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REVISION PLAN

DAY	SUBJECT	TOPIC
Day - 1	Accounts	Company Accounts
Day - 2		Company Accounts, Inventory, Bank Reconciliation Statement
Day - 3		Not for Profit Organisation, Rectification of Error
Day - 4		Final Accounts, Bills of Exchange
Day - 5		Accounts from Incomplete Records
Day - 6		
Day - 7		Preparation for Accounts Mock Test-1
Day - 8		Accounts Mock Test 1
Day - 9	Business Economics	Theory of Production & Cost
Day - 10		Price Determination in Different Market & Business Cycle
Day - 11		Theory of Demand & Supply
Day - 12		Determination of National Income & Public Finance
Day - 13		Money Market, International Trade
Day - 14		
Day - 15		Preparation for Business Economics Mock Test-1
Day - 16		
Day - 17		Economics Mock Test - 1 + Accounts Mock Test - 2
Day - 18	Quantitative Aptitude	Time Value of Money, Arithmetic Progression & Geometric Progression, Index Number
Day - 19		Central Tendency, Measures of Dispersion, Correlation & Regression
Day - 20		Set Functions & Relations, Ratio Proportion Indices & Logarithm, Permutation & Combination
Day - 21		Probability, Theoretical Distribution & Equations
Day - 22		Logical Reasoning & Linear Inequalities
Day - 23		
Day - 24		Preparation for Quantitative Aptitude Mock Test-1
Day - 25		
Day - 26		Quantitative Aptitude Mock Test 1 + Economics Mock Test 2
Day - 27	BUSINESS LAWS	Indian Contract Act - Unit 1 to 5
Day - 28		Indian Contract Act - Unit 7 to 9
Day - 29		Sales of Goods Act, Limited Liability Partnership Act
Day - 30		Indian Partnership Act, Indian Regulatory Framework, Negotiable Instrument Act
Day - 31		
Day - 32		Preparation for Business Laws Mock Test
Day - 33		
Day - 34		Business Laws Mock Test 1 + Quantitative Aptitude Mock Test 2
Day - 35		
Day - 36		
Day - 37		
Day - 38		SELF STUDY FOR ACCOUNTS



Table of CONTENTS

MATHS 1-20

LAW 21-48

ECO 49-89

CA
आसान
है!

Ratios

- Ratio is a comparison of two similar attributes in same units.

Ratio		
Multiplier	as a bridging element	Comparison

- Types of ratios : (a : b)

- Duplicate $a^2 : b^2$
- Sub dupl. $\sqrt{a} : \sqrt{b}$
- Triplicate $a^3 : b^3$
- Sub Tripl. $\sqrt[3]{a} : \sqrt[3]{b}$
- Compound $(a : b, c : d) \rightarrow a \times c : b \times d$
- Continued $\rightarrow a : b : c (a : b, b : c)$
- Inverse $\rightarrow b : a$

Proportion

- If two ratios are equal they are said to be in proportion.
- Each pair of ratio should have same units.

Proportion		
Mean Proportion	Third Proportion	Fourth Proportion

$$b^2 = \sqrt{ac} \quad \left| \quad \frac{a}{b} = \frac{b}{c} \right.$$

- Product of means = Prod of extremes

- Properties of Proportion {a:b}

- Invertendo $\frac{b}{a} = \frac{d}{c}$
- Alternendo $\frac{a}{c} = \frac{b}{d}$
- Componendo $\frac{a+b}{b} = \frac{c+d}{d}$
- Dividendo $\frac{a-b}{c} = \frac{c-d}{d}$
- Componendo & dividendo $\frac{a+b}{a-b} = \frac{c+d}{c-d}$

Indices

- It is a power game..

- Properties :

- $\sqrt[b]{a} = a^{\frac{1}{b}}$
- $a^b a^c = a^{b+c}$
- $\frac{a^b}{a^c} = a^{b-c}$
- $(a \times b)^c = a^c \times b^c$
 $(a+b)^c \neq a^c + b^c$
 $(a-b)^c \neq a^c - b^c$
- $\left(\frac{a}{b}\right)^c = \frac{a^c}{b^c}$
- $a^b = c \rightarrow a = c^{\frac{1}{b}}$
- $a^b = a^c$ then Base same
 $\boxed{b=c}$ power equate
- Power - same base - equate
 $a^b = c^b \rightarrow a = c$
- $\frac{1}{a^b} = a^{-b}, \frac{1}{a^b} = a^{-b}$
- $(a)^0 = 1.$

Logarithms

$$a^b = c$$

$$\downarrow$$

$$\log_a c = b$$

- Always assume base to be 10.
- $\log a + \log b = \log a \times b$
- $\log a - \log b = \log \frac{a}{b}$
- $\log 1 = 0$
- $m \log n = \log n^m$
- $\log^b = \frac{1}{\log^b}$
- $a^{\log^b x} = x$
- Shortcut :
Type no.
Type $\sqrt{19}$ times
Type -1×227695

Equations



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General Form

- 1 variable $ax + b = 0$
- 2 Variables $ax + by + c = 0$
- 3 Variables $ax + by + cz + d = 0$

To get unique solutions
No. of equations = No. of Variables

$$\frac{a_1}{a_2} = \frac{b_1}{b_2} = \frac{c_1}{c_2} \quad (\text{Infinite Solution})$$

$$\frac{a_1}{a_2} \neq \frac{b_1}{b_2} \quad (\text{Unique Solution})$$

$$\frac{a_1}{a_2} = \frac{b_1}{b_2} \neq \frac{c_1}{c_2} \quad (\text{No Solution})$$

Quadratic Equations

General Form

- $ax^2 + bx + c = 0$
- if α & β are roots then,

$$x^2 - (\alpha + \beta)x + \alpha\beta = 0$$

$$\text{Sum of roots } (\alpha + \beta) = -\frac{b}{a}$$

$$\text{Product of roots } (\alpha\beta) = \frac{c}{a}$$

The roots can be found out using,

$$x = \frac{-b \pm \sqrt{b^2 - 4ac}}{2a}$$

Nature of Roots depends on $D = b^2 - 4ac$

(a) $D < 0$ Roots are imaginary

(b) $D = 0$ Real and equal

(c) $D > 0$ and perfect square number real,
distinct (unequal) and Rational

(d) $D > 0$ and NOT a perfect square real
distinct and Irrational

Cubic Equation

General Form

$$ax^3 + bx^2 + cx + d = 0$$

$$\text{Sum of roots } (\alpha + \beta + \gamma) = -\frac{b}{a}$$

$$\text{Product of roots } (\alpha\beta\gamma) = -\frac{d}{a}$$

Linear In-equations



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Making the Inequation

- Use logics
- Signs of inequality
 $\geq, \leq, >, <$
- Knock out in objective questions:
Right values – satisfy
Wrong values – not satisfy

Solving the inequation

Graphical Method***

S.01 Ignore the sign of inequality

Put $x = 0$ & calculate y , point $(0, y)$

Put $y = 0$ & calculate x , point $(x, 0)$

S.02 Plot the points from S.01 on the graph,

Draw straight lines.

S.03 If line passes through $(0, 0)$

Put any point in the form $(x, 0)$

If satisfy – Shade towards

If not – Shade against

If it does not pass through $(0, 0)$,

Put $(0, 0)$

If satisfy – Shade towards

If not – Shade against

S.04 Shade the common region ; common area for all the inequations.

Feasible

Infeasible

Bounded

Unbounded

Algebra

- Divide / Multiply with a negative no. ; change sign of inequality.
- Always change both sides
- Brackets

$()$	$[]$	$\{ \}$
Open	Closed	Curly
$(2, 3)$	$[2, 3]$	$\{2, 3\}$
\downarrow	$2\checkmark$	$2\checkmark$
$2\times$	$3\checkmark$	$3\checkmark$
$3\times$	$2-3\times$	$2-3\times$
$2-3$		

Champions वाला Chart

Time Value Of Money



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Simple Interest

- $S.I. = \frac{pxrt}{100}$
- $A = P + S.I.$
- 1 S.I. is not बेवफा !
S.I. is always calculated on principal.
- 2 S.I. is constant for every year.
- 3 If Q. is चुपकी assume it to be of S.I.
- 4 Nature of r, t should be same
- 5 Time Scale में + P होगा

Compound Interest

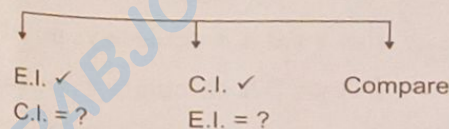
- Interest on Interest.
- $C.I. \geq S.I.$
- For the first period
 $C.I. = S.I.$
- $A = P \times (1+i)^n$
- $C.I. = A - P$
- Nature of r & t is always same.
Always focus on factor.
- Higher the compounding higher the amount.
- Time scale में \times होगा
- $WDV = H.V. \times (1 - i)$
- Doubling Period formula
 $T = 0.35 + \frac{69}{r}$
- Tripling Period formula
 $T = 0.35 + \frac{111.111}{r}$

Effective Interest

$$E.I. = \{ \text{एक साल का factor} - 1 \} \times 100$$

- Always assume
 $t = 1$ year
- Nature of r & t should be same.

Three types of Questions



Annuity

F.v.

P.v.

$$F.V. = I \times \left\{ \frac{(1+i)^n - 1}{i} \right\} \quad I \div \text{factor} = n \text{ times GT}$$

- Due : Starting from today \rightarrow
ans. $\times (1+i)$

- Bulk amount

आज आया गया
P.v.

कल आया गया
F.v.

- 3 conditions for annuity.
 - Fixed Time Interval
 - Fixed Installments
 - Regular Payments

Permutation & Combination



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Events :
And $\rightarrow \times$
Or $\rightarrow +$

$$0! = 1$$

P & C

$$n \geq r$$

$n, r \rightarrow$ positive integers

Permutation

It is all about arrangement, order matters.

$${}^n P_r = \frac{n!}{n-r!}$$

n = no. of objects

r = objects taken at a time

$${}^n P_r = n_{c_r} \times r!$$

Restriction

जहाँ restriction हो पहले उसे भरो then focus on the rest.

Always Together

- Always make a box
- Count box as one element & permute. Also arrange inside the box.

Never together

For 2 elements: Total - always together

Or
 $(n-1)(n-2)!$

Repetition

- If objects are repeated then, जितनी बार एक object repeat उतने factorial से divide करो

Circular

- $(n-1)!$ ways.

- Necklace etc.

$$\frac{1}{2}(n-1)!$$

Division

- Total objects! group ka!

- अगर group same तो उतने ! से divide.

- For distn \times person !

Combination

It is about selection order does not matter

$${}^n C_r = \frac{n!}{(n-r)! \times r!} = \frac{n_{c_r}}{r!}$$

Properties

- $n_{c_r} = n_{c_{n-r}}$
- PasCal's law
 $n_{c_r} + n_{c_{r-1}} = n_{c_r} + n_{c_{r-1}}$
 $= n_{c_r} + n_{c_{r-1}}$
- $n_{c_1} = 1$
- $n_{c_0} = 1$
- $n_{c_{r_1}} = n_{c_{r_2}}$
 $r_1 + r_2 = n$

Geometry

- Diagonals
 $= n_{c_2} - n$
- Δ can not be made from collinear points.

All or None

2^n
Taking all or any no. of object i.e. r at a time

Sequence & Series



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AP / GP

Arithmetic Progression

- It is about adding the constant no. to the first term & again.
- Every no. is A.M. of its previous & succeeding no.
- First Term = a common difference = d
- Variety -1 series : given value of term = ?
 $T_n = a + (n-1)d$
- Variety -2 series : given value = given $n = ?$
- Variety -3 series : given sum = ?
 $S_n = \frac{n}{2}(a+r)$ or $\frac{n}{2}(2a + (n-1)d)$
- Variety -4 series : given sum = given no. ?
- Variety -5 If two non consecutive term are given;
 $d = \frac{T_m - T_n}{m - n}$
- Variety -6 Insertion of A.M. 's between two no.'s results in A.P.
- Variety -7 Sum's machine = given Term = ?

Geometric Progression

- It is about multiplying the constant no. again.
- Every no. is GM of its previous & succeeding terms.
- First term - a common ratio = r
- Variety no. 1 $n = \text{given}$ $T_n = ?$
 $T_n = ar^{n-1}$
- Variety -2 $n = ?$ $T_n = ?$
- Variety -3 Series = given sum = ?
 $S_n = \frac{a(r^n - 1)}{r - 1}$ ($r > 1$) $= \frac{a(1 - r^n)}{1 - r}$
If ($r < 1$)
- Variety -4 sum = given $n = ?$
- Variety -5 calculation of r in two non consecutive;
 $r = \left(\frac{T_m}{T_n} \right)^{\frac{1}{m-n}}$
- Variety -6 Insertion of GM's
- Variety -7 Sum of infinity series.
 $S_\infty = \frac{a}{1-r}$

Sets, Function & Relations



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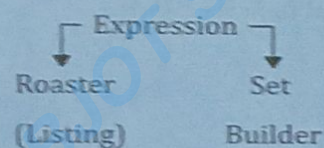
Sets

Relations

Function

Basics

"It is a well defined group of distinct objects."



• Cardinal no. = no. of elements in a set

No. of subsets = 2^n

Proper subsets = $2^n - 1$

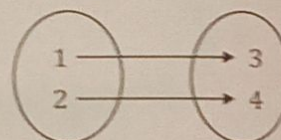
Types

1. Universal Set : contains all the objects.
2. Subset : every element of A is in B. $A \subset B$
3. Superset : every element of A is in B. $B \supset A$
4. Null Set : \emptyset , 0 element.
5. Equal Set : Every element of A is in B & vice versa.
6. Equivalent Set : $n(A) = n(B)$
7. Power Set : Set of all subsets.

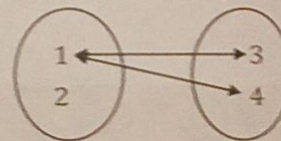
Basics

Every subset of a Cartesian product of $A \times B$ is called relation.

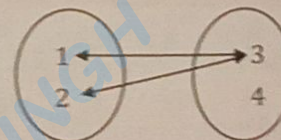
One to One



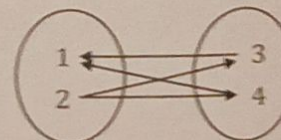
One to Many



Many to One



Many to Many



Types

- Reflexive
 $A = \{1, 2, 3\}$
 $R = \{(1, 1)(2, 2)(3, 3)\}$
all $a, a \in R$
- Symmetric
 $A = \{1, 2, 3\}$
 $R = \{(1, 2)(2, 1)(2, 3)(3, 2)\}$
 $a, b \in R$ then $b, a \in R$
- Transitive
 $A = \{1, 2, 3\}$
 $R = \{(1, 2)(2, 3)(1, 3)\}$
 $a, b \in R$ & $b, c \in R$ then $a, c \in R$
- $S \checkmark R \checkmark T \checkmark$
= Equivalence

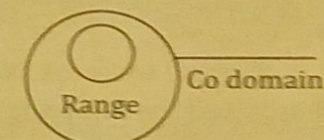
Basics

"Every R is not F but every F is a R."

"No two ordered pairs should have same first element."

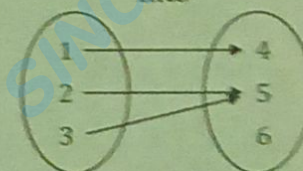
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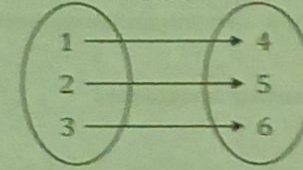


Types

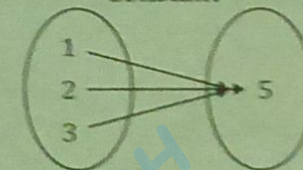
Into



Onto



Constant

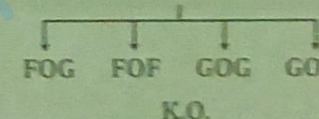


Inverse

$x \rightarrow y$

$y \rightarrow x$

Composite



Champions चाला Chart

Six Basic Rules of Differentiation

$$\frac{d}{dx}(x^n) = nx^{n-1}$$

$$\frac{d}{dx}(e^x) = e^x$$

$$\frac{d}{dx}(a^x) = a^x \log_e a$$

$$\frac{d}{dx}(\text{constant}) = 0$$

$$\frac{d}{dx}(e^{ax}) = ae^{ax}$$

$$\frac{d}{dx}(\log x) = \frac{1}{x}$$

Note: $\frac{d}{dx}[cf(x)] = cf'(x)$ c being constant.

For Two Functions

$h(x) = f(x) \pm g(x)$
(Sum/Difference of function)

$$\frac{d}{dx}[h(x)] = \frac{d}{dx}[f(x)] \pm \frac{d}{dx}[g(x)]$$

$h(x) = f(x) \cdot g(x)$
(Product of functions)

$$\frac{d}{dx}[h(x)] = f(x) \frac{d}{dx}[g(x)] + g(x) \frac{d}{dx}[f(x)]$$

$h(x) = \frac{f(x)}{g(x)}$
(Quotient of function)

$$\frac{d}{dx}[h(x)] = \frac{g(x) \frac{d}{dx}[f(x)] - f(x) \frac{d}{dx}[g(x)]}{[g(x)]^2}$$

6 Basic Rules of Integration

$$\int x^n dx = \frac{x^{n+1}}{n+1} + c, n \neq -1$$

$$\int dx = x + c, \text{ since } \int 1 dx = \int x^0 dx = \frac{x^1}{1} = x$$

$$\int e^x dx = e^x + c$$

$$\int e^{ax} dx = \frac{e^{ax}}{a} + c$$

$$\int \frac{dx}{x} = \log x + c$$

$$\int a^x dx = \frac{a^x}{\log_e a} + c$$

Integration By parts

$$\int u v dx = u \int v dx - \int \left[\frac{d(u)}{dx} \int v dx \right] dx$$

$$\int e^x [f(x) + f'(x)] dx = e^x f(x) + c$$

$$\int \frac{f'(x)}{f(x)} dx = \log f(x) + c$$

Definite Integration

$$\int_a^b f(x) dx = F(b) - F(a)$$

b is called the upper limit and a the lower limit of integration.

Important Properties of Definite Integral

$$\int_a^b f(x) dx = \int_b^a f(x) dx$$

$$\int_a^b f(x) dx = \int_a^c f(x) dx + \int_c^b f(x) dx, a < c < b$$

$$\int_0^b f(x) dx = \int_0^a f(a-x) dx$$

$$\text{when } f(x) = f(a+x) = \int_0^{na} f(x) dx = n \int_0^a f(x) dx$$

$$\int_{-a}^a f(x) dx = 2 \int_0^a f(x) dx \quad \text{if } f(-x) = f(x)$$

$$\int_{-a}^a f(x) dx = 0 \quad \text{if } f(-x) = -f(x)$$

Number Series & Coding-Decoding



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Learn by Heart

Squares

$$1^2 = 1, 2^2 = 4, 3^2 = 9 \dots \text{upto } 25^2 = 625$$

Cubes

$$1^3 = 1, 2^3 = 8, 3^3 = 27 \dots \text{upto } 15^3 = 3375$$

What is "Method of Difference"?

Questions: 2, 5, 12, 27, 54, 97, ?

Mod \rightarrow 2, 5, 12, 27, 54, 97, 160

3, 7, 15, 27, 43, 63

4, 8, 12, 16, 20

Ans. \rightarrow 160

Alphabet Position Chart

1	2	3	4	5	6	7	8	9	10	11	12	13
A	B	C	D	E	F	G	H	I	J	K	L	M
Z	Y	X	W	V	U	T	S	R	Q	P	O	N
26	25	24	23	22	21	20	19	18	17	16	15	14



Thumb Rule of Position

Alphabet Forward Position +
Alphabet Backward Position = 27

Example: Position of "I"

Forward Position = 9.

Backward Position = $27 - 9 = 18$

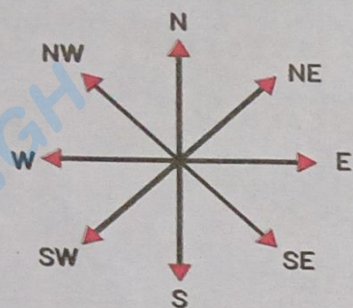
What is N Backward Position?

$27 - 14 = 13$

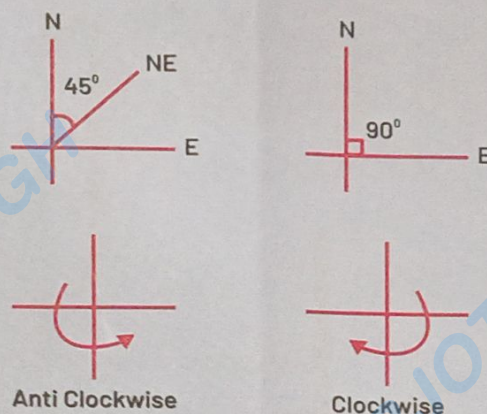
Champions वाला Chart

Direction Test

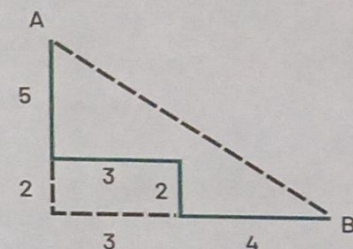
Basic 8 Directions



Angles & Direction



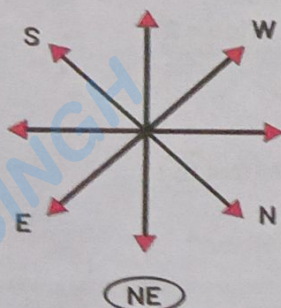
How to Calculate Distance?



