APS$

SAVE

MPS

$MPS = \frac{\Delta S}{\Delta Y}$

$MPS = 1 - MPC$

APS

$APS = \frac{S}{Y}$

$APS = 1 - APC$

MULTIPLIER

Multiplier refers to the phenomenon whereby a change in an injection of expenditure will lead to a proportionally large change in the level national income. More leakage= less Multiplier.

CONSUMPTION FUNCTION

$C = a + by$

a= constant
b=Propensity to consume
y= Total Disposable Income

Chapter 2 - Unit 2 - Market Failure

Reasons For Market Failure

Monopoly

-Firms that have market power are price makers and therefore ,can charge a price that gives them positive economic profits Excessive market power causes the single producer or a small number of producers to produce and sell less output than would be produced in a competitive market .

-Market power can cause markets to be inefficient because it keeps price higher and output lower than the outcome of equilibrium of supply and demand.

Externalities

Types

Production

- **Positive**: A positive production externality initiated in production that confers external benefits on others may be received in production or in consumption.
- **Negative**: A negative externality initiated in production which imposes an external cost on others may be received by another in consumption or in production.

consumption

- **Positive**: A positive consumption externality initiated in consumption that confers external benefits on others may be received in consumption or in production.
- **Negative**: A Negative consumption externalities are extensively experienced by us in our day to day life. Such negative consumption externalities initiated in consumption which produce external costs on others may be received in consumption or in production.

Social Cost

=

Private Cost (Eg.Direct Cost Of Production)

\+

External Cost (Eg.Petha Agra)

Public Goods

- *Public Goods
- *Private Goods
- *Pure Goods
- *Impure Goods
- *Mix Goods
- *Common Access
- *Global Public Goods
- *Free Rider Goods

Incomplete Information

Meaning

Asymetric → Old Car

Adverse Selection → Eg. Insurance

Incomplete Information

Complete information is an important element of competitive market. Perfect information implies that both buyers and sellers have complete information about anything that may influence their decision making.

Asymmetric information occurs when there is an imbalance in information between buyer and seller i.e. when the buyer knows more than the seller or the seller knows more than the buyer. This can distort choices.

Adverse selection is a situation in which asymmetric information about quality eliminates highquality goods from a market.

Types of Market Failure

- Demand side
- Supply side

Chapter 2 - Unit 3 - Government Intervention To Correct Market Failure

Minimize Market Power

-As we are aware, market power - exercised either by sellers or buyers - is an important factor that contributes to inefficiency because it results in higher prices than competitive prices.

-Because of the social costs imposed by monopoly governments intervene by establishing rules and regulations designed to promote competition and prohibit actions that are likely to restrain competition. These legislations differ from country to country.

-For example in India, we have the Competition Act,2002

Correct Externalities

1 How To Correct Externalities

Pollution Tax

Disadvantages

- Complex
- Admin
- Not a genuine Solution
- Inelastic Product
- Prod in other Countries

Permits

-The second approach to establishing prices is tradable emissions permits (also known as capand trade). These are marketable licenses to emit limited quantities of pollutants and can be bought and sold by polluters.

Advantages

- flexibility and reward efficiency
- cheap and simple to implement
- strong incentives for innovation
- extra profits made by low pollution

2 Meaning

-Governments have numerous methods to reduce the effects of negative externalities and to promote positive externalities.

-most commonly referred negative externality is pollution

Merit & Demerits Goods

Merit Goods

Subsidies on HOSPITALS, Library etc.

Demerit Goods

Heavy Duties on Drugs, Liquor, Tobacco

Correcting Information Failure

Examples Are

Complete Disclosure about Product on wrapper itself.

↓

Prospects

↓

Advertisement should not be vague & not should be clear in nature

Equitable Distribution

High Income

More Tax and More Duties on Luxury Products

Low Income

LOW TAX + Unemployment Compensation + Job Reservation

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Chapter 2 – Public Finance   Unit 4 – Fiscal Policy

Instruments

- *Government Expenditure*
- *Tax*
- *Debt*
- *Budget*

Types

- *Expansionary*
- *Contractionary*

Limitations of Fiscal Policy

- *Instant*
- *Capital*
- *Long Duration*
- *Govt. Perpetual burden*
- *Foreigners Disincentive*
- *Expansion – Inflation*
- *Predict – Inflation/ Deflation*

Crowding out

How to reduce Inequalities

- *DT*
- *IDT*
- *Other*

Chapter 3 Money Market Unit 1 The Concept Of Money Demand

Money Market

The Concept of Money Demand

Factions Of Money
- Convenient medium of Exchange.
- It is a Common measure of Value.
- It is a standard of Deferred Payment.