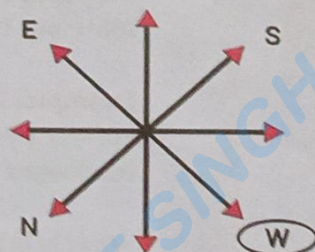
$$AB = \sqrt{(5+2)^2 + (3+4)^2}$$

$$B = \sqrt{49 + 49} = 7\sqrt{2}$$

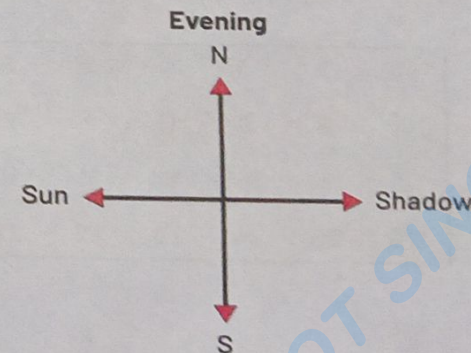
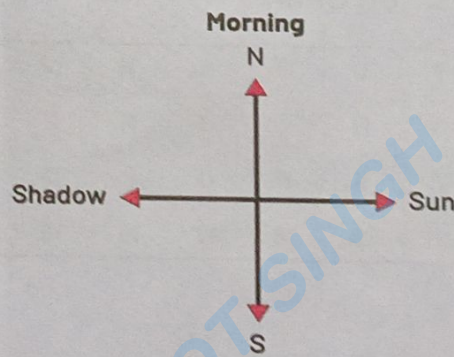
If South Becomes NE



If SE Becomes West

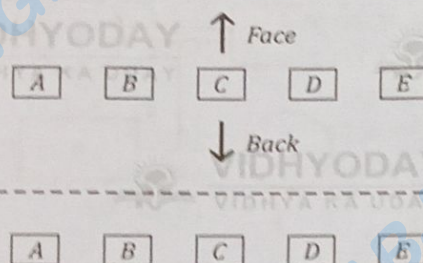


Shadows base questions



Seating Arrangement

In Linear Arrangement People Sit Facing North

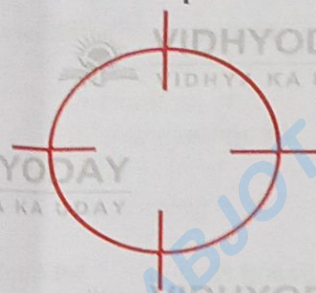


In the above arrangement

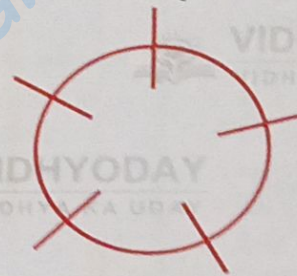
- B & A are to the left of C.
- D & E are to the right of C.
- B is immediate left of C.
- There are two persons between A & D.
- D is third to the right of A.

Circular Arrangement

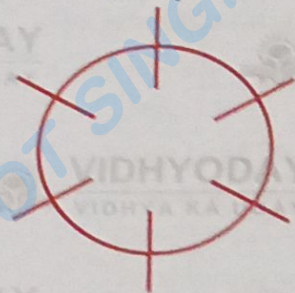
4 People



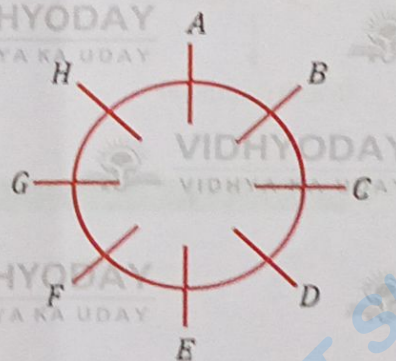
5 People



6 People



Note : Spacing between any two person should be same.



A is Diametrically opposite to E, H to D and so on
G is second to left of E.
G is third to right of B.

Blood Relations



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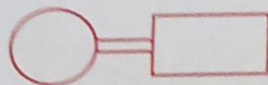
Gender Representation



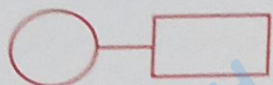
→ Male



→ Female



→ Spouse



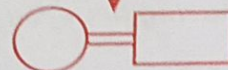
→ Siblings

Different Relationship Levels

(a) Mother
↓
Daughter

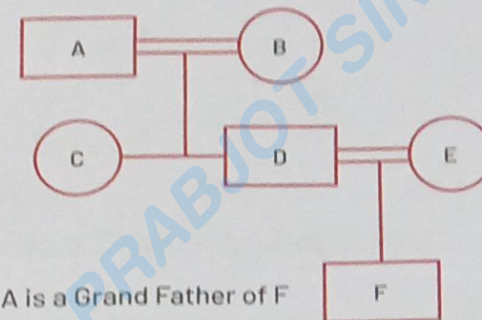
(b) Sister — Brother

(c) Grand Mother
↓
Grand Daughter



(d) Aunt — Niece

Sample Family Tree



A is a Grand Father of F
B is a Mother of C & D
C is a Sister-in-Law of E
F is a Nephew of C
A is a Father-in-Law of E
C & D are siblings
D & E are Spouse

Statistical Distribution of Data



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Meaning, History's Limitations

Meaning

Singular (Data Science)

- History
 1. French - Statistique
 2. Italian - Statista
 3. German - Statistic
 4. Latin - Status

• Limitations

1. Aggregation
2. Certain assumptions
3. Random sampling
4. Quantitative Data

Plural (Collection of data)

Interview

- Direct (one to one)
- Telephone (surveys)
- Indirect (accidents)

Mail Questionnaire (Speak Asia)

Enumerators जनगण

Observation देकेदार

Collection of Data

Primary

- ✓ First time
- ✓ Accurate
- ✓ Tailor made
- ✓ Reliable

Secondary

- ✓ Second time
- ✓ Less accurate
- ✓ Not customised
- ✓ Less reliable

International Reports (WHO)

Government Reports (NSO)

Quasi-Government (NCERT)

Representation of Data

Textual

- ✓ Unpopular
- ✓ Difficult to interpret
- ✓ Time consuming

Tabular

- ✓ Preferred Method
- ✓ Represented in table format
- ✓ Parts of table:
 - Table no.
 - Stub
 - Heading
 - Sub-heading
 - Caption
 - Body of the table
 - Footnote

Graphical

- Line chart
 - ✓ 2-D
 - ✓ Discrete variable
- Bar chart
 - ✓ 2-D
 - Continuous variable
- Pie chart
 - ✓ 1-D
 - ✓ Angle

$$\text{Amount of segment} = \frac{\text{Total amount}}{\text{Total amount}} \times 360^\circ$$

Misc. terms & Formulae

No. of class Intervals

- ✓ No. of class Intervals

$$= \frac{\text{Max.} - \text{Min.}}{\text{Class Length}}$$
- ✓ % of relative frequency

$$= \frac{\text{Class frequency}}{\text{Total frequency}}$$
- ✓ Frequency Density

$$= \frac{\text{Class frequency}}{\text{C.L.}}$$

Central Tendency

लवार्स Property

- Δ of origin ✓
- Δ of scale ✓
- Δ of sign ✓

Quantitative Average

- $AM \geq GM \geq HM$
- $GM = \sqrt{AM \times HM}$

Relationship :
Mode : $3md - 2\bar{X}$
 $mo - \bar{X} = 3(md - \bar{X})$

Positional Average

AM

- Average formula = $\frac{\text{sum}}{\text{no}}$

$$\frac{\sum x}{n}, \frac{\sum fx}{\sum f}, \frac{\sum fm}{\sum f}$$

• Properties

1. A.M. is the most popular measure of CT.
2. Sum of deviations from A.M. is always 0.
 $\sum X - \bar{X} = 0$
3. Combined A.M. can be calculated.
 $\bar{X}_{12} = \frac{\bar{X}_1 n_1 + \bar{X}_2 n_2}{n_1 + n_2}$
4. Mean can be calculated using assumed mean formula
 $\bar{X} = A + \frac{\sum d}{n}$
5. A.M. can not be represented graphically.
6. $\sum (X - \bar{X})^2 = \text{minimum}$

GM

- GM is best measure of CT for ratios & percentages.

- Formula Individual

$$(axbac \dots)^{\frac{1}{n}}$$

Discrete

$$\left(X^{f_1} \times X^{f_2} \dots X^{f_n} \right)^{\frac{1}{\sum f}}$$

Continuos

$$(M_1^{f_1} \times M_2^{f_2} \dots)^{\frac{1}{\sum f}}$$

HM

- Used for variables having reciprocal relationship

- Formula Individual

$$HM = \frac{n}{\frac{1}{X_1} + \frac{1}{X_2} \dots \frac{1}{X_n}}$$

Discrete

$$HM = \frac{\sum f}{\frac{f_1}{X_1} + \frac{f_2}{X_2} \dots \frac{f_n}{X_n}}$$

$$HM = \frac{\sum f}{\frac{f_1}{m_1} + \frac{f_2}{m_2} \dots \frac{f_n}{m_n}}$$

- आवन जावन Q is imp
- HM is the reciprocal of AM
- Combined HM
 $= \frac{n_1 + n_2}{\frac{n_1}{HM_1} + \frac{n_2}{HM_2}}$

MEDIAN

- Individual
इधर से काटो, उधर से काटो, बीच में जो बचा वो median

- Discrete

$$S.O1 \frac{N}{2}$$

$$S.O1 \frac{N}{2} \text{ को Locate करो in C.F.}$$

S.O3 आगे वाला is median

- Continuos

S.O1 follow discrete

$$S.O2 M = 1 + \left\{ \frac{\frac{N}{2} - C}{F} \right\} \times H$$

- Md is not affected by extremities of the observations
- Sum of absolute deviation from median is minimum.
 $\sum |x - x_{md}| = \text{minimum}$
- Calculated through Ogive.
- Partition Values
Value = $\left[\text{orderX} \left\{ \frac{n+1}{4/10/100} \right\} \right]^{\text{th}} \text{ term}$
Quartiles Deciles Percentiles
- Best for open' end classification

MODE

- Individual
Most repeated no.
- Discrete
No. with highest frequency
- Continuos

Find out model class & use.

Formula :

$$MO = 1 + \left(\frac{f_1 - f_0}{2f_1 - f_0 - f_2} \right) \times h$$

- It is not uniquely defined.
- Calculated using Histogram.

Mode
Unimodel Bimodel Multimodel

Champions वाला Chart

Measures of Dispersion

[Measures of Dispersion] "Second order of averages"

लवार्स Property

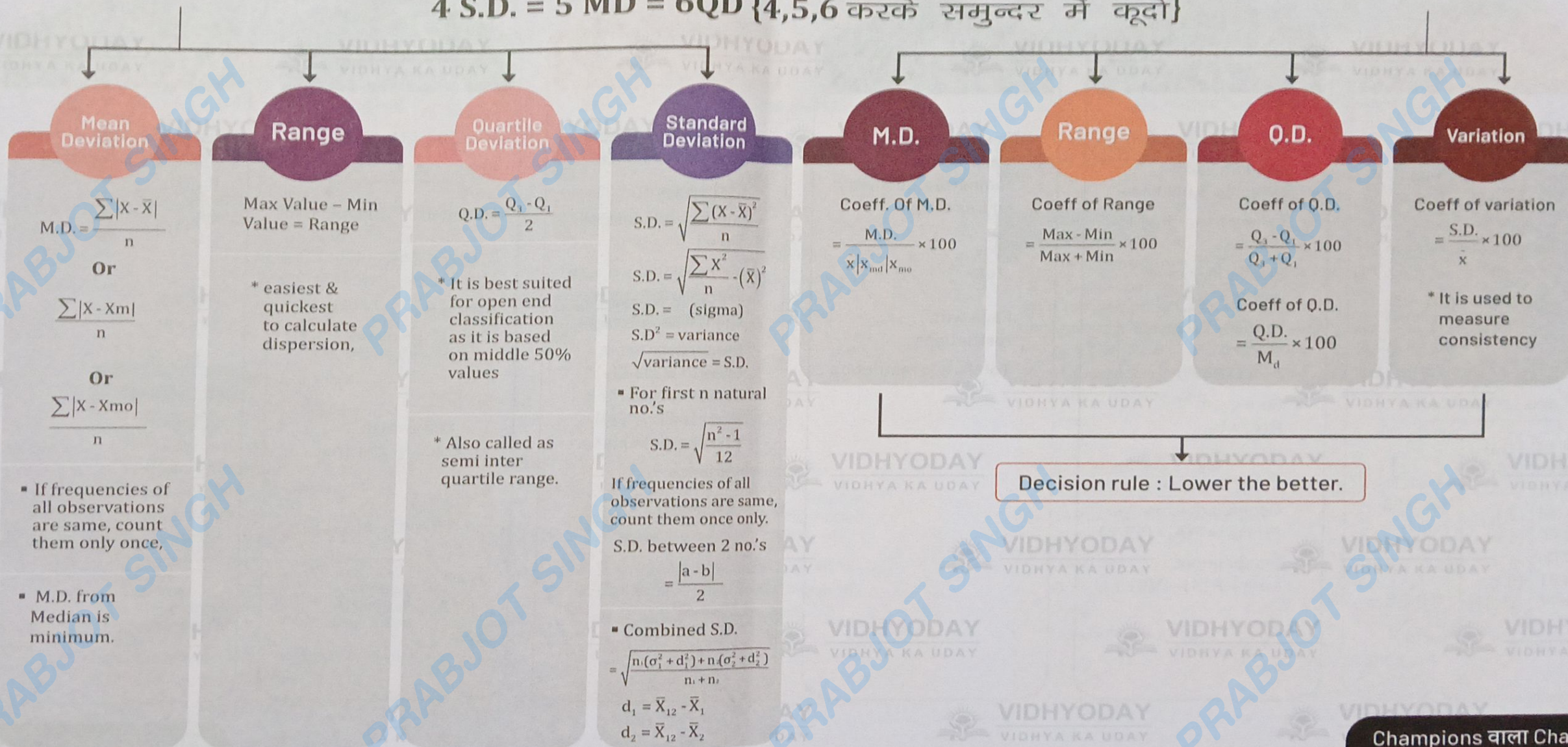
- Δ of origin *
- Δ of scale ✓
- Δ of sign *

Absolute MOD

Relationship Between MD, QD & S.D.

Relative MOD

4 S.D. = 5 MD = 6 QD {4,5,6 करके समुन्दर में कूदो}



Probability



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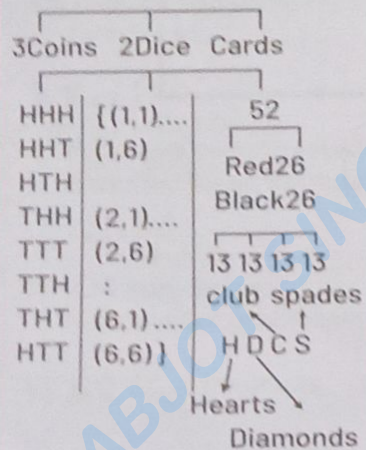
Basics

$$P(A) = \frac{\text{Fav.}}{\text{Total}}$$

Odds in favour = $m : n$

Odds in against = $n : m$

$$P(A) = \frac{m}{m+n} \quad P(\bar{A}) = \frac{n}{m+n}$$



Terminology

- Exp. = कीड़े करना
- Random Exp = outcome is not know
- Exhaustive = पूरी दुनिया
Union = 1
- Equally likely = सब बराबर $P(A) = P(B)$
- Mutually Exclusive
मछली = 0
 $P(A \cap B) = 0$
- Sure event
 $P(A) = 1$
- Impossible Event
 $P(A) = 0$
- Dependent = formula
 $P(A \cap B) = P(A) \times P(B/A)$
- Independent
मछली = $P(A) \times P(B)$

P & C

- Mostly combination (balls, cards, committee, geometry figures etc.)
- $\frac{\text{Fav.}}{\text{Total}}$
- Fav = with restrictions
- Total = w/o restriction

Exp. Value

- Nothing but weighted avg.
- $E(x) = \sum px$
- Sum of probability = 1
 $\sum p = 1$
- अगर bracket में x के अलावा expression है तो change x.
- Properties :
 $E(x \pm y) = E(x) \pm E(y)$
 $E(Kx) = KE(x)$
 $E(x/y) = E(x) / E(y)$
 $E(x \times y) = E(x) \times E(y)$
- Variance
 $E[X - e(X)]^2$

Venn Diagram

- $A \cup B = A + B - A \cap B$
- $A \cap B$

Dependent

Independent
 $A \times B$
- Only A
 $A - A \cap B$
- Only B
 $B - A \cap B$
- $\overline{A \cap B}$
 $= \overline{A} \cup \overline{B} = 1 - A \cap B$
 $\overline{A \cup B} = 1 - P(A \cup B)$
- $\overline{A \cup B}$
 $\overline{A} \cap \overline{B} = 1 - P(A \cup B)$
- $A^c = 1 - A$
- $B^c = 1 - B$

Conditional Probability

Probability of A when B has already occurred $P(A/B)$

$$= \frac{P(A \cap B)}{P(B)}$$

For e.g.
 $P(A/B)$

$$= \frac{P(A \cap B)}{P(B)} = \frac{1 - P(A \cap B)}{1 - P(B)}$$

Theoretical Distribution



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Binomial

Given by James Bournouli
(Discrete Distribution)

Formula : $P(x=r) = {}^nC_r x^r q^{n-r}$

Applicability : Future में 1 PM करेंग

Finite Trials Independent Events
↓
Probability
↓
Mutually Exclusive Events

Properties : सप्तऋषि

1. Mean = np
2. Variance = npq
3. Mean = Variance
4. Biparametric B(n, P)
5. Max. Variance = $\frac{n}{4}$
6. Mode = (n+1)xp

Decimal Ignore Decimal; Unimodal Case

Integer Bimodal: Ans, Ans-1

7. Combined binomial Distribution
 $P(x+y=r) = {}^{n_1+n_2}C_r x^r q^{n_1+n_2-r}$

Poisson

Given by Simon Poission
(Discrete Distribution)

Formula : $P(x=r) = \frac{e^{-m} x^m}{r!}$

Applicability : $n \rightarrow \infty$
 $p \rightarrow 0$
 $np \rightarrow \text{infinite}$
{Flight Example}

Properties : Six - Sense

1. mean = np
2. variance = mean
3. Uniparametric (only m is parameter)
4. mode = nxp
5. B.D. can be approximated with P.D.
6. Combined Poisson Distribution

$$P(x+y=r) = \frac{e^{-(m_1+m_2)} (m_1+m_2)^r}{r!}$$

Decimal Ignore Decimal; Unimodal Case

Integer Bimodal: Ans, Ans-1

Normal

Given by Carl Gauss (Continuous Distribution)
Also called Gaussian distribution

Formula : $P(x) = \frac{1}{\sigma\sqrt{2\pi}} e^{-\frac{1}{2}\left\{\frac{x-\mu}{\sigma}\right\}^2}$
 $z = \left\{\frac{x-\mu}{\sigma}\right\}$

Properties

1. It is bi-parametric X-N (μ, σ^2)
2. It is bell shaped curve.
3. It is symmetrical around mean.
4. Standard Results:
 $\mu \pm \sigma = 68.30\%$, $\mu \pm 2\sigma = 95.50\%$, $\mu \pm 3\sigma = 97.70\%$
Fix Rate free, Shine Life Life, Shine Shine Raven
5. Points of inflexion
 $\mu + \sigma$
 $\mu - \sigma$
6. 4, 5, 6 करके समुंदर में 'कूदो',
4.S.D. = 5 M.D. = 6 Q.D.
7. Standard Normal Variate
 $\mu = 0$ $\sigma = 1$
8. Quartiles
 $Q_1 = \mu - 0.675\sigma$
 $Q_2 = \mu$
 $Q_3 = \mu + 0.675\sigma$



Normal Curve

Champions वाला Chart

Correlation

लवारिस Property

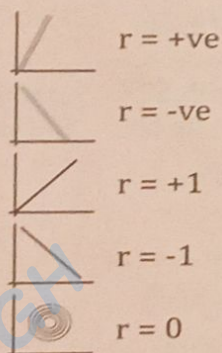
- Δ of origin ✗
- Δ of scale ✗
- Δ of sign ✓

Correlation (Measures the degree of linear relationship between two variables)

Scatter Diagram

- It only tell us the nature of correlation & not degree of correlation

- Five Diagrams



- Correlation of Straight line is always +1 or -1. It depends upon the direction between x & y.
- Equation of a Straight Line is $ax + by = c$
- Proportion --> decides 1 or not
- direction --> decides + or -

Rank Correlation

$$r_0 = 1 - \frac{6 \sum d^2}{n^3 - n}$$

n = no. of observations.
 d = difference of ranks

- Sum of difference of ranks is always 0.
- If ranks are exactly opposite then $r = -1$.
- Even if ranks are reversed, it remains same.

Concurrent Deviation

$$r_c = \pm \sqrt{\pm \frac{2c - m}{m}}$$

- If there is negative no inside the root, r is going to be negative.

m = no. of observations compared = $n - 1$.

c = no. of concurrent deviation (+'s)

Karl Pearson

$$r = \frac{\text{Cov}(x, y)}{\sigma_x \sigma_y}$$

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$\text{Cov}(x, y)$$

$$= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{n}$$

- $\text{Cov}(X, Y)$ decides the nature of correlation -

$$-1 \leq r \leq +1$$

- n is a pure no. (unit free).

- Coefficient of determination = $1 - r^2$ (Unexplained variance)

$$\text{P.E.} = \frac{0.675 \sqrt{1 - r^2}}{n}$$

- Product Moment correlation (nick name)
- Useful for variables having only linear relationship.

Champions
वाला Chart

Regression

Regression

लवार्स Property

- Δ of origin \times
- Δ of scale \checkmark
- Δ of sign \checkmark

Regression Equations

- Unlike r , it tells us the exact increase in price of y if x is increased or vice versa.
- There are two equations :
 1. Y on $x \rightarrow$ to calculate y .
 2. X on $y \rightarrow$ to calculate x .
- Y on $x \rightarrow Y - \bar{Y} = b_{yx}(X - \bar{X})$
 X on $y \rightarrow X - \bar{X} = b_{xy}(Y - \bar{Y})$
- $b_{yx} = r \frac{\sigma_Y}{\sigma_X}$ (जो पीछे है वो नीचे है।)
 $b_{xy} = r \frac{\sigma_X}{\sigma_Y}$

Popular Questions :

- 1 Lines = given slope = ?
- 2 Lines = given r = ?
- 3 Slopes = given r = ?
- 4 Lines = given mean = ?
- 5 पहचान कौन ?

Properties

- 1) Regression lines intersect each other at $(\bar{X} - \bar{Y})$ i.e. mean. (K.O.)
- 2) Correlation coefficient is GM of regression coefficient.
 $r = \sqrt{b_{yx} \times b_{xy}}$
- 3) The product of regression coefficients should be ≤ 1 .
 $b_{yx} \times b_{xy} \leq 1$
- 4) If one coefficient is greater than unity the other should be less than unity.
- 5) b_{yx} , b_{xy} & r are all of same sign.
- 6) Regression lines are made using least squares deviation method.
- 7) लवार्स Property : Δ of origin \times Δ of scale \checkmark Δ of sign \checkmark
- 8) $r = 0$ regression lines are perpendicular, if $r \pm 1$, lines will coincide.
- 9) पहचान कौन ?
 - S.01 Calculate b_{yx} & $b_{xy} \leq 1$
 By assuming one line as Y on x & another as x on y .
 - S.02 Check if $\sqrt{b_{yx} \times b_{xy}} \leq 1$
 - S.03 Yes \rightarrow assumption is true.
 No \rightarrow opposite is true.

Champions वाला Chart

Index No.



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CY value, when B.Y value is assumed to be 100. E.g.
Sensex (1978-79) Index no. is a pure no.

Simple Method

Aggregative

$$P_{01} = \frac{\sum P_1}{\sum P_0} \times 100$$

Relative

$$I = \frac{\sum I_k}{n}$$

$$I_k = \frac{P_1}{P_0} \times 100$$

Weighted Method

$$\left[\frac{\sum P_1 W}{\sum P_0 W} \right]$$

$$\text{Laspeyres} = \frac{\sum P_1 q_0}{\sum P_0 q_0}$$

(Base year Q_0)

$$\text{Passche} = \frac{\sum P_1 q_1}{\sum P_0 q_1}$$

(Current year Q_1)
*** (Ideal)

$$\text{Fishers} = \sqrt{I_a \times P_a}$$

$$\text{Dorbish \& Bowley} = \frac{I_a \times P_a}{2}$$

Marshall Edgeworth

$$P_{01} = \frac{\sum P_1 \left(\frac{q_0 + q_1}{2} \right)}{\sum P_0 \left(\frac{q_0 + q_1}{2} \right)}$$

$$\text{Walsh} \left(\sqrt{P_{01}} \right) = \frac{\sum P_1 \sqrt{q_0 q_1}}{\sum P_0 \sqrt{q_0 q_1}}$$

$$\text{Weight} = \sqrt{q_0 q_1}$$

$$(\text{kelly}) = \frac{\sum P_1 q}{\sum P_0 q}$$

Special Points

Test

- 1) Unit test unit free satisfied by all.
- 2) Time - Reversal Test $P_{01} \times P_{10} = 1$
Kelly, MEW, Fishers Simple aggregative Satisfy TRT
- 3) Circular Test

$$\begin{array}{c} 0 \quad 2 \\ \swarrow \quad \searrow \\ 1 \end{array} \quad \begin{array}{c} \% \text{ Extension of TRT} \\ P_{01} \times P_{12} \times P_{20} \\ = 1 \end{array}$$

Fisher \times
Kelley \checkmark
aggregative \checkmark

- 4) Factor Reversal $P_{01} \times q_{01} = v_{01}$

$$\text{Fisher's } \checkmark \\ v_{01} = \frac{\sum P_1 q_1}{\sum P_0 q_0} \times 100$$

Inflation Deflation

$$(\text{Index No} - 100) = \text{Inflation \%}$$

Deflated value
mean B.Y. dh value

$$= \frac{\text{C.Y. Value}}{\text{C.Y. Index}} \times 100$$

Base Shifting & CBI

CBI

$$\text{LR} \times \text{PYCBI}$$

$$\text{LR} = \frac{\text{CY Price}}{\text{Prev. Price}} \times 100$$

Salary Q.'s

$$\frac{\text{C.Y. Salary}}{\text{C.Y. Index}}$$

$$\frac{\text{B.Y. Index}}{\text{B.Y. Salary}}$$

$$\frac{\text{C.Y. Index}}{\text{C.Y. Salary}}$$

• Today's salary - should have been = Real gain.

• Should have been - Today's salary = D.A.

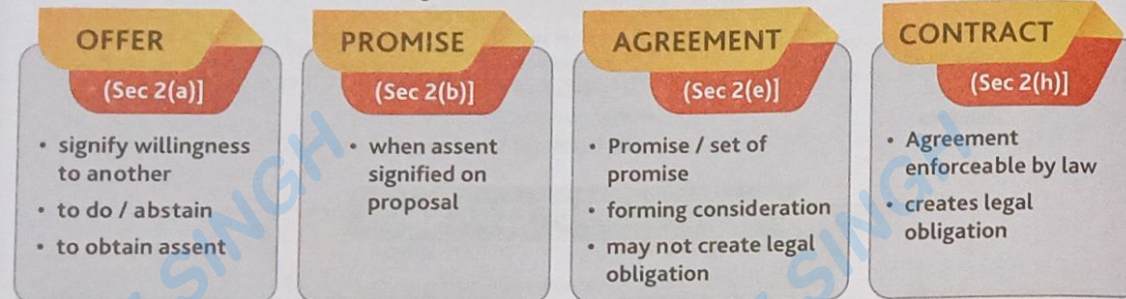
INDIAN CONTRACT ACT, 1872

UNIT 1



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OFFER + ACCEPTANCE = AGREEMENT
AGREEMENT + ENFORCEABLE BY LAW = CONTRACT



KINDS OF OFFER



ESSENTIAL OF VALID OFFER

- Legal Relation**
Legal relation must be created
- Certain, Definite, Not Vague**
No contractual relationship if indefinite / vague
- Communicated to offeree**
Must be communicated [Lalman Shukla v. Gauri Dutt]
- Assent**
must be obtained
- Conditional**
Can be subject to T&C
- Not contain term non-compliance of which would amount to acceptance
- Specific / General**
made to public at large / specified person
- Express / Implied**
offer can be in words or by conduct
- Invitation to offer**
Terms proposed for negotiation
 - Act precedent to offer
 - Can be converted into offer

LEGAL RULES - VALID ACCEPTANCE

- Given by person to whom offer is made
General offer : Accepted by anyone
Special offer : Accepted by specific person
- Absolute & unqualified**
[Neale vs Merret]
- Must be communicated**
Conditional acceptance ≠ Acceptance.
[Brogden v. Metropolitan Railway Co.]
- Prescribed Mode**
If mode prescribed Acceptance in that mode
- Time**
If mentioned : within specified time
If not : within reasonable time
- Mere Silence Not Acceptance**
[Felthouse v. Bindley]
- By Conduct / Implied Acceptance**
 - Modes other than verbal / written

Communication of offer

[Sec 4]

Complete

When comes to knowledge of offeree

Communication of Acceptance

[Sec 4]

Complete

Against the offeror
When put in course of transmission by the offeree

Against the offeree
When comes to knowledge of the offeror

Revocation of Acceptance & offer

[Sec 5]

Revocation of offer

Anytime before it is accepted by offeree

Legal भाषा मे

"Revoked anytime before communication of Acceptance is complete as against the offeror"

Revocation of Acceptance

Anytime before it comes in knowledge of the offeror

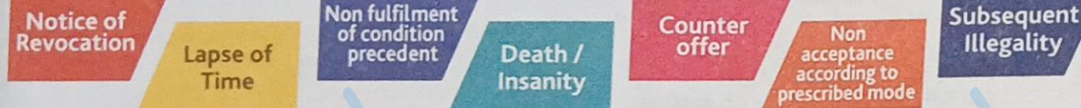
Legal भाषा मे

"Revoked anytime before communication of Acceptance is complete as against the offeree"

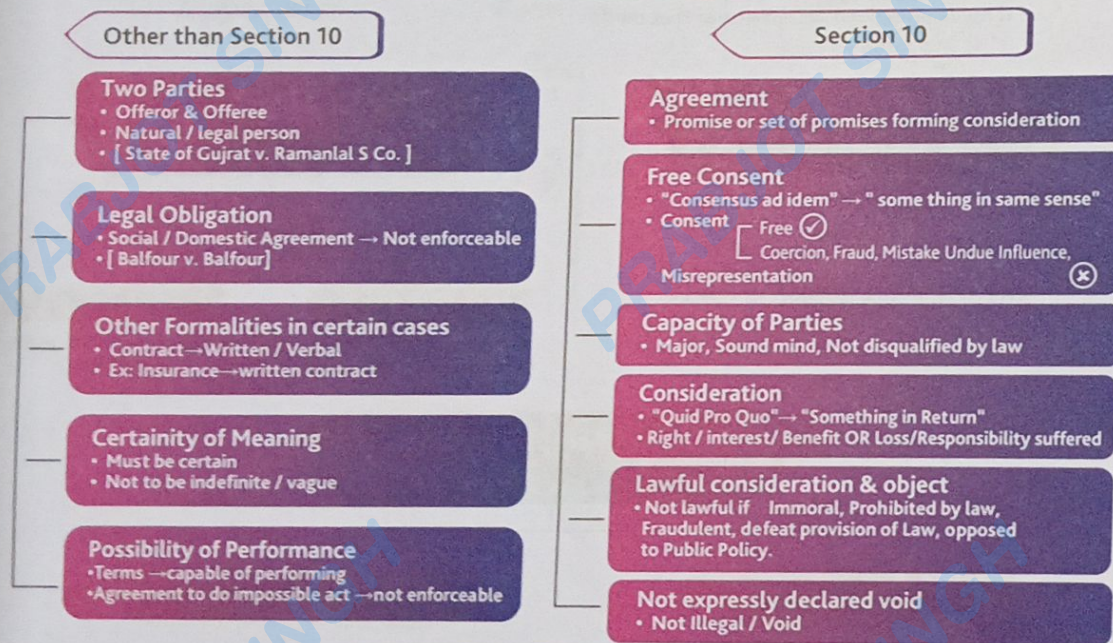
INDIAN CONTRACT ACT, 1872

UNIT 1

MODES OF REVOCATION



ESSENTIALS OF VALID CONTRACT



TYPES OF CONTRACTS

On the basis of

VALIDITY

- Valid
- Void
- Voidable
- Illegal
- Unenforceable

FORMATION

- Express
- Implied
- Quasi
- E-Contract

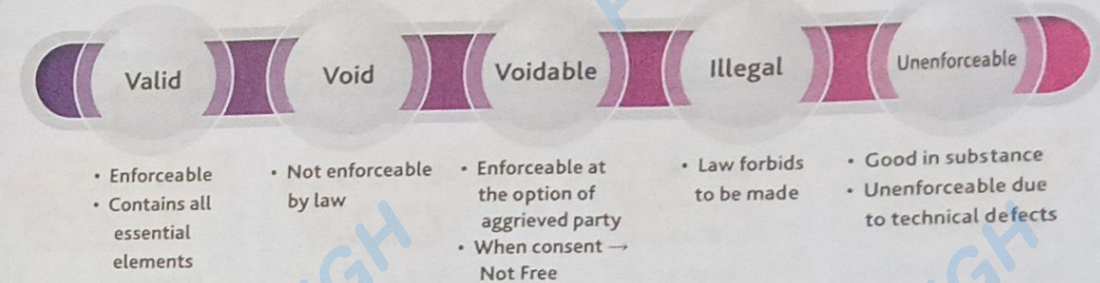
PERFORMANCE

- Executed
- Executory

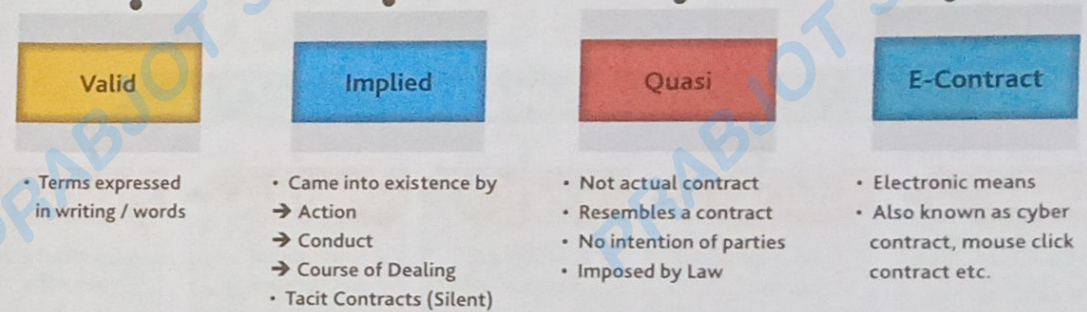


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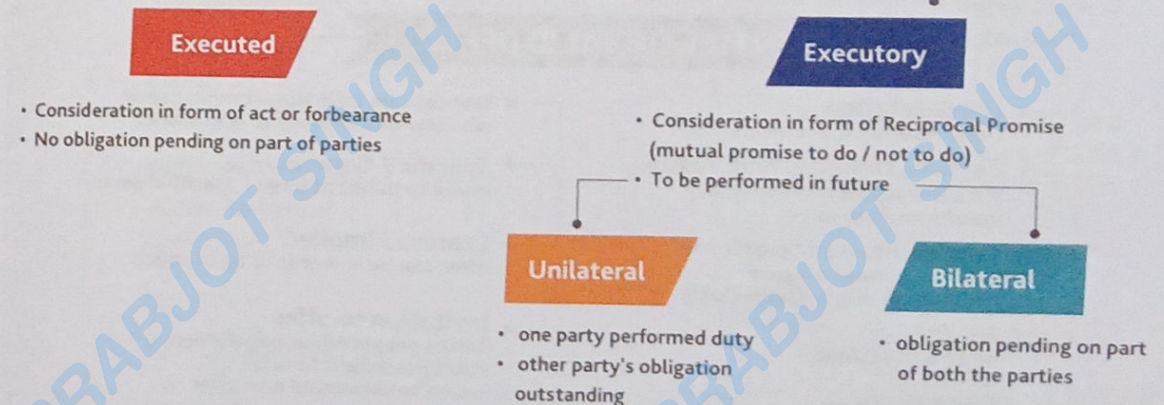
ON THE BASIS OF VALIDITY



ON THE BASIS OF FORMATION



ON THE BASIS OF PERFORMANCE



CONSIDERATION

Section 2 (d)

- When at the desire of Promisor
- Promisee or any other person
- Has done or abstained (Past), does or abstain (Present), Promises to do or abstain (Future)

Such act / abstinence / Promise → Consideration

Legal Rules → Consideration

At the desire of Promisor

- If at desire of 3rd party → Not a consideration
- [Durga Prasad v. Baldeo]

From Promisee or any other person

- Stranger to consideration ✓
- Stranger to contract ×
- [Chinnaiya v. Ramaiyya]

Consideration

- Executed → consists in performance
- Executory → consists in promise

Consideration

- Past / Present / Future

Doctrine of Privity of Contract

- Private relation exists between the parties.
- "Stranger to contract cannot sue"
- Only party to contract can sue.
- EXCEPTIONS → Suit by third party to contract

Need not be Adequate

- Bad Bargain
- Something in return need not be equal to something given
- If consent free → cannot be void, just because consideration is inadequate

Must not be performance of what one is legally bound to perform

- Example : Paying ₹ 10,000 to police officer to investigate crime → Not a valid consideration

Consideration

- Real (Something, to which law attaches value)
- Not Illusory (not physically / legally impossible)

Must not be unlawful / Immoral / opposed to Public policy

SUIT BY THIRD PARTY TO CONTRACT

Type of Contract	Contracting Parties		3rd party
	1 st party	2 nd party	
→ Trust	Settler	Trustee	Beneficiary
→ Family Settlement	Family member	Family member	Family member not included in Contract
→ Marriage Contract	Family member	Family member	Female member
→ Assignment	First party	Assignor	Assignee
→ Estoppel by Acknowledgement of Liability	Giver	Receiver	Beneficiary
→ Covenant Running with Land	Seller	Buyer	Successor of seller
→ Agent	First party	Agent	Principal

Validity of Agreement without Consideration

General Rule : Agreement without consideration → Void But → certain exceptions

Natural Love & Affection Sec 25 (1)

- Near relationship
- In writing
- Registered under Law

Compensation for past voluntary services Sec 25 (2)

- Services rendered voluntarily for Promisor
- Promisor intended to compensate

Time Barred Debt Sec 25 (3)

- Promise in writing
- Signed by person or his agent to pay time Barred Debt

Agency

- Sec 185: No consideration necessary to create agency

Completed Gift Sec 25 (1)

- "No Consideration – No Contract" Do not Apply

Bailment Sec 148

- No consideration required to effect contract of "Gratuitous Bailment" (Free ñ)

Charity Sec 148

- Promisee takes Liability
- On promise of person to contribute to Charity
- [Kadarnath v. Gorie Mohammad]

INDIAN CONTRACT ACT, 1872

UNIT 3



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OTHER ESSENTIAL ELEMENTS OF CONTRACT

Section 11

Capacity to Contract

Major

Sound Mind

Not disqualified by Law

Contract → void-ab-initio
(Mohari Bibi v. Dharmo Das Ghose)

No Ratification after attaining majority
• Void agreement can never be ratified

Beneficiary

• Minor → not competent to contract
→ Can take benefit out of contract

Can always plead minority

• Rule of Estoppel cannot be applied
• Even when falsely represented majority

Liability for Necessaries Sec 68

• No personal liability, only his property liable
• 2 conditions
□ Goods reasonably necessary
□ Not have sufficient supply

Contract by Guardian

• Within competence
• On minor's behalf → for benefit of minor

Shareholder

• Only in case of → Transfer / Transmission, minor can be shareholder
□ of fully paid up shares
□ through lawful Guardian

LAW RELATING TO MINOR'S AGREEMENT

No Specific Performance

• Void agreement → therefore no specific performance

No Insolvency

• Debt & dues payable from personal property
• Never held personally liable

Partnership Sec 30

• Cannot be partner → can be admitted to benefits

Agent

• But not liable to principal for his acts

Cannot bind Parent / Guardian

• Parents liability → when child act as an agent for them

Joint Contract

• Minor + Adult → Adult Liable
• [Sain Das v. Ram Chand]

Surety

• Contract of Guarantee
□ Debtor is minor surety (Adult) is liable to third party

Torts

• Civil wrong (ex: Defamation etc) • Liable for torts • Not liable for breach of contract

PERSON OF SOUND MIND SEC 12

usually unsound mind occasionally sound mind

• Make contract, when of sound mind

usually sound mind occasionally unsound mind

• Not make contract, when of unsound mind

NOT DISQUALIFIED BY LAW

Persons disqualified

Foreign Sovereign

Alien Enemy

Convicts

Insolvent

FREE CONSENT

Consent is Free, when not caused by

Coercion
(Sec 15)

Undue Influence
(Sec 16)

Fraud
(Sec 17)

Misrepresentation
(Sec 18)

Mistake
(Sec 20, 21, 22)

VOIDABLE

VOID

COERCION

• Committing / threatening to commit any Act (Forbidden by IPC)
• Unlawful detaining / threatening to detain any property
• Intention : to cause person to make agreement
• Effect : 1 Contract voidable
Effect : 2 Benefit received to be restored
• Proceed from party to contract } Not
• Subject must be other } Not
contracting party } Necessary

UNDUE INFLUENCE

• Near Relation between 2 parties
• One of them is position to dominate
• Person Deemed to be in position to dominate:-
1. Real & Apparent Authority (Father - Son)
2. Fiduciary Relationship (Trust) (Husband - Wife)
3. Mental Distress (Doctor Patient)
4. Unconscionable Bargain (Unreasonable)
• Effect: 1 Contract voidable
Effect: 2 May be set aside by court

FRAUD

Commission of Following act:-

1. Fact suggested → knows, not true
2. Active concealment of fact
3. Promise made without intention of performing
4. Other act filled to deceive
5. Any act declared by Law → as Fraud

Effect:-

1. Contract voidable
2. Sue for damages

Committed by:-

1. Party to contract, with his connivance
2. Agent of party to contract

Intention:-

1. To deceive OR
2. To induce to enter into contract

1. Rescind → within reasonable time
2. Insist performance

INDIAN CONTRACT ACT, 1872

UNIT 3

Mere silence as to Facts → Not Fraud.

(Caveat Emptor : Let the buyer beware)

Exception : i.e.

Silence = Fraud

Duty of person keeping silence to speak

Fiduciary relationship, Insurance Contracts, Marriage contracts, Family Settlement, Share Allotment

Where Silence=Speech

Contract not voidable if party had means of discovering Truth.