Demand For Money
- For Expenses.
- To have Command over Real Goods.
- For unforeseen Situation.

The Theories of Demand For Money

QTM / Fisher

MV=PT

Cambridge Approach

MV=KPV (Constant Saving)
-
it focus on stoke

Keynesian Theory

- People Hold Money for 3 motives
1)DSY TO STAY
2)Precautionary
3)I Speculative Demand for future opportunity.

Post Keynesian Development in the theory of Demand of Money

Inventory

Cost Of Brokerage (Should be Considered while Deposit in bonds)

- ROI
- Brokerage
- Optimum Combination of Bonds & Cash.

Friedman

Consider Permanent Income

- Determinate of Demand for supply
- Wealth
- Price
- Inflation
- ROI

Demand For Money

Liquidity Pref/ Tobin

- If Interest rate is high then the Invest in bond or else hold
- More Interest Rate = More Bonds

Unit 2 - The Concept of Money Supply

A) Rationale of Measuring Money Supply

B) The Sources of Money Supply

C) Measurement of Money Supply

D) Determinants of Money Supply

E) The Concept of Money Multiplier

F) The Money Multiplier Approach to Supply of Money

G) Effect of Government Expenditure on Money Supply

Unit 3 - Monetary Policy

A) Definition of Monetary Policy

B) The Monetary Policy Framework

C) The Organisational Structure for Monetary Policy Decisions

i) Components

- The Objectives of Monetary Policy
- Analytics of Monetary Policy
- Operating Procedures and Instruments

ii) Instruments for implementing Monetary Policy

- Cash Reserve Ratio (CRR)
- Statutory Liquidity Ratio (SLR)
- Liquidity Adjustment Facility (LAF)
- Marginal Standing Facility (MSF)
- Market Stabilisation Scheme (MSS)
- Open Market Operations

CH. 4 – INTERNATIONAL TRADE

Unit 1 - Theories of International Trade

- A) The Mercantilists' View of International Trade
- B) The Theory of Absolute Advantage
- C) The Theory of Comparative Advantage
- D) The Heckscher-Ohlin Theory of Trade
- E) New Trade Theory – An Introduction

Unit 2 - The Instruments of Trade Policy

A) Tariffs

- Specific Tariff
- Ad valorem tariff
- Mixed Tariffs
- Compound Tariff or a Compound Duty
- Technical/Other Tariff
- Tariff Rate Quotas
- Most-Favored Nation Tariffs
- Variable Tariff
- Preferential Tariff
- Bound Tariff
- Applied Tariffs
- Escalated Tariff
- Prohibitive tariff
- Important subsidies
- Tariffs as Response to Trade Distortions
- Anti-dumping Duties
- Countervailing Duties

B) Non Tariffs Measures

Technical Measures

- Sanitary and Phytosanitary (SPS) Measures
- Technical Barriers To Trade (TBT)

Non-technical Measures

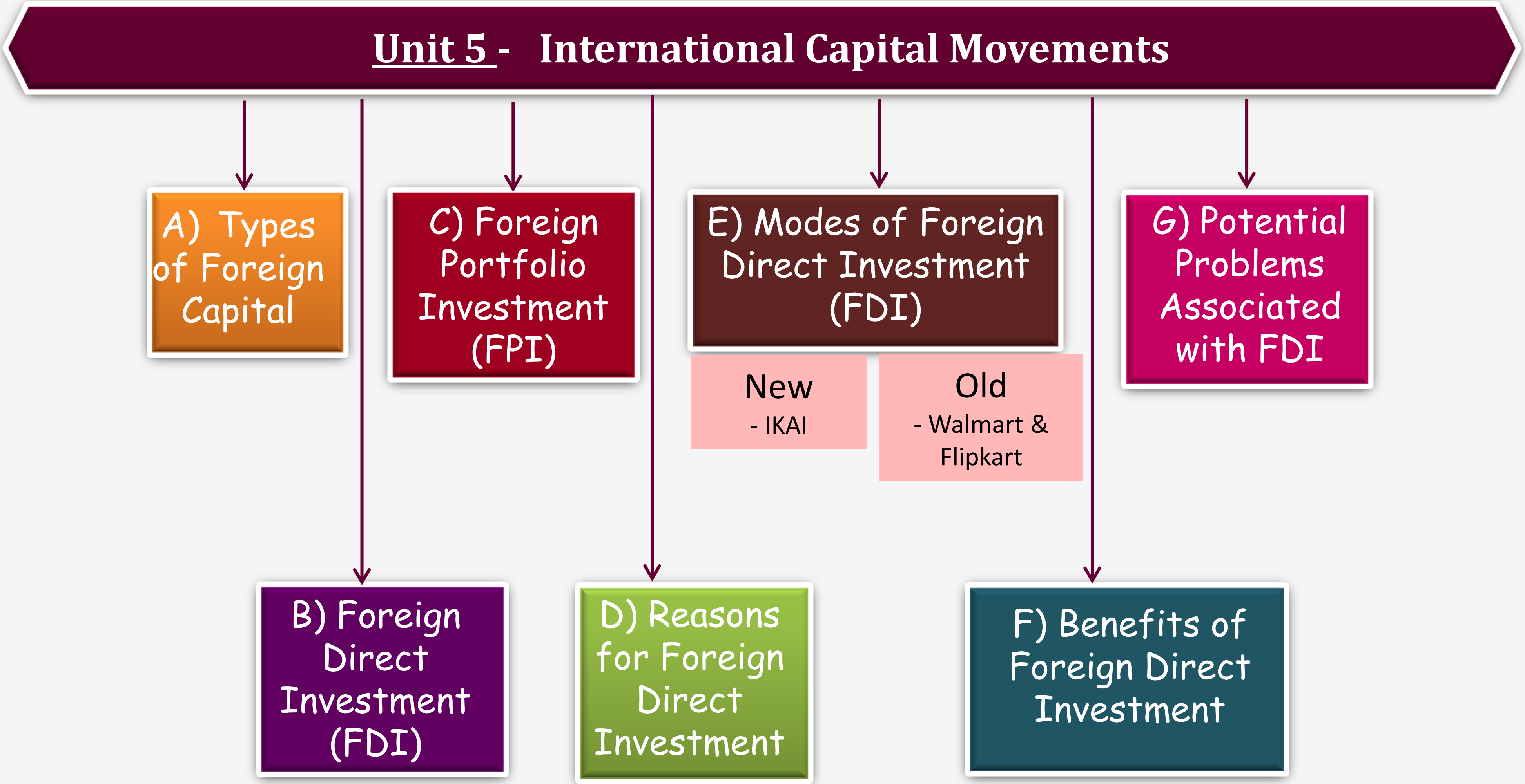
- Import Quotas
- Price Control Measures
- Non-automatic Licensing and Prohibitions
- Financial Measures
- Measures Affecting Competition
- Government Procurement Policies
- Trade-Related Investment Measures
- Distribution Restrictions:
- Restriction on Post-sales Services:
- Administrative Procedures
- Rules of origin
- Safeguard Measures
- Embargos

Chapter 4 - Unit 3 – Trade Negotiations

- RTA
- GATT Problems
- What is the objectives of WTO?
  - *Standard*
  - *Employment*
  - *Income*
  - *GDP*
  - *Demand*
- What is WTO?
- Structure of WTO
  - *Ministry*
  - *General*
    - *Goods*
    - *Services*
    - *Intellectual*
- Guidelines of WTO
- Concern of WTO

Chapter 4 - Unit 4 – Exchange Rate and Its Economic Effects

- What is exchange rate
- Types
  - Fixed Rate
    - Devaluation
    - Decided by Govt.
  - Floating Rate
    - Depreciation
    - Changes from time to time
- Why do you need foreign exchange?
- Nominal Vs. Real exchange rate
- Impact of Change
  - Appreciation
  - Depreciation
- Foreign exchange market


Unit 5 - International Capital Movements
A) Types of Foreign Capital
B) Foreign Direct Investment (FDI)
C) Foreign Portfolio Investment (FPI)
D) Reasons for Foreign Direct Investment
E) Modes of Foreign Direct Investment (FDI)
New
- IKAI
Old
- Walmart & Flipkart
F) Benefits of Foreign Direct Investment
G) Potential Problems Associated with FDI