MISREPRESENTATION

- Representation of fact which is not true but believes to be true
- Made without intention to deceive
- Causing other person to make mistake of subject matter
- Effect : 1 Repudiate Contract
2 Sue for Restitution
3 Cannot Claim Damages

MISTAKE

- Two parties thing about different subject matter
- Lead contract towards 'voidness'
- Mistake of Law
 - Foreign Law : Excusable
 - Own Law : Not excusable
- Mistake of Fact
 - Unilateral → Not void
 - Bilateral → void

CONTRACT NOT VOIDABLE

Silence amounting to Fraud

Fraud / Misrepresentation

Enters into contract in ignorance of Fraud

- Had means to discover truth
- Did not cause consent of party

LEGALITY OF OBJECT & CONSIDERATION

Sec 23 : Consideration is said to be unlawful

Forbidden by Law

- Act punishable under any statute or prohibited

Defeat provisions of Law

- Intention of Parties → to defeat provision → Court will not enforce it

Fraudulent

- As per section 17

Consideration defeats any Rule for the time being in force in India

Consideration involves injury

- Harm to person or property of another

Consideration Immoral

Consideration opposed to Public Policy



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Agreements opposed to Public Policy

Trading with enemy

- Agreement with person from country, at war with India → VOID

Stifling Prosecution

- Agreement to drop proceeding in consideration of amount → VOID
- Abuse of Justice
- Exception :- Consideration for compoundable offence

Maintenance & Champerty

- Agreement Valid except : 1 Unreasonable
2 Motive : Malicious

Interest against obligation

- Do something against his duty

Traffic relating to public offices

- Interferes appointment of best qualified person → VOID

Agreement to create monopolies

Marriage Brokerage Agreement

- Void
- Marriage Bureau → only provides information, Thus, not covered under this

Interference with course of justice

- Agreement with Judicial officer to act partially / corruptly → VOID

Consideration Unlawful in part

- 1 or more objects → Part of single consideration
- Single object → Part of several consideration

Unlawful → VOID

VOID AGREEMENTS

By Incompetent Parties

Bilateral Mistake

Consideration / object unlawful

Agreement without consideration

In restraint of marriage (except Minor)

In restraint of Trade (except Sale of Goodwill & Partnership)

Restraint of Legal proceeding (except Arbitration)

Meaning uncertain

Agreement of service

Wagering Agreement

To do Impossible Acts

WAGERING AGREEMENT

- Promise to pay money / money's worth
- No interest in event

Transaction similar to wager

Lottery

- Game of chance
- Crossword Puzzle & competitions
- Speculative Transaction
- Settlement of difference between Contract price & market price
- Horse Race Transaction

- Conditional on uncertain event
- Win or lose

Transaction resembling wager But not void

Chit Fund Share

Market Transaction

- Delivery of goods / shares → Not wager
- Game of Skills / Athletic Competition
- Contract of Insurance
- Type of Contingent Contract → Valid

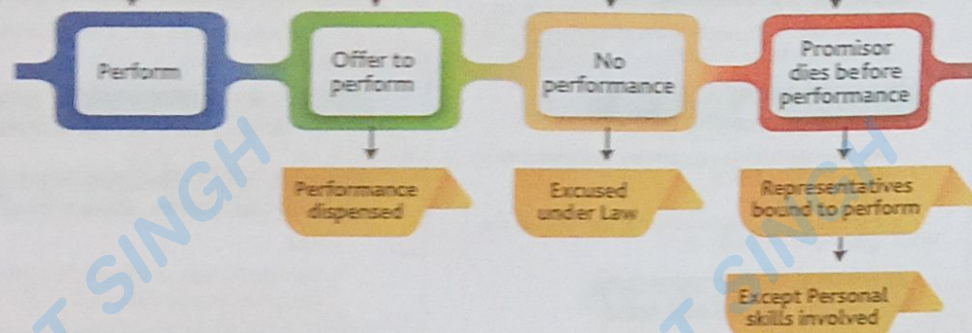
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UNIT 4

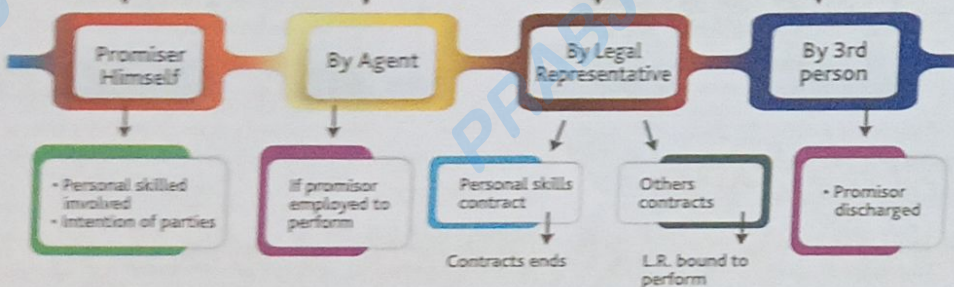


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Obligation of Parties to Contract



Contract may be performed by



SUCCESSION

VS

ASSIGNMENT

- Process of Law
- Burden + Benefit transferred to Legal Heir
- Liability limited to extent of property inherited

- Contract between two parties
- Only benefit can be assigned

EFFECT OF REFUSAL

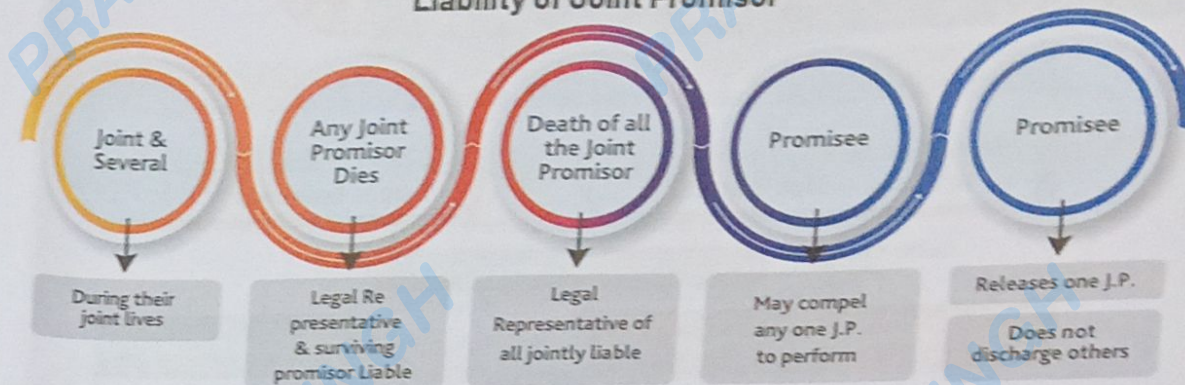
to Accept performance

- Promisor** → Not responsible for non performance
Doesn't lose his rights
- *offer** → Unconditional, at proper time & place,
Reasonable opportunity for inspection

of party to perform

- Promisee** → Terminate contract
If continue, indicate by words/conduct

Liability of Joint Promisor



RIGHT OF JOINT PROMISEE

During their Joint Lives

All can claim performance

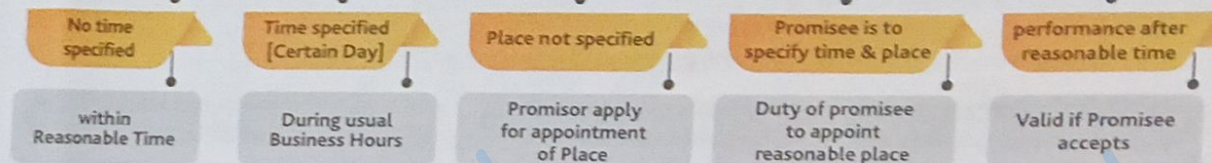
Death of any one

Representative of Deceased Survivors can claim performance

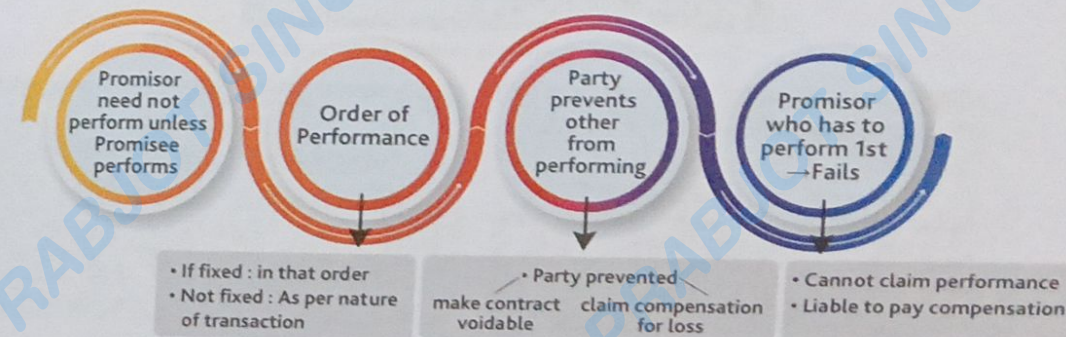
Death of All

Representative of Deceased's can jointly claim performance

TIME & PLACE FOR PERFORMANCE



Performance of Reciprocal Promise (mutual Promise to do / not to do)



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UNIT 4

EFFECT OF FAILURE TO PERFORM AT TIME FIXED

When Time is essential

• Voidable at option of Promisee

When Time is not essential

• Not voidable
• Promisee can claim compensation for loss

IMPOSSIBILITY

INITIAL IMPOSSIBILITY

- Impossibility existing at time of contract
- Fact of Impossibility
 1. If known to parties → Void Agreement
 2. If unknown to parties → Contract Void
 3. Known to Promisor only → Promisee can claim compensation

SUBSEQUENT IMPOSSIBILITY

- Becomes impossible after entering into contract
- Also known as supervening impossibility or Doctrine of Frustration
- Parties discharge from further performance
- Contract it becomes void.

RECIPROCAL PROMISE

Certain things

Legal
↓
Valid

Illegal
↓
Void

ALTERNATIVE PROMISE

One branch Legal One branch Illegal
↓ ↓
Can be enforced Void Agreement

APPROPRIATION OF PAYMENTS

INDICATED BY DEBTOR

- Adjust as per express intimation Or implied circumstances

NOT INDICATED BY DEBTOR

- Creditor applies at his discretion
- To any lawful debt actually due

NEITHER PARTY APPROPRIATES

- Applied in order of time

Even time barred debt can be adjusted



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CONTRACTS WHICH NEED NOT BE PERFORMED

Novation

- Substitution of New Contract for old
- Old Contract discharged

Alteration

- Substitute New Contract for old
- Terms can be altered not contracting parties

Rescission

- Cancellation of Contract
- No new Contract

Remission

- Acceptance of lesser fulfilment of terms

VOIDABLE CONTRACT

Person rescinding contract

Restore benefit Received

VOID AGREEMENT CONTRACT BECOMES VOID

Person who received advantage

Restore or Compensate for it

Effect of Neglect of Promisee

- Promisee → Not provided reasonable facilities for performance
- Promisor → excused by such neglect / refusal

DISCHARGE OF CONTRACT

By Performance

By Operation of Law

By Mutual Agreement

By Breach of Contract

By Impossibility of Performance

Promisee may waive or Remit performance

By Lapse of Time

Merger of Rights

Neglect of Promisee to afford promisor Reasonable facilities

Breach FAILURE OF PARTY TO PERFORM HIS/ HER OBLIGATION UNDER CONTRACT

ANTICIPATORY

- Breach occurring before time fixed for performance has arrived
- Express / Implied breach
- Effect —
 1. Rescind & Sue for Damages immediately.
 2. Not rescind & wait for performance
- Promisor may get benefit of supervening Impossibility

ACTUAL

- Breach occurs —
 1. when performance due
 2. during the performance
- Other party obtains Right of Action against defaulting party.

REMEDIES FOR BREACH OF CONTRACT

Suit for Damages

Rescission of Contract

Suit for Specific Performance

Suit for Injunction

Suit upon Quantum Meruit

SUIT FOR DAMAGES

ORDINARY

- Compensation for damages naturally arose during usual course of events.
- No Compensation for Remote / Indirect Loss

SPECIAL

- Arises on previous notice of special circumstances affecting contract

VINDICTIVE / EXEMPLARY

- Breach of Promise to marry
- Wrongful dishonour of cheque by Bank

NOMINAL

- No real damage suffered
- Establishes Right to decree
- DETERIORATION CAUSED BY DELAY
- Damages recovered even without Notice
- PRE – FIXED DAMAGES
- Sum to be paid for breach → mentioned in contract

LIQUIDATED DAMAGES / PENALTY

- Reasonable Compensation
- Genuine Pre estimate
- Not exceeding sum mentioned
- Exorbitant amount
- Create terror
- Sum payable in excess of Damage

RECISSION OF CONTRACT

- Contract broken
- Other party may rescind contract
- Can claim compensation

SUIT FOR SPECIFIC PERFORMANCE

- Damages are not adequate remedy
- Court may direct to carry out promise as per terms of Contract

SUIT FOR INJUNCTION

- Party negates terms of contract
- Court → restrains from doing, what he promised not to do.

QUANTUM MERUIT

- As much as the party has deserved
- Recompensate for value of work done, where no remuneration fixed
- 2 Condition for application of Doctrine

Original contract discharged

Claim brought by party not in default

- Claim of Quantum Meruit in following cases —

Something done with No intention to do gratuitously

Void Agreement Contract becomes void

One party refuses to perform

Contract Divisible

Contract Indivisible

Pay for part performance enjoyed

Performed badly but completely
Deduction for bad work

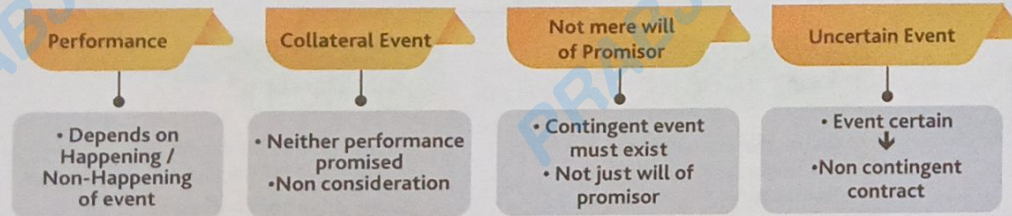
CONTINGENT & QUASI CONTRACT

CONTINGENT CONTRACTS

SEC 31 Contract to do or not to do something, if some even, collateral to contract does or does not happen
Example Contract of Insurance, Indemnity & Guarantee

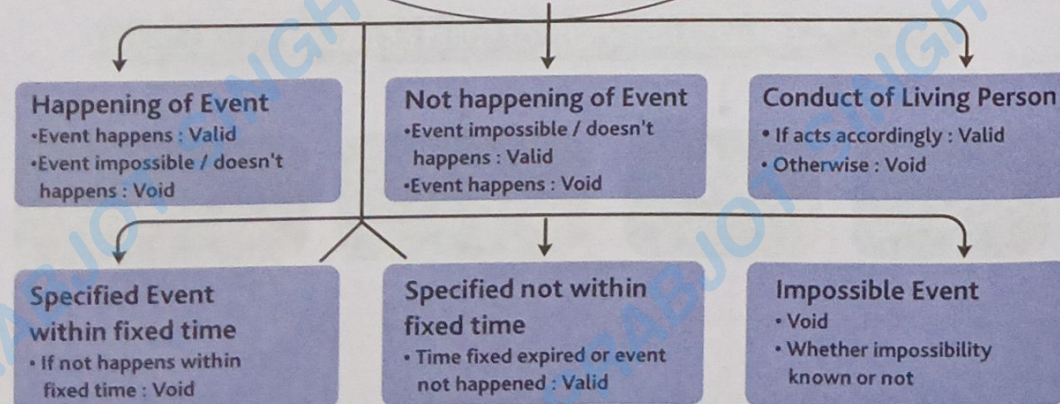
* Collateral Event (Pollock & Mulla)
Even in which
• Neither performance promised
• Nor consideration for a promise

ESSENTIALS OF CONTINGENT CONTRACT

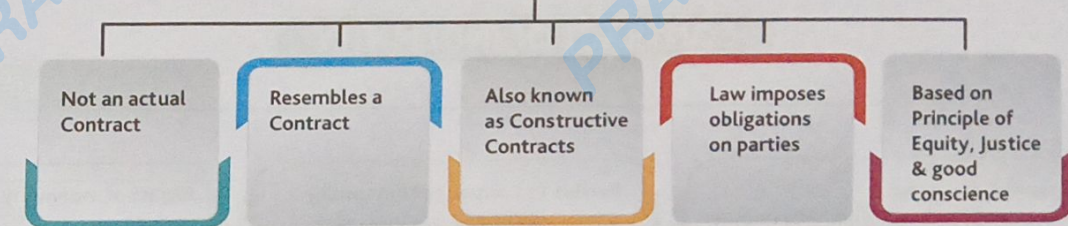


RULES RELATING TO ENFORCEMENT [Sec 32 – 36]

Contract dependent on



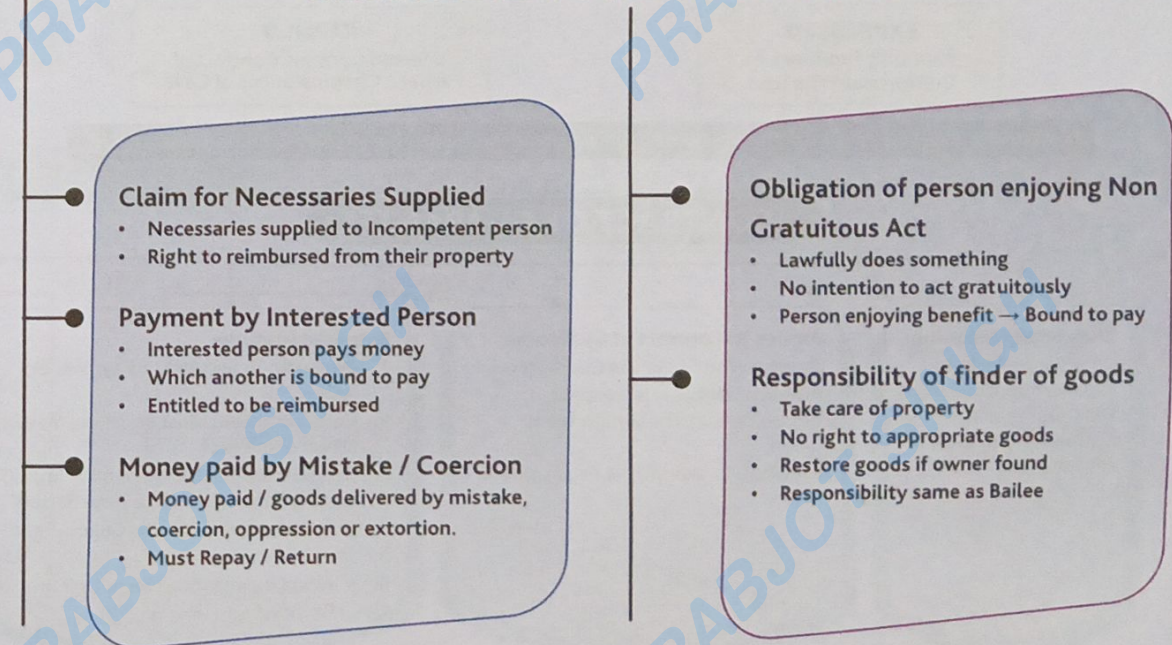
QUASI CONTRACTS



FEATURES



CASES DEEMED AS QUASI CONTRACTS



CONTRACT OF INDEMNITY

'Indemnify' Meaning:

To Make Good The Loss Incurred By Another Person.

Sec. 124 Covers The Losses Caused:

- By The Conduct Of Promisor Himself or
 - By The Conduct Of Any Other Person.
- But As Per Decision Taken In Case of Gajanan Moreshwar V/s Moreshwar Madan (1942), Losses By Conduct Of Promisee, or Accident, or Act of God.

Parties To Contract of Indemnity

Indemnifier Who Promises To Compensate For The Loss,
'Indemnity Holder' Or The 'Indemnified' Whose Loss Is To Be Made Good

Rights of Indemnity Holder

- Right To Recover
- All Damages,
 - Costs of Suit,
 - Other Sums.

MODES OF CONTRACT OF INDEMNITY

EXPRESSED

Expressly Promises To Compensate The Loss

IMPLIED

Inferred from the Conduct of Parties/ Circumstances of Cave.

Liability of an Indemnifier Commences when liability of Indemnity holder becomes absolute and Certain.

CONTRACT OF GUARANTEE

'Guarantee' Meaning:

Contract To Perform The Promise; Discharge The Liability, of A Person Third In Case Of His Default.

Parties To Contract of Guarantee

Surety: Who Gives The Guarantee,
Principal Debtor: In Respect of Whose Default The Guarantee is Given,
Creditor: To Whom The Guarantee Is Given

Essential Features

- Purpose:** To Secure The Payment of A Debt.
- Consideration:** Must Be There, May Be Direct or Indirect.
- Existence Of Liability:** Liability Must Be Legally Enforceable, Not Time Barred.
- No Misrepresentation Or Concealment
- May Be Oral Or Written.
- Joining Of Co-sureties Must Be If Provided In Contract.

CONTRACT OF GUARANTEE

(Tripartite Agreement)

Principal Contract

Principal Debtor

Creditor

Secondary Contract

Creditor

Surety

Implied Contract

Surety

Principal Debtor

TYPES OF GUARANTEE

SPECIFIC GUARANTEE

- Guarantee which Extends to a single Debt\ specific Transaction
- Surety's liability Comes to an end When guaranteed Debt is duly Discharged.

CONTINUE GUARANTEE

- Guarantee which Extends to a series of Transaction,
- Surety's liability Continues until the Revocation of the Guarantee

NATURE AND EXTENT OF SURETY'S LIABILITY

Co-extensive With That Of Principal

Secondary Nature

If Ceases When Liability Of Debtor Ceases.

Subject To Agreement Creditor May Proceed Against Surety First.

MODES OF DISCHARGE OF SURETY

BY REVOCATION

1. By Notice,
2. By Surety's Death.
3. By Novation,

BY CONDUCT OF CREDITORS

1. By variance in terms.
2. By release or discharge of pd.
3. Composition with PD

Cases when surety not discharged

1. Agr. Made with 3rd party to give time to PD.
2. Creditors for bearance to Sue doesn't discharged surety
4. Impairing surety's remedy,

ON INVALIDATION OF CONTRACT OF GUARANTEE

1. Guarantee obtained by Misrepresentation,
2. Guarantee obtained by Concealment,
3. Guarantee on contract that Creditor shall not act on it Until co-surety joins

RIGHTS OF SURETY

Against Principal Debtor

1. Right of Subornation,
2. Right of Indemnity,

Against Creditor

1. Right To Security
2. Right To Set Off
3. Right To Share Reduction

Against Co-surities

1. Right To Claim Contribution Equally,
2. Right To Claim Contribution Only Agreed Sum

INDIAN CONTRACT ACT, 1872

UNIT 8

BAILMENT (SECTION 148 - 171)

Meaning: Delivery of goods, by one person to another, for some purpose, upon a contract, that they shall, when the purpose is accomplished, be returned or otherwise disposed, according to the directions of the person delivering them.

Parties

Bailor: Who Delivers;
Bailee: Who Receives;

Essentials

1. Agreement
2. Delivery of goods.
 - a. Actual Delivery (Physically handover)
 - b. Constructive Delivery (Delivery through sign or symbol)
3. For some purpose.
4. Return to goods

Kinds of Bailment

On the basis of benefit

1. For the benefit of bailor
2. For the benefit of bailee
3. For the benefit of both

On the basis of consideration

1. Gratuitous - no Consideration
2. Non-gratuitous - For consideration

Gratuitous Bailment: Without Consideration, Bailor Is Liable For Known Faults Only. All Expenses Born By Bailor.
Non-gratuitous Bailment: With Consideration, Bailor Is Liable For All Faults, Extra Ordinary Expenses Born By Bailor

DUTIES & RIGHTS

Duties of Bailor

1. Disclose known Faults,
2. Bear expenses,
3. Indemnify bailee,
4. Receive back goods.

Rights of Bailor

1. Terminate bailment,
2. Demand return of Goods any time,
3. Claim accretion,
4. Right against third Party.

Duties of Bailee

1. Take care of the goods bailed,
2. No unauthorized use of goods,
3. Not mix goods with own goods,
4. Return the goods,
5. Return accretions to goods,
6. Not to set up adverse title

Rights of Bailee

1. Delivery to any of joint bailors,
2. Right to compensation,
3. Claim necessary expenses,
4. Action for wrongful deprivation of goods,
5. Right of lien

RIGHTS OF BAILOR AND BAILEE AGAINST ANY WRONDOER

Suit Against Wrondoer

Apportionment of Compensation obtained by such suits

Termination of Bailment

1. On expiry of stipulated period,
2. Accomplishment of Specified purpose,
3. Doing anything inconsistent with conditions,
4. Gratuitous Bailment (Any time),
5. By Death,
6. Destruction of subject-matter,

Finder of Lost Goods

Duties: same as of bailee,
Rights: lien, sue for reward, sale of goods, No right to sue for compensation for trouble expense incurred voluntarily

LIEN

Meaning: To retain the goods belonging to another until his claim is satisfied or some debt due to him is repaid.
General lien: Right to retain any goods in respect of any debt.
Particular lien: Right to retain any goods in respect of concerned debt only.

PLEDGE (SECTION 171-181)

Meaning: Bailment of goods as security for payment of a debt or performance of a promise.
Parties: Bailor - pawnor; bailee - pawnee

ESSENTIALS

Bailment for security against payment

Subject matter is good

Existing Goods

Deliver of Goods

DUTIES & RIGHTS

Duties of pawnor

1. Pay debt,
2. Indemnify Pawnee,
3. Disclose all the Faults,
4. Pay extra ordinary Expenses,
5. Pay deficit if Pawnee sells Goods due to Default by pawnor

Rights of pawnor

Same as that of bailor along with right of redemption (to recover back the goods by making of the payment of debt)

Duties of pawnee

1. Take care of the goods bailed,
2. No unauthorized use of Goods,
3. Not mix goods with own Goods,
4. Return the goods,
5. Return accretions to the Goods,
6. Not to set up adverse title

Rights of pawnee

1. Retain the Pledged goods,
2. Retention for Subsequent Debts,
3. Recover Extraordinary Expenses,
4. Right on Default by Pawnor

Pledge by Non-owner

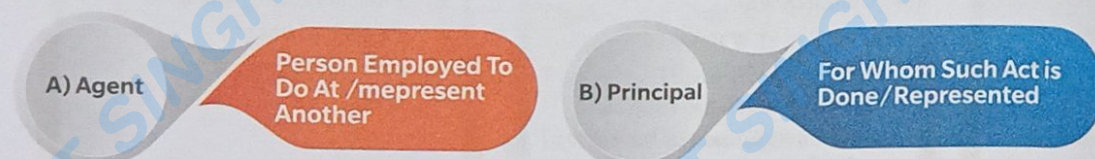
1. Pledge by Mercantile Agent
2. Pledge by Person in Possession under voidable contract

3. Pledge where Pawnor has only a Limited Interest,
4. Pledge by co-owner in possession,
5. Pledge by buyer or seller in possession



Meaning - relation between an agent & his principal created by An express/ implied argument authorising an agent by his principal to Create contractual relation with 3rd parties

PARTIES TO CONTRACT



WHO MAY EMPLOY ON AGENT

Major

Sound Mind

WHO MAY BE AN AGENT

Any Person Even

- A Minor An
- Unsound Mind Person

MODES OF CREATION OF AGENCY

By Express Agreement

By Implied Agreement

A. Agency By Estoppel Or Holding Out, B. By Necessity

By Operation Of Law

By Ratification

Essentials For Valid Ratification

- A. May Be Express Or Implied;
- B. Full Knowledge Of Facts;
- C. Whole Transaction Must Be Ratified;
- D. Ratification Not Put A Third Party To Damages;
- E. Within Reasonable Time;
- F. Communication; G. Act To Be Ratified Must Be Valid

Extent of Agent's Authority

In Normal Circumstances

Every Lawful Thing Which Is Necessary For Conducting Such Act And Business

In An Emergency

To Do All Acts For Protecting The Principal From Loss

Sub-Agents



[Appointment of sub agent is not lawful based on maxim delegates non potest delegates]

Exception

- Terms of appointment provider for
- Customs of Trade
- Unforeseen Emergency

Rules of Sub-Agent

1. Work under control and directions of agent.
2. Agent delegates a part of his own duties to Sub Agent.
3. No privity of contract between principal and sub-agent.
4. Sub-agent is responsible to the agent only.
5. Agent is responsible to the principal for the acts of the sub-agent.
6. Sub-agent has no right of action against the principal for remuneration due to him.

Sub Agent Properly

Appointed

Principal is liable to 3rd Party

Agent Responsible to Principle for SA's Act

In case of fraud liable to principal

SA Appointed without Authority

Responsibility

Agent for his Act to Principal to 3rd Party

Principal for act of sub agent

sub agent is not responsible



Substituted Agent

A person appointed by agent to act for principal with knowledge and consent of principal.

Rules of Substituted Agent

1. Works under the instructions of the principal.
2. Agent does not delegate any part of his task to a substituted agent.
3. Privity of contract exists between a principal and a substituted agent.
4. Responsible to the principal.
5. Agent is not responsible to the principal for the acts of the substituted agent.
6. Substituted agent can sue the principal for remuneration due to him.

Duties of Rights of Agent

Duties of Agent

1. To act according to Principal,
2. Reasonable care,
3. Present proper accounts,
4. Communicate with principal,
5. Not to deal on his own account,
6. Not to make secret profit,
7. Not to delegate authority,
8. Pay sums received,
9. Not to Mis-use information

Rights of Agent

1. Right of Retainer,
2. To receive agreed remuneration,
3. Right of lien,
4. Right of indemnification,
 - a) For Lawful Acts
 - b) Acts Done In Good Faith
 - c) For Injury Caused By Principal's Neglect.
5. Right of compensation for injuries.

Personal Liability of Agent

1. Foreign principal,
2. Undisclosed principal,
3. Principal incompetent,
4. Pretended Agent.
5. Acts beyond his authority

Termination of Agency

1. By Revocation
2. By Renunciation by agent
3. On completion of business.
4. On death or insanity of Principal or Agent
5. Principal's insolvency
6. On expiry of time

Principal liability to third party

1. Liable for acts of agent within his scope
 2. Not bound when agent exceeded his authority (if separable then liable for act within scope)
 3. consequences of notice given to agent
 4. Agent's fraud Misrepresentation
- | | |
|------------------|-------------------|
| Within authority | Outside authority |
| ↓ | ↓ |
| Liable | Not Liable |

THE SALE OF GOODS ACT, 1930

UNIT 1



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FORMATION OF THE CONTRACT OF SALE

Scope of the act

- Only movable Property
- General provision of Contract Act also applicable
- Expression of Indian Contract Act
- Custom & Usage

- **Buyer & Seller Goods**
 - All movable property other than money & actionable claim
- **Delivery**
 - Voluntary transfer of Possession from one person to another
- **Document of title**
 - Proof of the possession or control of Goods OR
 - Is for authorising or purporting to authorise either by endorsement or delivery
- **Document showing title**
 - Share certificate is document showing title
- **Property (Special vs General)**
 - Ownership or General property
- **Insolvent**—Ceases to pay his debts in ordinary course
- **Price**—Money Consideration for Sale of Goods
- **Quality**—State or Condition

CONTRACT OF SALE HOW MADE (Section 5)

Section 5(1)

- Offer to buy or sale Goods at Price
- + Acceptance of offer
- Immediate delivery of Goods
- Or
- Immediate Payment
- Or
- Both
- Delivery or Payment or both in Installment
- Delivery or Payment or both shall be postponed

Section 5(2)

- Contract may be made
 - In writing
 - By word of mouth
 - Partly in writing & partly by word of mouth
 - Implied from conduct of parties

GOODS

Existing

Goods are in existence at the time of Contract of Sale

Future

Goods to be manufacture produced Or acquired after Contract of Sale

Contingent

acquisition depends upon contingency

Specific → Identified and agreed upon at the time of Contract of Sale.

Ascertained → Identified after Contract of Sale.

Unascertained → Not specifically identified or agreed upon at the time of Contract of Sale.

DELIVERY

Actual

Goods are physically delivered to buyer

Constructive

Effected without change in custody or physical possession

Symbolic

Delivery of things in token of transfer of something

Contract of Sale

Agreement to sale
↓
Contract of sale

Sale vs Agreement to Sale

1. Transfer of property
2. Nature of contract
3. Remedies for breach
4. Liabilities of parties
5. Burden of risk
6. Nature of right
7. Right of resale
8. In case of insolvency of seller
9. In case of insolvency of buyer

Token Agreement to sale become sale

When time elapses or Condition is fulfilled

Sale VS Hire Purchase

1. Time of passing of property
2. Position of party
3. Termination of contract
4. Burden of risk of insolvency of buyer
5. Transfer of title
6. Resale

Sale VS Bailment

1. Transfer of property
2. Return of Goods
3. Consideration

Sales and contract for Work and Labour

Subject matter of contract of sale

Section 6

Existing Or Future Goods

Section 7

Goods Perishing before making contract

Section 8

Goods Perishing before sale but after agreement to sale

Section 9 & 10

Ascertainment of Price

by Contract OR Fixed in a manner agreed OR By the course of dealing between Parties

Agreement to sale at Valuation by Third Party

1. Third Party does not OR cannot make such valuation. Contract will be avoided
2. Third Party is prevented by buyer OR seller. Party in fault will file suit.

THE SALE OF GOODS ACT, 1930

UNIT 2-3

CONDITIONS AND WARRANTIES

CONDITIONS

Essential to main Purpose of Contract
↓
Repudiation

WARRANTIES

Collateral to main Purpose of Contract
↓
claim for damaged

CONDITIONS AND WARRANTIES

Difference

Section 13
When condition
is to be treated
as warranties

Section 14
Express &
Implied
Condition &
Warranties

Express Terms
Condition
Expressly
Provides
Implied
Implied
Not Expressly
provided

- Meaning
- Right in case of Breach
- Conversion of Stipulation

1. Waive Performance of Contract
2. Elect to Treat Condition as Warranty Compulsory
1. Non severability of Contract
2. Fulfillment of Condition excused by law Stipulation

IMPLIED CONDITION

1. Condition as to title
2. Sale by sample
3. Condition as to quality or fitness
4. Condition as to whole some noss
5. Condition as to Description
6. Sale by Sample as well as description
7. Condition as to merchantability

IMPLIED WARRANTY

- (1) Warranty as to undisturbed possession
- (2) Warranty as to non existence of encumbrances
- (3) Disclosure of dangerous nature of goods
- (4) Warranty as to quality OR fitness by usage of trade

CAVEAT Emptor

Exceptions —

1. Fitness as to quality OR use
2. Goods Purchased under patent or brand name
3. Goods sold by description
4. Goods of merchandise quality

5. Sale by sample
6. Goods by sample as well as description
7. Trade usage
8. Sellers actively cancels the defects

TRANSFER OF OWNERSHIP AND DELIVERY OF GOODS

TRANSFER OF PROPERTY

Depends On

Identification of goods

Intention of Parties

Specific and
ascertained
Goods

Unascertained
Goods (sec. 23)

Goods sent
on approval

Reservation of
Right of disposal

Risk prima facie passes with ownership

unless otherwise agree risk
Prima facie passes with ownership

Exception

Delivery delayed
due to fault of seller

delivery delayed due
to fault of buyer

Duty of Seller as a bailee

TRANSFER OF TITLE BY NON OWNER

Sale by
Mercantile
agent

Sale by one
of the Joint
owner

Sale by Person in
Possession of Voidable
Contract

Sale by Person
who has already
sold goods but
continues the
Possession

Sale by buyer
obtaining
Possession before
Property n
goods vested
to him

Effects of
Estoppel

Sale by an
Unpaid Seller

Sale under
Provision of
Other Act

(SEC-33-41) RULES REGARDING DELIVERY OF GOODS

1. Part delivery [Sec-34]
2. Buyer to apply for delivery [Sec-35]
3. Place of delivery [Sec-36 (1)]
4. Time of delivery [Sec-36 (2)]
5. Installment delivery
6. Delivery of wrong quantity [Sec-37]
7. Expenses of delivery [Sec-36 (5)]
8. Goods in possession of third party [Sec-35 (3)]
9. Delivery to carrier [Sec-39 (1)]
10. Deterioration during transit [Sec-40]
11. Buyer right to examine the goods [Sec-41]
12. Installment delivery [Sec-38]
13. Delivery in wrong quantity
14. Delivery [Sec-33]

DELIVERY

Actual delivery

Symbolic delivery

Constructive delivery

THE SALE OF GOODS ACT, 1930

UNIT 4



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UNPAID SELLER

Definition

1. When whole of the Price has not been Paid
2. When B/E has been received and Condition is not fulfilled

Rights of Unpaid Seller

Against buyer

- Suit for Price Section 55
- Suit for damage for non acceptance
- Repudiation of Contract before due date Section 60

where buyer wrongfully neglect OR refuses to accept the goods seller

Suit for Interest Section 61

When property in goods has passed to buyer

Lien Sec. 47

Stoppage in Transit Sec. 50

Resale Sec. 54

Lien Sec. 47

Stoppage Sec. 50

Resale Sec. 54

- Retain the Possession
- Right is available even if he is in Possession of goods as bailee or agent of buyer
- Termination of Lien

Against the goods

When property in Goods has not passed to buyer

REMEDIES OF BUYER AGAINST SELLER

Damage for non delivery Section 57	Suit for Specific Performance Section 58	Suit for breach of warranty Section 59	Suit for anticipatory breach Section 60	Suit for Interest
Seller wrongfully refuses to deliver the goods	<ol style="list-style-type: none"> 1. Contract for sale of specific/ ascertained Goods 2. Provision of specific Relief act 3. Damage is not adequate remedy 4. If goods are of special nature OR unique 	buyer can not reject the goods due to Breach of Warranty		recover interest when Interest is recoverable as per any Law

OTHER PROVISIONS

(Section 64) Auction Sale

(Mode of selling Property by inviting bids publicly and Property is sold to higher bidder)

(Section 64A) Inclusion of increased OR decreased taxes in Contract of Sale

1. Effect of taxes will be added in Price and reduction in taxes will be deducted from price
2. Effect of Provision will be excluded if there is contract to contrary

Where Goods are sold in Lots
Separate Lot Separate Contract

Completion of the Contract of Sale on fall of hammer

Right to bid may be reserved
Seller can also bid

Where Sale is not notified by the seller
Not lawful for seller to bid for himself

Reserve Price
↓
Minimum Starting Price

Pretended bidding
↓
Contract will be voidable

REPUDIATED BY EITHER PARTY

Other Party Treat the Contract as Subsisting and wait till the date of delivery

Other Party may rescind the Contract and Claim damages

STOPPAGE IN TRANSIT

Right of Stoppage in Transit

- Buyer becomes insolvent
- Seller parted with Possession
- Seller can Resume Possession

Duration of Transit

How Stoppage in Transit is effected

When does Transit comes to an End

Difference between Right of Lien and Right of Stoppage in Transit

Effects of sub sale OR Pledge by buyer

Right of lien & stoppage will be affected

Right of lien & stoppage will not be affected

RIGHT OF RESALE BY SELLER

No Need to inform buyer when goods are of Perishable nature

Need to inform buyer other goods

(if notice is not given to buyer)
Resale Price > Contract Price
difference cannot be retained
Resale Price < Contract Price
difference cannot be Recovered

(if notice is given to buyer)
Resale Price > Contract Price
difference will be retained
Resale Price < Contract Price
difference will be Recovered

THE INDIAN PARTNERSHIP ACT, 1932

UNIT 1

- Partnership → Relation between Partners
 Firm → Partners who have entered into Partnership are collectively called Firm
 Firm Name → Name under which their business is carried on

Association of 2 OR More Persons	Agreement	Business	Sharing of Profit	Carried on by all OR Any of them acting for all
<ul style="list-style-type: none"> Firm and minor cannot be Partner Limit 50 	<ul style="list-style-type: none"> Must be the result of an agreement May be oral or written May be express or implied 	<ul style="list-style-type: none"> includes Trade occupation and Profession motive (acquisition of Gain) 	<ul style="list-style-type: none"> Sharing of profit is essential Sharing of loss is not essential 	<ul style="list-style-type: none"> Each partner is principal as well agent He can bind other Partner by his act (agent) He is bound by the acts of other partner (Principal)

TEST OF PARTNERSHIP

Agreement
 Relation of Partnership arises from contract not from status

Sharing of Profit
 Sharing of Profit is Prima facie evidence not conclusive evidence

Mutual Agency
 • Existence mutual agency is cardinal principal's law
 • Each Partner carrying on business is Principal as well as agent

TYPE OF PARTNERS

Active or Ostensible Partner	Sleeping Partner or Dormant Partner	Nominal Partner	Partner in Profit Only
<ul style="list-style-type: none"> Who become Partner by agreement & Who actively participate in the conduct of business 	<ul style="list-style-type: none"> Who is Partner by agreement & who does not actively take part in the conduct of business 	<ul style="list-style-type: none"> Lends his name Without having any real interest Not entitled to share any profit Does not take part in conduct of business Liable to third party 	<ul style="list-style-type: none"> Entitled to Share Profit only Not liable for losses Liable to third party for All acts of profit only

Incoming Partner— admitted with the consent of All Partners not liable for acts done before admission.

Outgoing Partner— who leaves the firm - Liable for All acts till Public notice is given

Partner by holding out only— Partner by estoppel

When a Person represent himself

OR

Knowingly permits himself

to be represented himself as Partner in a firm

he is Liable like a Partner in a firm



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 VIDHYA KA UDAY

VARIOUS KINDS OF PARTNERSHIP

WITH REGARD TO DURATION

Partnership at Will

Not fixed period agreed upon & No provision as to determination of Partnership

Partner is for fixed term Continued after Expiry of term

Can be dissolved any time by giving notice in Writing

Partnership for Fixed Period

Contract for duration of Partnership

WITH REGARD TO EXTENT OF BUSINESS

General Partnership

Partnership constituted with respect to business in General

Particular Partnership

- Particular adventure or undertaking
- Liability extends to Particular venture or undertaking

PARTNERSHIP DEED

A document in writing containing various terms and conditions as to the relationship of Partner to each other is called Partnership deed.

CLAUSES

SPECIFIC POINTS

- Admission & retirement of Partner
- Settlement of A/c on Dissolution
- Exclusion of Partners

GENERAL POINTS

- Name of Partners & Firm
- Place of Business & Date
- Nature of Business & Duration
- Capital
- IOD, IOC & Interest on Loan
- Salary & Commission
- P S R

Partnership VS HUF

- Legal status
- Agency
- Distribution of profit
- Extent of liability
- Property
- Transfer of Shares
- Management
- Registration
- Winding up
- No. of membership
- Duration of Existence

Partnership VS Club

- Definition
- relationship
- Intrest in Property
- Dissolution

Partnership VS HUF

- Mode of creation
- Death of member
- Management
- Authority to bind
- Liability
- Calling for accounts on clauses
- Governing Law
- Minors capacity
- Continuity
- Number of members
- Share in business

Partnership VS Co ownership

Partnership VS Association

THE INDIAN PARTNERSHIP ACT, 1932

UNIT 2

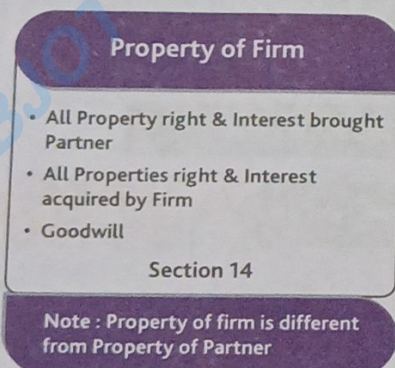


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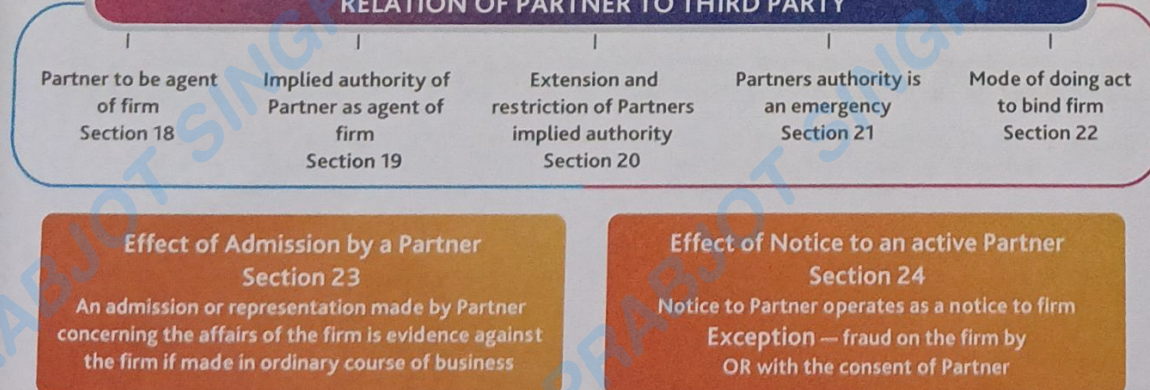
RELATION OF PARTNER TO ONE ANOTHER



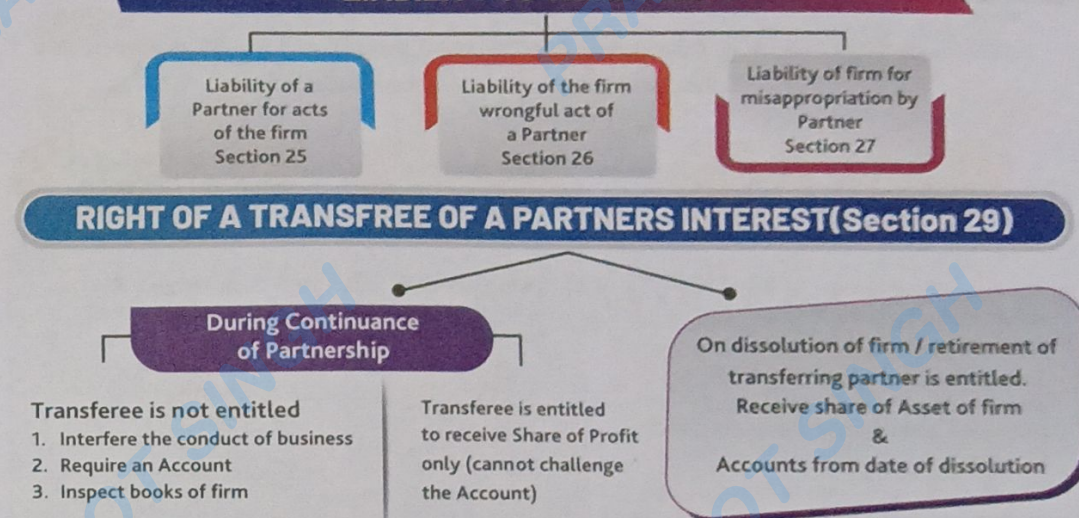
PARTNERSHIP PROPERTY



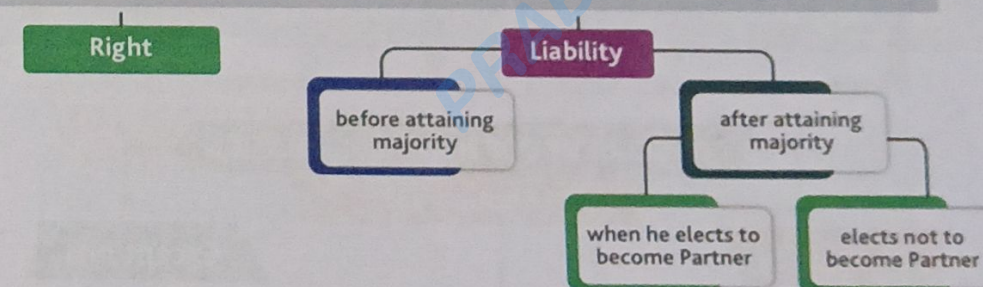
RELATION OF PARTNER TO THIRD PARTY



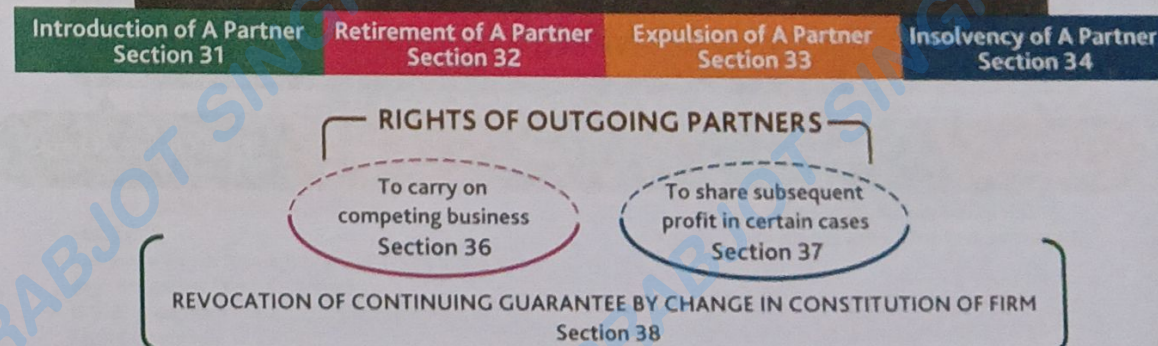
LIABILITY TO THIRD PARTY



MINOR ADMITTED TO THE BENEFIT OF PARTNERSHIP (Section 30)



LEGAL CONSEQUENCES OF PARTNER COMING IN & GOING OUT



THE INDIAN PARTNERSHIP ACT, 1932

UNIT 3



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DISSOLUTION OF FIRM

Application for Registration of Firm

Section 58

- Statement in prescribed form and accompanied by prescribed fees stating certain details.
- Statement shall be signed by All the partners or by their agent specifically authorised in this behalf also same should be verified
- Certain words expression or implying the sanction

OR

approval or patronage Govt. are, not allowed.

Registration

Section 59

Registrar shall record the entry of the statement in Register

Late Registration on Payment of Penalty

Section 59A – 1

Late Registration on Payment of Penalty

CONSEQUENCE OF NON-REGISTRATION

(Section 69)

Disabilities

Exceptions

CONSEQUENCE OF NON-REGISTRATION (Section 69)

Continuation of Business

Winding up

Order of Court

Scope

Final Closure of books

DISSOLUTION OF FIRM

Without the Court Order (Section 40 to 43)

1. Mutual Agreement (Section 40)
2. Compulsory Dissolution (Section 41)
3. On happening of certain event by notice (Section 42)
4. By Notice (Partnership at Will) (Section 43)

By Order of Court (Section 44)

1. Insanity
2. Misconduct
3. Permanent Capacity
4. Persistent breach of Agreement
5. Transfer of Interest
6. Continuous Loss
7. Just and Equitable Ground

RIGHT AND LIABILITIES OF PARTNERS AFTER DISSOLUTION

Section 45

Liabilities for Acts of Partner done after dissolution

Section 46

Right of Partner to have business wound up

Section 47

Continuing authority of Partner for the purpose of winding up

Section 48

Mode of settlement of Partnership Account

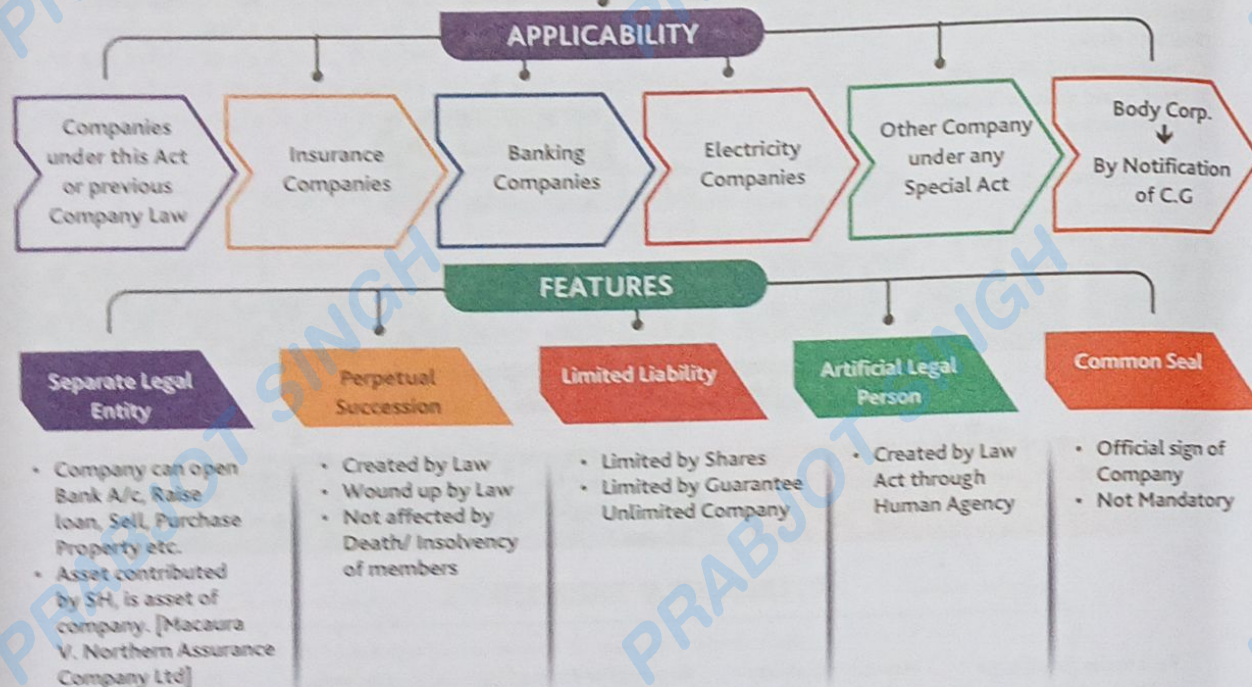
Section 49

Payment of firm debt and of separate debts

THE COMPANIES ACT, 2013

THE COMPANIES ACT, 2013

Sec(20) : Company Incorporated under this act or under any previous company law.



CORPORATE VEIL THEORY

- Members Shielded from liability connected to Company's Action
- Company identified separately from its members [Salomon V. Salomon & Co. Ltd.]

LIFTING OF CORPORATE VEIL

- Courts ignore company & concerns directly with its members
- Disregarding corporate entity & paying regard to realities behind the legal facade.

CASES WHERE COMPANY LAW DISREGARD CONCEPT OF "SEPERATE LEGAL ENTITY"

- Determine Character of Company Daimler Co. Ltd V. Continental Tyre & Rubber Co
- To Protect Revenue / Tax Dinshaw Maneckjee Petit
- To Avoid Legal Obligation Workmen of Associates Rubber Industry V. Associates Rubber Ind. Ltd.
- Formation of Subsidiary to act as agents Merchandise Transport Ltd. V. British Transport Commission
- Company formed for Fraud/ Improper Conduct Gifford Motor Company Ltd. V. Horne

CLASSES OF COMPANIES

On the basis of Liability

Limited by Shares

- Liability limited to nominal value of shares held

Limited by Guarantee

- Liable to extent of amount guaranteed in MOA.
- At the time of Liquidation

Unlimited Company

- Liability unlimited
- Contribute in event of winding up

ON THE BASIS OF MEMBERS

ONE PERSON COMPANY Sec 2(62)

- Company which has only one case of death of member will become member.
- Member / Nominee shall be :-
 1. Natural Person
 2. Indian Citizen
 3. Resident in India (Min 120 Days stayed in previous F.Y.)
- Cannot be converted into Sec. 8 Co.

PRIVATE COMPANY Sec 2(68)

- Share Capital : No limit
- Restricts by its Articles :-
 1. Transfer of Shares is restricted
 2. Public offer is prohibited
 3. Max. member : 200 (except OPC) Present & past employees excluded from Counting of 200 Joint Shareholder to be counted as one
- Min. Member : 2

PUBLIC COMPANY Sec 2(71)

- Co. which is not a private company
- Articles do not have restricting clauses
- Members Min: 7 Max: No limit
- Subsidiary of Public Co. → Deemed to be Public Co.

SMALL COMPANY Sec 2(85)

company other than public co.

- | PSC | Turnover |
|--|--|
| 4 cr or such a Higher amount, as may be prescribed. Higher amount prescribed is Rs.10 cr | 40 cr or such a Higher amount, As may be prescribed. Higher amount prescribed is Rs.100 cr |

ON THE BASIS OF ACCESS TO CAPITAL

LISTED COMPANY

- SEC 2 (52)
- Company which has any of its securities listed on any recognised Stock Exchange
- If SEBI prescribes :- Co. not to be considered as Listed Company

UNLISTED COMPANY

Company other than listed company

THE COMPANIES ACT, 2013

ON THE BASIS OF CONTROL

HOLDING COMPANY

- Sec 2 (46)
- A company of whose other companies are subsidiary

ASSOCIATE COMPANY

- Sec 2 (6)
- A company in which other company has "Significant Influence" (Atleast 20% of total voting power / control)
- Includes Joint venture but not a Subsidiary Co.

SUBSIDIARY COMPANY

- Sec 2 (87)
- A company in which Holding Co. :-
 1. Controls composition of B.O.D.
 - OR
 2. Controls more than half of total voting Power on its own or together with its subsidiary
- Deemed to be Subsidiary Co. :- If control is of another Subsidiary Co. of the Holding Co.

OTHER COMPANIES

Government Company

- Sec 2 (45)
- Company in which not less than 51% of paid up Share Capital held by :-
 1. CG
 2. SG
 3. CG + SG

Foreign Company

- Sec 2 (42)
- Company incorporated outside India
- Has place of business in India
- Through itself or agent, physically or electronically.
- Conduct business in India

Nidhi Company

- Sec 406 (1)
- Company incorporated to Cultivate habit of savings amongst its members

Dormant Company

- Company formed for future project or to hold IPR / Asset
- No Significant Accounting Trans.
- Inactive Company :-
 1. Not carrying business
 2. Not Significant Accounting Tr.
 3. Not filed financial statement/ Annual Return

During last 2 F.Y.

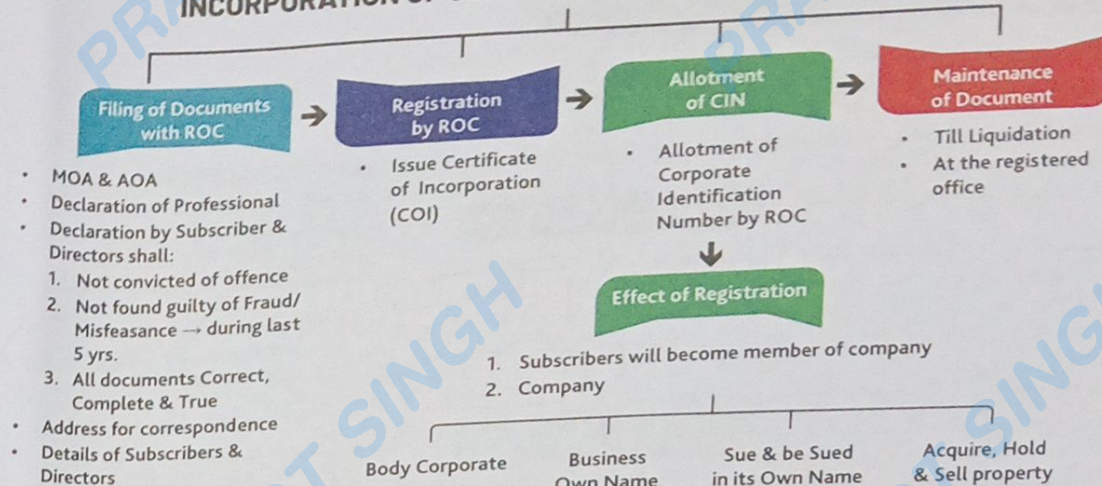
Section 8 Company

- To promote Art, Science, Commerce, Sports, Religion, Environment etc.
- Profit utilized for promotion of objects
- Dividend distribution prohibited
- Need not use word 'Limited' or 'Private Limited'

Public Financial Institution

- LIC
- UTI
- IDFC
- Notified by CG in consultation with RBI
- Institution notified by CG in U/S 4A(2) of companies Act 1956, repealed u/s 465 of company act 2013.
- Such Institution notified by CG in Consultation with RBI atleast 51% paid up capital held by CG / SG / CG + SG

INCORPORATION OF COMPANIES



PENALTY FOR FALSE DISCLOSURE

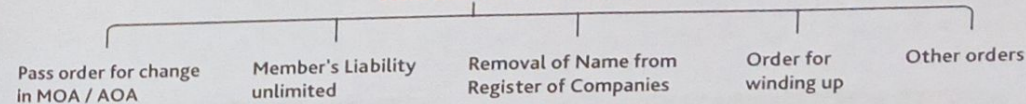
Company Not been Incorporated

- Person furnishing false information
- Liable for Fraud u/s 447

Company has been Incorporated

- Promoter / First Directors / Person making Declaration
- Liable for Fraud u/s 447

TRIBUNAL IF SATISFIED



CLASSIFICATION OF CAPITAL



KINDS OF CAPITAL

Equity Share Capital

Share Capital which is not Preference Share Capital

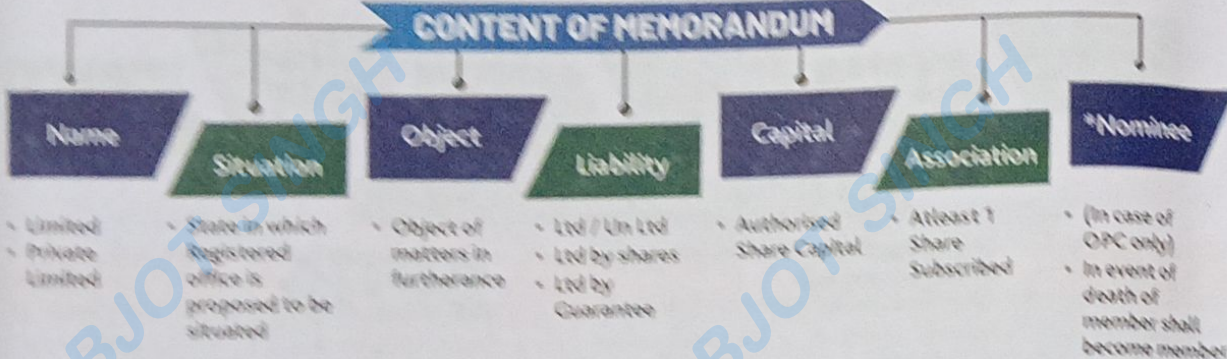
Preference Share Capital

- Part of Issued Share Capital which carries preferential right to :-
 1. Payment of Dividend
 2. Repayment at winding up

THE COMPANIES ACT, 2013

- Chartered document, defines scope of powers of Company
- Contains object for which company is formed, Beyond which actions cannot go.
- Sec. 399: Memorandum is public document, person contracting with company presumed to have knowledge of it
- Any contract beyond the power of memorandum → **ULTRA VIRES & VOID**
- Form of MOA: Table A, B, C, D, E
- Memorandum: Printed, Paragraphed, Numbered, Signed in presence of 1 witness, Description of Subscribers.
- MOA must comply with provisions of Companies Act, 2013.

CONTENT OF MEMORANDUM



ARTICLES OF ASSOCIATION

- Rules & Regulations framed to manage internal affairs.
- Forms of Articles: Table F, G, H, I & J
- Model Articles: May adopt all or any regulations
- Entrenchment Provision:
 - Amendment, if more restrictive provisions are inserted
 - At the time of Incorporation or by Amendment (Special Resolution)

BASIS	MOA	V/S	AOA
Objectives	Defines the objectives of Company		Rules & Regulation for management of Company
Relationship	Company and outside world		Company and its members
Alteration	Only under certain circumstances with permission of RD/ NCLT		By passing Special Resolution
Ultra Vires	Acts done beyond MOA – void and ultravires, cannot be ratified		Acts beyond AOA, Ratified by Special Resolution of Shareholder



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DOCTRINE OF ULTRA VIRES

- Act done in excess of legal powers
- Acts done beyond the power of Company → void & not binding on Company
- Company can neither sue nor can it sue on it
- MOA public document (open for inspection)
- Person dealing with Company cannot enforce against Company, if ultra vires.
- Acts ultra vires the Director → SH can ratify
- Acts ultra vires the Articles → Articles altered
- Acts ultra vires the Company → VOID, SH cannot ratify
- [Ashbury Railway Carriage & Iron Company Ltd v. Riche]

Protects Company

DOCTRINE OF CONSTRUCTIVE NOTICE

- "Right of Inspection to all."
- Any person can inspect by electronic means, make record or get copies.
- Duty of person dealing with company:
 - To inspect documents
 - Ensure, Contract is in conformity with provisions.
- Person reads the document or not → Presumed to have knowledge of contents.
- If Contracts, beyond power of Company → Cannot acquire any rights against Company

Protects outsiders

DOCTRINE OF INDOOR MANAGEMENT

- Exception to doctrine of Constructive Notice
- Outsiders not deemed to have notice of internal affairs of Company.
- Popularly known as Turquand Rule [Royal British Bank v. Turquand]
- Indoor management is internal problem of Company, Outsiders not deemed to have knowledge of internal Affairs of Company.

EXCEPTIONS TO DOCTRINE OF INDOOR MANAGEMENT

1 Actual Constructive Knowledge of Irregularity

- [Howard v. Patent Ivory Manufacturing Co.]
- Omitting to do something that is necessary.
- Cannot be protected under Doctrine of Indoor Management

2 Suspicion of Irregularity

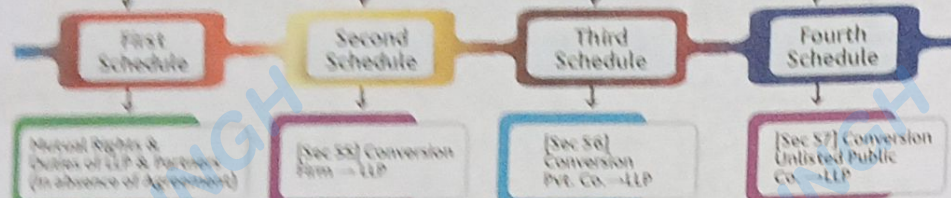
- [Anand Biharilal v. Dinshaw & Co.]
- Person dealing with Company suspicious about circumstances
- Still doesn't enquire, then cannot rely on Doctrine of Indoor Management

3 Forgery

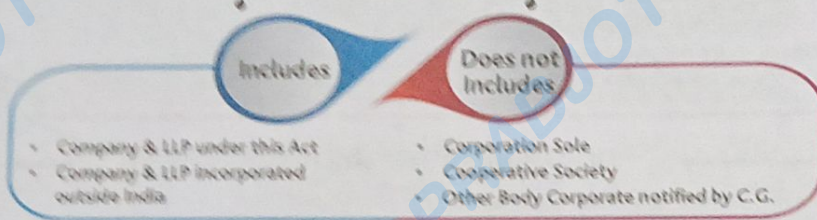
- [Ruben v. Great Fingall Consolidated]
- Doctrine of Indoor Management not applicable on Forgery.
- Forgery is considered Null & Void

LLP ACT, 2008

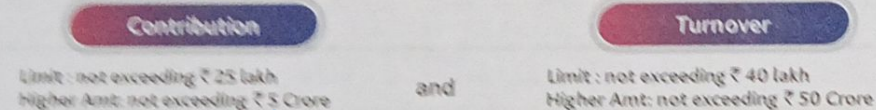
Administration : Ministry of Corporate Affairs and Registrar of Companies (ROC)



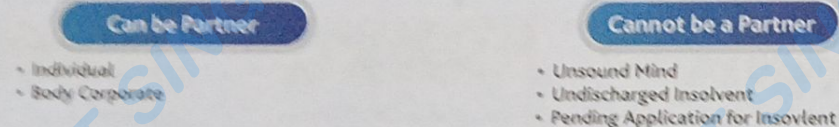
BODY CORPORATE Sec 2 (d)



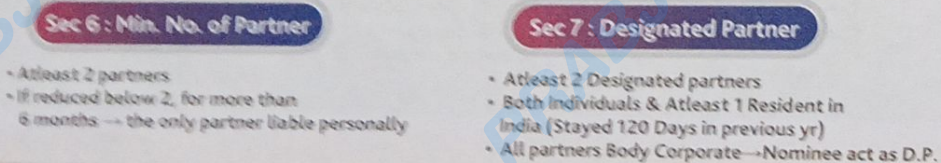
SMALL LLP Sec 2 (ta)



LLP Sec 5



PARTNER



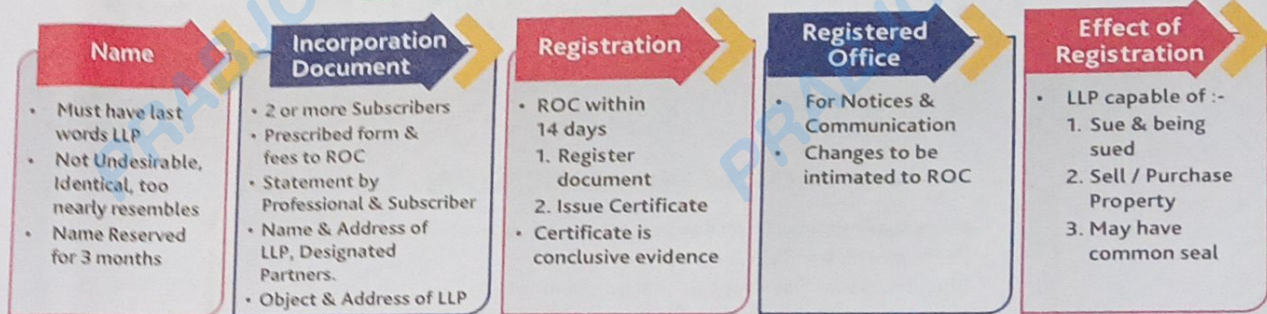
CHARACTERISTICS OF LLP



ADVANTAGES OF LLP



INCORPORATION OF LLP



* CG -> Order for change of Name -> to be change within 3 months, If not changed -> CG -> Allot new name

What is LAW

Law is a set of obligations and duties imposed by Government

Source of LAW

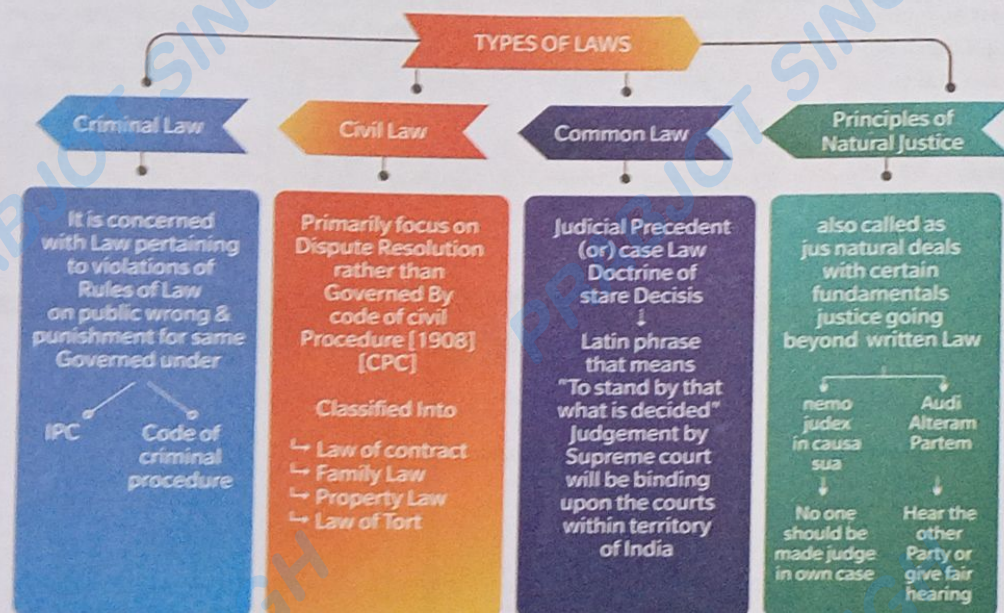
- Constitution.
- Statutes or Laws.
- Judicial Decision
- Custom & Usages

The Process of Making a Law

- Bill Proposed
- After Discussion in Both Sabha
- Assent of President
- Publication in Official Gazette

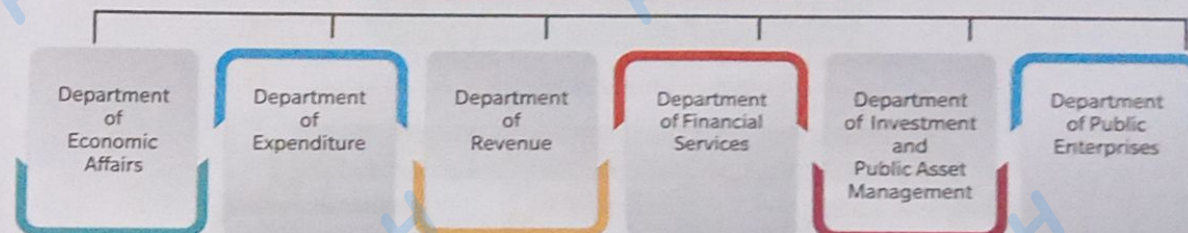
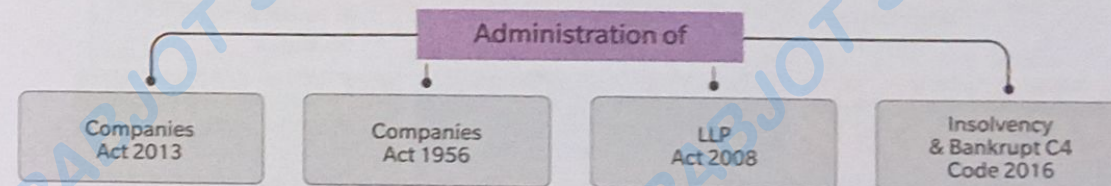
Types Of Laws In The Indian Legal System

The Laws In The Indian Legal System Could Be Broadly Classified As Follows:

**MINISTRY OF FINANCE (VITTA MANTRALAYAM)**

It is Apex controlling Authority
Four central Services

- ↳ Indian Revenue service
- ↳ Indian Audit & Accounts service
- ↳ Indian Economic service
- ↳ Indian Civil Accounts service

DEPARTMENTS OF MINISTRY OF FINANCE**MINISTRY OF CORPORATE AFFAIRS (MCA)**

Run by civil servants

Ministry Of Home Affairs (Griha Mantralaya)

Headed by Union Minister of Home Affairs
Responsible for

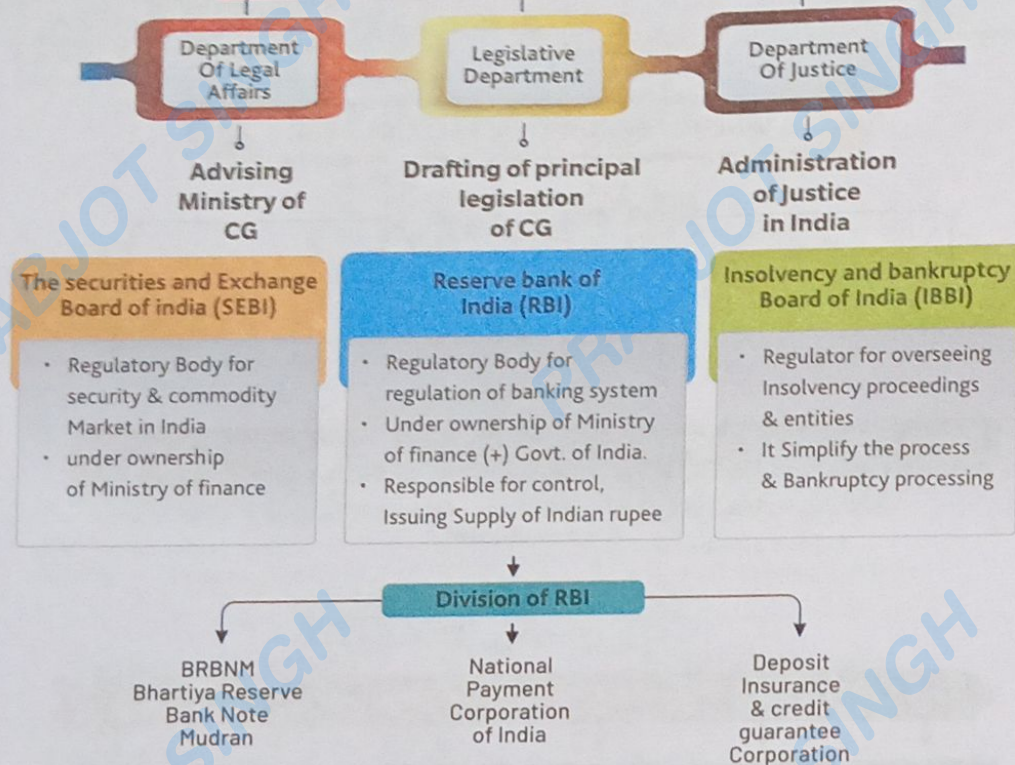
- Internal security
- Domestic policy

Departments of Ministry of Home Affairs

MINISTRY OF LAW AND JUSTICE

It is cabinet Ministry

Department of Ministry of Law and Justice



STRUCTURE OF THE INDIAN JUDICIAL SYSTEM

When there is dispute between citizens or citizens & government

Supreme Court

1. Apex Body
2. Chief Justice Highest Authority
3. Principal Bench of Supreme Court (7 Members)
4. Presently Members increased to 34 due to rise incase
5. How to apply - file writ petition under article 32

High Court

Highest Court of Appeal Each State
High Court have appellant

Original Jurisdiction

Supervision Jurisdiction

District Court

- Deals With Civil Law Matters
- Civil Judge can try suits Valuing not more then 10 Crores

Metro Politan Court

- Population is 10 Lakh or More
- Chief Metropolitan Magistrate has power as Chief Judicial Magistrate
 - Metropolitan Magistrate has power as Court of Magistrate of First class

NEGOTIABLE INSTRUMENT ACT, 1881



VIDHYODAY
VIDHYA KA UDAY

Meaning of Negotiable Instruments

Transfer of Document

Types of NI

Promissory Note

Bills Of Exchange

Cheque

CHARACTERISTICS OF NI

Written

Signed

Transferable

Title Free From Defects

Can Be Transferred Number Of Times

Unconditional Promise/order To Pay

Certainty Of Sum Payable, Time Of Payment And The Payee

Delivered

Promissory Note [sec. 4]

Meaning - it is unconditional undertaking

Characteristics

(a) In Writing, (b) Express Promise to pay, (c) Definite and unconditional promise, (d) Signed by maker, (e) Promise to pay money only, (f) Promise to pay a certain sum, (g) Payee must be certain, (h) Stamped

Parties

Maker → Payee

Bill Of Exchange [sec. 5]

it is unconditional order

Characteristics

(a) In Writing, (b) Express Order To Pay, (c) Definite And Unconditional Order, (d) Signed By Drawer, (e) Order To Pay Money Only, (f) certain Sum, (g) Drawer, Drawee & Payee Must Be Certain, (h) Stamped

Parties

Drawer → Drawee → Payee

Cheque [sec. 6]

A Bill of Exchange

Characteristics

(a) All the essentials of a BOE (b) Drawn on a specified banker. (c) Payable on demand. A cheque does not require: (a) Stamping; acceptance;

Parties

Drawer → Drawee → Payee
Always Banker

CLASSIFICATION OF NEGOTIABLE INSTRUMENTS

Bearer Instrument

Order Instrument

Mere Delivery

Specified Person and Endorsement + Delivery

Inland Instrument

Drawn in India + (payable in India or drawn on any person resident in India)

Foreign Instrument

Which is not an inland instrument.

Inchoate Instrument

Incomplete instrument in certain respects.

Ambiguous Instrument

Which either be treated as P/N or BOE, (once holder exercises his option, he is bound by it)

Holder
Liable Amount

Holder in Due Course
Can Recover Excess Amount.

NEGOTIATION (TRANSFER) OF NEGOTIABLE INSTRUMENTS

Modes of Negotiation

In case where P/N boe or cheque Payable to bearer

By Delivery

Actual

In case where P/N, BOE or cheque Payable to order

Indorsement + delivery

Constructive

NEGOTIABLE INSTRUMENT ACT, 1881



VIDHYODAY
VIDHYA KA UDAY

DISHONOUR OF CHEQUES FOR INSUFFICIENCY OF FUNDS IN THE ACCOUNTS [SECTION 138 TO 142]

Debt - cheque was issued to discharge a legally enforceable debt

Reason for dishonour - insufficiency of funds

Presentment of cheque - within 3 months

Demand made from drawer - within 30 days of dishonour

Default by drawer to pay - within 15 days of demand made

PENALTY

Imprisonment upto 2 years

Fine twice the Amount of Cheque

Both

PRESENTMENT FOR ACCEPTANCE (only For BOE)

BOE Payable After Sight Must	Must be presented within a Reasonable time & in business hours on a business day. (note: 48 hours, Excluding public holidays, are given to drawee for acceptance)	
BOE Payable After Sight Must	No Party Liable Thereto	If drawee not found after reasonable search, BOE is dishonored
If BOE is directed to Drawee at a Particular place	Must Be Presented At That Place	

PRESENTMENT OF PROMISSORY NOTE FOR SIGHT

P/N Payable At a Certain Period After Sight.	Must be presented within a reasonable time & in business hours on a business day,
In Default of Such Presentment	No Party Liable Thereto

RULES REGARDING PRESENTMENT FOR PAYMENT (P/N, BOE, CH)

	Maker (P/N), Acceptor (BOE) Drawer (CH)
To whom	No Party Liable Thereto
If Default In Presentment	
Exception	If p/N is payable on demand and is not Payable at a specified place, no Presentment is necessary
Time	During Usual Business Hours
If instrument payable after Date or sight	Must Be Presented For Payment At Maturity
P/N payable by instalments	Must be presented for payment on 3 rd day After date fixed for payment of each Instalment
Instrument payable at specified Place	Must be presented for payment at that place
Where no exclusive place specified	Must be presented for payment at the Place of business (if any) or at The usual residence
No known place of business or Residence	Presentment may be made person wherever He can be found
Instrument payable on demand	Must be presented for payment within a Reasonable time after it is received by the holder.

WHEN PRESENTMENT UNNECESSARY

1. Maker, drawee or accept or prevents the Presentment.
2. Payable at business place & that's closed on Business day during usual business hours
3. Payable at specified place & liable party Doesn't attend place
4. not payable at specified place & liable party Not found after due search.
5. Liable party engaged to pay not with standing non presentment.
6. Liable party makes part payment.
7. Liable party waives off his right to take advantage
8. If drawer could not suffer damage from want of such presentment.

RULES AS TO COMPENSATION (SEC. 117)

In case of dishonour of Nt, holder can claim

1. Amount due on Ni
2. Expenses incurred in presenting, noting & protesting.
3. Interest 18% pa from due date of payment to date of realisation.

Note: in case of foreign currency, current rate of exchange.

DEMAND

BASICS

Effective Demand

- _____ for a specific commodity
- Means / _____ to purchase the desired commodity (Backed By)
- _____ to spend
- _____ of the commodity at a certain PPT

Important Terms

- Quantity Demanded _____
- Demand _____
- Schedule _____
- Curve _____
- Individual _____
- Market _____
- Stock _____
- Flow _____
- Demand is a _____ Concept
- Substitute Goods _____
- Complementary Goods _____
- Inferior Goods _____
- Normal Goods _____

FACTORS AFFECTING DEMAND

$$D_x = f(P_x, P_r, Y, T, E, \text{ \& N, } Y_d, C, G)$$

- Price of Same Good (P_x)
- Price of Related Good (P_r)
 P_{sg} _____
 P_{cg} _____
- Income of Consumer (Y)
 IG _____
 NG _____
- Taste & Preference (T)
- Future Expectations of Price, Income & Supply (E)
- Population (N)
- Income Distribution (Y_d)
- Consumer Credit Facility & Interest Rate (C)
- Government Policy

Demonstration Effect

Veblen Effect

Bandwagon Effect

Snob Effect

LAW OF DEMAND

$$D_x = f(P_x, P_r, Y, T, E, \text{ \& N, } Y_d, C, G)$$

Assumptions of Law of Demand – _____

Features of the Demand Curve

- DC slopes _____ from left to the right.
- DC is _____ sloped.
- DC is called _____ Curve
- DC may be sometimes a straight-line or sometimes a free hand curve.
- The downward sloping DC explains the Law of Demand.
- The Market Demand Curve is a _____ summation (totalling) of Individual Demand Curves.

Rationale (Logic) behind the Law of Demand

Price Effect of a fall in Price

- Substitution Effect
- Income Effect

Other Reasons

- Law of Diminishing Marginal Utility
- New Consumers
- Different Uses

Exceptions to the Law of Demand

- Conspicuous Goods
- Giffen Goods
- Ignorant/ Irrational Consumer
- Basic Necessity
- Speculative Goods
- Expected Price Change

CHANGE IN QUANTITY DEMANDED VS CHANGE IN DEMAND

Change in Quantity Demanded

Change in Quantity Demanded	
Extension of Q.D	Contraction of Q.D

Change in Demand

Change in Demand	
Increase in Demand	Decrease in Demand

ELASTICITY OF DEMAND

PRICE ELASTICITY

1. Percentage Method

$$E_p = \frac{\% \text{ Change in Quantity}}{\% \text{ Change in Price}} \times \frac{\text{Old Price}}{\text{New Price}}$$

Calculator Steps:

- 1.
- 2.
- 3.

Case	1	2	3	4
Old Price	20	50	70	90
New Price	18	45	84	72
Old Quantity	3000	4000	?	5000
New Quantity	3900	?	4000	?
E_p	?	4	1	2
a)		5000	6000	3000
b)		5200	5000	6000
c)		5400	7000	7000
d)		5600	8000	8000

2. Arc Elasticity

Arc Elasticity measures _____ elasticity in case of _____ change in prices and quantities (i.e. over an arc) on the Demand Curve, rather than on a point.

$$E_p = \frac{\% \text{ Change in Quantity}}{\% \text{ Change in Price}} \times \frac{\text{Old Price}}{\text{New Price}}$$

Calculator Steps:

- 1.
- 2.
- 3.

	Price	Quantity
Old	10	2000
New	12	1200
E_p		

3. Method Of Derivatives

$$E_p = \frac{1}{\text{Slope of Demand Curve}} \times \frac{\text{Price}}{\text{Quantity}}$$

4. Point Elasticity / Graphical Method

E_p = Lower Segment (RHS)
Upper Segment (LHS)

5. The Total Outlay / Expenditure / Revenue Method

Price	Total Expenditure	Elasticity

CROSS ELASTICITY

INCOME ELASTICITY

$$E_c = \frac{\% \text{ Change in Quantity of X}}{\% \text{ Change in Price of Y}} \times \frac{\text{Price of Y}}{\text{Price of X}}$$

$$E_y = \frac{\% \text{ Change in Quantity of Y}}{\% \text{ Change in Income}} \times \frac{\text{Income}}{\text{Price of Y}}$$

Interpretations

E_c Interpretation

E_y Interpretation

Interpretation of Elasticity Values

Determinants of Price Elasticity

1. Nature of Commodity	2. Availability of Substitutes	3. Different Uses
4. Postponement of Use	5. Income of Consumer	6. Habit of Consumer
7. Position in Consumer's Budget	8. Price Level	9. Time Period

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PRICE DETERMINATION

Golden Rules

- $$E_p = \frac{\% \text{ Change in Quantity}}{\% \text{ Change in } P_x} = \frac{\quad}{\quad} \times \frac{\quad}{\quad}$$

Case	1	2	3	4
Old Price	10	80	40	90
New Price	12	84	?	72
Old Quantity	2000	3000	6000	5000
New Quantity	2800	?	6600	?
Ep	?	3	0.5	2
a)		3200	42	7000
b)		3450	43	4000
c)		3650	44	3000
d)		3850	48	2000

2. Arc Elasticity - Same
3. Method of Derivatives – Same

Determinants of Elasticity of Supply

1. Cost of Production	2. Time Period
3. Number of Producer	4. Capacity Utilization
5. Availability of RM	6. Factor Substitution
7. Mobility of FOP	8. Future Expectation

Extension of Q.S	Decrease in Supply
------------------	--------------------

Extension of Q.S	Decrease in Supply

Price Ceiling

PRODUCTION FUNCTION THEORY



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BASICS

Meaning -

- Production = Creation of Utility
- Production = Addition of the Value

Types of Utility

1. Form Utility
2. Place Utility
3. Time Utility
4. Personal Utility

Land

Land refers to all free gifts of the nature. This includes soil and earth's surface, natural resources, fertility of soil, water, air, natural vegetation, etc.

Features

- _____ gift of nature.
- Land is fixed in _____
- The Supply of Land is perfectly inelastic from the viewpoint of the entire economy. Though, it is relatively elastic from the viewpoint of an individual firm.
- Land is _____ It cannot be destroyed or lost.
- The production power of soil is indestructible since its fertility can be restored
- Land lacks _____ in a geographical sense. It cannot be shifted.
- Land is a _____ factor of production in the sense that it does not yield any result unless human efforts are employed.
- Land varies in _____ and uses.

FACTORS OF PRODUCTION

Labour

'Labour' means _____ or _____ exertion directed to produce goods or services, and with a view to gain an _____ reward.

Features

- Human Efforts
- Perishable Nature
- Weak Bargaining Power
- Self Source
- Variations
- Productivity
- Relationship between Wage Rate & Labour Supply

a) Direct Relation

b) Inverse Relation at Higher Prices

c) Inverse Relation at Lower Prices

Capital

Capital means that part of wealth of an individual or community, which is used for further production of wealth, or which yields an income

Features

- Stock Concept
- Capital \neq Wealth
- Produced Means

Capital Formation

Need for Capital Formation

- Replacement and Renovation of existing machinery and equipment
- Creating Additional Productive Capacity

Stages in Capital Formation

Stage 1	Stage 2	Stage 3
Creation of Savings	Mobilisation of Savings	Investment of Saving in Real Capital
Individual Business Govt	Banks Financial Insti. Capital Market	Entrepreneur +ve Environment Inducement to Invest

• Ability to Save

• Willingness to Save

Entrepreneur

Function of Entrepreneur

- Initiating business & Resource Co-ordination
- Risk Bearing
- Innovation

Enterprise's Objectives

1. Organic - _____
2. Economics - _____
3. Social - _____
4. Human - _____
5. National - _____

OBJECTIVES & CONSTRAINTS

Constraints in Achieving Objectives

1. Information
2. Infrastructure
3. Factors of Production
4. Economic Aspect

Enterprise Problems

1. Objective
2. Location of Plant
3. Size of Plant
4. Physical Facilities
5. Finance
6. Organizational Structure
7. Marketing
8. Legal Compliance
9. Industrial Relations

BASICS

Production Function

Cobb-Douglas Production Function (ST)

$$Q = K^{\frac{1}{4}} L^{\frac{3}{4}}$$

Labour $\frac{3}{4}$ (75%), Capital $\frac{1}{4}$ (25%)

Short Period Vs Long Period

Basis	Short Period	Long Period
Meaning	At least One Factor cannot be increased	All Factors can be increased.
Fixed Factor	At least One Factor	No Factor is Fixed
Variable Factor	All Except at Least One	All are Variable
Proportion Between Factors	Not Same Proportion	Same Proportion
Factor Ratio	Changes	Same

Important Terms

Marginal Product

Total Product

Average Product

RETURNS TO FACTOR / SHORT RUN

Law of Variable Proportion / Proportionality / Diminishing Returns - Only One Factor is Variable. All Others Fixed

Causes of Increasing Rt.	Causes of Decreasing Rt.
1. Fuller Utilisation of Fixed Factor	1. Inadequacy / Fixity of Factor
2. Increased Efficiency	2. Imperfect Factor substitutability
3. Better Co-ordination between Factors (Right Combination)	3. Poor Co-ordination between Factor (Wrong Combination)
Causes of Negative Rt. - Disguised Unemployment	

Relation Between MP & TP

1. _____
2. _____
3. _____

Relation Between MP & AP

1. _____
2. _____
3. _____

	Stage 1	Stage 2	Stage 3
MP			
AP			
TP			

Area of Economics Operation

Assumptions of LOVP

1. Technology - Constant
2. Only One Factor Variable
3. Factors - Can be Used in Any Proportion
4. Factor Ratio Can Change
5. Fixed Factors are Scarce

RETURNS TO SCALE / LONG RUN

Returns to Scale

All the Factors of Production are increased or decreased in the _____ proportion. The Law of Returns to Scale analyses the changes in output, due to changes in scale in the long-run, i.e. quantities of resources, keeping proportion constant.

Internal Economies & Diseconomies

Aspect	Economics	Diseconomics
Technical		
Managerial		
Commercial		
Financial		
Risk Bearing		

External Economies & Diseconomies

Economies	
Cheaper RM	
Technological	
Development of Skilled Labour	
Ancillary Industry	
Transport & Marketing	
Diseconomies	
Factor Price	
Govt Restriction	

Cobb-Douglas Production Function (LT)

$$a + b > 1$$

$$a + b = 1$$

$$a + b < 1$$

Economies & Diseconomies

	Internal	Extrnal
Depends On		
Impact On		

COST FUNCTION – THEORY



Basis	Explicit Cost	Implicit Cost
Cash Outflow	Yes	No
Resources	3rd Party	Self-Owned Resource
Other Name	Out-of-Pocket Cost Outlay Cost	Notional Imputed Opportunity Cost
Measurement	Objective Accurate	Subjective Estimated
Recording In A/C	Yes	No
Purpose	Accounting, Reporting, Cost Control & Decision Making	Decision Making

Basis	Direct Cost	Indirect Cost
Identified or Traceable	To a Particular • Product • Service • Operation • Plant	• No Tracking • Common Expenses Not Quantifiable, But May Vary with Output
Relationship	Quantifiable Per Unit	Apportioned or Absorbed
Accounting	Directly Charged to a Product	(Distributed) on Appropriate Basis

Basis	Fixed Cost	Variable Cost
Cost of	Fixed Factors of Production	Variable Factors of Production
Change	Does not Change	Changes With Output
Relationship	Period Related	Product Related
When Incurred	Even at Zero Unit	After Start of Production
Avoidable	Unavoidable	Avoidable
Cost Per Unit	Changes	Same
Total Cost	Same	Changes

Basis	Committed Cost	Discretionary Cost
Decision	Taken in Past	Pending
When Incurred	Future	Future
Possessions	Current	Future
Changes	Not In Short Run	Not Changes in Very Short Run
Long Term Objectives	Reduction affects LTO	Does Not Affect LTO
Control	Cannot be Controlled	Can Be Controlled
Inference	Unavoidable	Avoidable

Incremental Cost	Sunk Cost
Additional Cost Incurred	Already Incurred in Past
Due to Any Reason	Cannot be Recovered, Revised or reversed
Relevant for Decision Making	Act as Barrier to Entry of New Firm

Historical Cost	Replacement Cost
Acquisition/Purchase/Original Price of Asset	Cash Outflow for Replacing an Old Asset
Already incurred in Past	To be Incurred in Present
Not Relevant for Decision making	Relevant for Current Decision Making

Private Cost	Social Cost
Cost of Production Incurred by Firm	Cost of Disutility Incurred By 3rd Party
Private Cost = Explicit Cost & Implicit Cost	Social Cost = Private Cost + External Cost
Private Profit = TR – Private Cost	Social Profit = TR – Social Cost

Opportunity Cost

1. Value of sacrifice made
2. Cost of opportunity foregone
3. Arises only when alternatives are available.
4. Do not involve any cash payment
5. Not recorded in books of accounts.
6. Considered only for Decision-Making & Analytical purposes

Dependent Variable

1. Total Cost
2. Cost Per Unit

SHORT PERIOD ANALYSIS

Cost of Production

Expenditure incurred by a firm on the factor inputs (Land, Labour, Capital & Entrepreneurship) as well as non-factor inputs (Raw material) for the production of a commodity.

$$C = f(Q)$$

Types of Cost

Type	Meaning	Graph
Marginal Cost	Additional Cost due to Production of One More Unit	U Shaped
Average Variable Cost	Variable Cost Per Unit	U Shaped
Average Total Cost	Total Cost Per Unit	U Shaped
Average Fixed Cost	Fixed Cost Per Unit	Rectangular Hyperbola
Total Variable Cost	<ul style="list-style-type: none"> Increases at Decreasing Rate Increases at Increasing Rate 	
Total Fixed Cost	<ul style="list-style-type: none"> Constant Horizontal Parallel to X-Axis 	
Total Cost	$TC = TFC + TVC$	

Formula

MCn	-
TVCn	-
TC	-
AVC	-
AFC	-
AC	-

Units	MC	TVC	TFC	TC	AVC	AFC	AC
0	-	-			-	-	-
1	110						
2				230			
3		290					
4					85		
5						4	74
6					70		
7	100						
8		670					
9				870			
10							107

Relationship

1. MC & TC / TVS

-

-

2. MC & AC & AVC

-

-

-

1. Planning Curve -

2. Plant Curve -

3.

4.

REVENUE

Revenue – Amount Received from sale of Goods & Service

$$\text{Cost} + \text{Profit} = \text{Revenue}$$

Total Revenue	Sum Total of Revenue from Sale of All Units $TR_n = \sum MR_n$ OR $P \times Q$
Marginal Revenue	Additional Revenue from sale of One More Unit $MR_n = TR_n - TR_{(n-1)}$ OR $\Delta TR / \Delta N$
Average Revenue	Revenue per unit of good sold $AR_n = TR/n$

Perfect Competition	Monopoly/Monopolistic
Any Quantity can be sold at Same Price	Price needs to be Decreased to Sell More Quantity

$$MR = AR \times \frac{E - 1}{E}$$

$E < 1$	MR will be Negative
$E = 1$	MR = 0
$E > 1$	MR will be Positive

- $P = AR$, Always
- Demand Curve = Price Line = AR Curve

FORMS OF MARKET

Perfect Competition

Large No. Of Buyers & Sellers	One Buyer or Seller cannot influence market demand or supply
Homogenous Product	Similar or Identical Products
Free Entry & Exit	No Barrier
Perfect Knowledge	Buyer Know Price, Quality, Quantity
Transportation	No Extra Cost, Adequate Facility
Uniform Market Price	Price Taker, All Sellers sale at same Price
Indifference / Lack of Preference	Buyers- Indifferent Seller – Indifferent
Mobility of Factors	Perfect Mobility

Pure/Free Competition – SHE

Monopoly

Single Seller	Alone to Sell, One Seller Only
Firm = Industry	One Seller Constitute Entire Industry
No Close Substitute	Cross Elasticity is Zero or Very Small
Price Maker	Determine Output & Price
Restricted Entry	Legal/Financial/Natural Barrier
Pure Monopoly is never found in practice, with the exception of public utilities like Railways, Water and Electricity, etc.	

Price Discrimination (CQL)

- Charging Different Price from Different Customers
- Objectives
 - To earn Maximum Profit
 - To Dispose of Surplus stock
 - To enjoy Economies of Scale
 - To capture the foreign market
 - To secure equity thorough pricing.
- Pre-Conditions for Price Discrimination
 - Seller's Control
 - Market Segmentation
 - Differing Elasticity $e > 1, e < 1$
 - No Scope for Resale

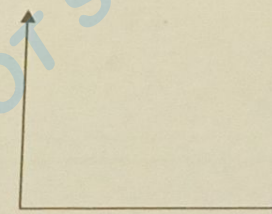
Monopolistic Competition

Many Seller	Many Seller with Small Share
Product Differentiation	Product of Every seller has different Features
Control Over Price	Due to Different Features, Can Charge Different Prices
Non-Price Competition	Feature War, Not Price War
Free Entry & Exit	No Barrier
Brand Loyalty	Each Seller tries to develop the Brand Loyalty for his product
Advertising Cost	Very Important due to product differentiation

Oligopoly

Few Seller	3-15 Seller
Interdependence	Change in Price, Output, Product by One Firm will impact rival firm who will retaliate by changing theirs. Firm must take consideration of reactions of competitors when taking decisions
Non-Price-Competition	Feature War, Not Price War
Advertising Cost	Very Important due to product differentiation
Group Behavior	High Probability to form Cartel

Kinked Shaped Demand Curve



Types of Oligopoly

1. Pure/Perfect - _____
2. Impure/Imperfect - _____
3. Open - _____
4. Close - _____
5. Collusive - _____
6. Non-Collusive - _____
7. Partial - _____
8. Full - _____
9. Syndicated - _____
10. Organised - _____

Miscellaneous Topics Reasons for Monopoly

1. Strategic Control over scarce resources, inputs or technology by a Single Firm
2. Developing or acquiring control over a unique product that is difficult or costly for other Companies to copy.
3. Patents and Copyrights given by Government to protect Intellectual Property Rights and to encourage innovation,
4. Governments granting the exclusive rights
5. Substantial Goodwill enjoyed by a Firm
6. Natural Monopoly due to very large economies of scale
7. Stringent Legal and Regulatory Requirements
8. Very high initial start-up costs
9. Use of Anti-Competitive Practices or Predatory Tactics, (Like Limit Pricing or Predatory Pricing)

Negatives of Monopoly

Higher Prices	Loss of Consumer Surplus
Consumer Sovereignty Falls	Lack of Innovation,
Lower Payment for FOP	Lack in Efficiency
Influence political process	Misuse of Resources
Scope for X-Inefficiency	Higher Costs of Output

PRODUCER EQUILIBRIUM

Producer Equilibrium / Profit Maximisation Conditions

1. $MR = MC$
2. MC Should be Rising Or MC should have +ve Slope Or MC should Cut MR from Below

Normal Profit - _____

$AR > AC$	
$AR = AC$	
$AR < AC$	

Short Period	Long Period
No Entry & No Exit	Entry & Exit Possible
Possible Profit	Possible Profit

Long Period Exception -

Supply Curve of Perfect Competition Firm -

Long Run = Equilibrium = Perfect Competition

$SMC = SAC = LAC = LMC = LMR = LAR = PRICE$

Shut Down Point

Condition for Production - $TR > TVC$ or $AR > AVC$

When to Shut Down Production - $TR < TVC$ or $AR < AVC$

If Firm Shut down production, Its Loss will be equal to Fixed Cost Only

CONSUMER EQUILIBRIUM

Utility - _____

Types of Utility

Cardinal Utility	Ordinal Utility

CARDINAL UTILITY ANALYSIS

Marginal Utility - _____

Total Utility - _____

Law of Diminishing Marginal Utility - _____

Relation Between MU & TU

- 1.
- 2.
- 3.

How Does A Consumer Decide How Much Quantity He Want To Purchase

P_x	
MU_x	
MU_m	

Product X

Product Y

Diagram

Consumer Surplus

CARDINAL	THREE MUSKETEERS	ORDINAL
$MU_x = MU_y$		$MRS = \frac{P_x}{P_y}$
$MU_x > MU_y$		$MRS > \frac{P_x}{P_y}$
$MU_x < MU_y$		$MRS < \frac{P_x}{P_y}$

ORDINAL APPROACH ANALYSIS

Consumer Equilibrium - _____

Indifference Curve

Isoquant Curve

Properties of IC

- 1.
- 2.
- 3.
- 4.
- 5.

$MRS =$

MRS Variation

$MRS \downarrow$	
$MRS \text{ Constant}$	
$MRS \uparrow$	

Budget Line

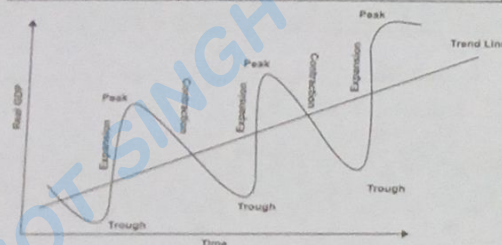
Iso-Cost Curve

Diagram

BUSINESS CYCLE

Business Cycle – Meaning

Fluctuations in	Aggregate Economic Activity
Expansion & Contraction	Of Business Activity
Trade Cycle	Good Trade & Bad Trade



Features of Business Cycle

1. Phases do not display smoothness & regularity.
2. BC occur periodically, But do not exhibit same regularity.
3. The duration of Business Cycles vary.
4. The intensity of fluctuations also varies.
5. Difficult to predict the Turning Points of BC.
6. BC in general originate in free market economies.
7. Although all sectors are adversely affected by Business Cycles

<ul style="list-style-type: none"> Capital Goods Industries Durable Consumer Goods Industrial Goods 	<ul style="list-style-type: none"> More Affected Disproportionately
Agricultural Sector	Less Affected

8. Business Cycles are exceedingly complex phenomena
9. Repercussions of Business Cycles get simultaneously felt on nearly all economic variables, viz. O/Y/I/E
10. BC are contagious & are international in character.
11. Business Cycles may occur due to External Causes (known as Exogenous Factors), or Internal Causes (called Endogenous Factors), or a combination of both.
12. BC have serious consequences on the well-being of the society.

Phases of Business Cycle

1. Expansion

- a) Increase in National Output, Employment, Aggregate Demand, Capital and Consumer Expenditure, Sales, Profits, rising Stock Prices and Bank Credit.
- b) Continues till there is full employment of resources
- c) Involuntary Unemployment is almost zero. Only Frictional Unemployment (i.e. due to change of jobs, or suspended work due to strikes or due to imperfect mobility of labour) or Structural Unemployment (means unemployment caused due to structural changes in the economy), exists.
- d) Prices and Costs tend to rise faster. Net Investment also occurs at a faster pace.
- e) There is increasing prosperity and standard of living
- f) Growth Rate eventually slows down & reaches at its peak.

2. Peak

- a) Highest point of the Business Cycle.
- b) Now, Inputs are difficult to obtain, so Input Prices increase.
- c) Output Prices rise rapidly, leading to increased cost of living. This causes greater strain on Fixed Income earners.
- d) Consumers begin to review their Consumption Expenditure on housing, durable goods, etc.
- e) Actual demand thus stagnates. This marks the end of Expansion Stage.

3. Contraction

- a) Once Peak is reached, increase in demand is halted and starts decreasing in certain sectors.
- b) Hence, there is a mismatch between Demand and Supply.
- c) Producers, holds back investment, cancellation of orders for equipment and all types of inputs including Labour.
- d) Chain of reactions in the Input Markets & the Producers of Capital Goods & Raw Materials in turn respond by cancelling their orders. This is the turning point.
- e) Decrease in Input Demand pulls Input Prices down, Incomes of Wage and Interest Earners decline resulting in decreased demand.
- f) Producers lower their prices to dispose off their inventories
- g) Business Firms become Pessimistic
- h) Decrease in Bank Credit, Investor Confidence, Stock Prices, Employment, Wage Rates, Investments, Production, Demand

4. Trough. Depression

- a) Lowest turning point i.e. 'Trough'.
- b) When the process of recession is complete, the severe contraction in the economic activities pushes the economy into the phase of Depression.
- c) Depression is the severe form of recession & is characterized by the extremely sluggish economic activities.
- d) Growth Rate becomes negative and the level of National Income and Expenditure declines rapidly.
- e) Demand decreases, Prices are at their lowest, Forcing Firms to shut down. There is more bankruptcy.
- f) Capital & Consumer Durable Goods Industry, suffer from excess capacity.
- g) Unemployment increases, Very little Disposable Income.
- h) There is fall in the Interest Rate, and people's demand for holding liquid money (i.e. in Cash) increases.
- i) Despite lower interest rates, the demand for credit declines due to Pessimism of Business,
- j) At the depth of depression, all the economic activities touch the bottom and the phase of Trough is reached.

Indicators

1. Leading Indicators

- a) It is a measurable economic factor that changes before the economy starts to follow a particular pattern or trend.
 - b) It represents Variables that change before the Real Output changes, i.e. prior to large economic adjustments.
- Examples:
- Changes in Stock Prices, Profit Margins and Profits, Indices like Housing, Interest Rates and Prices, etc. are generally seen as precursors of upturns or downturns.
 - Value of New Orders for Consumer Goods, Capital Goods, Building Permits for Private Houses, fraction of Companies reporting slower deliveries, Index of Consumer Confidence and Money Growth Rate are also used for tracking and forecasting the changes in Business Cycles.

2. Lagging Indicators

- a) It reflects the economy's historical performance and changes in these indicators are observable only after an economic trend or pattern has already occurred.
- b) It represents variables that change after the Real Output changes, means measures that change after an economy has entered a period of fluctuation.
- c) If Leading Indicators signal the onset of Business Cycles, Lagging Indicators confirm these trends.
- d) Examples: Unemployment, Corporate Profits, Labour Cost per unit of Output, Interest Rates, Consumer Price Index, Commercial Lending Activity, etc.

3. Coincident Indicators

- a) It coincides or occurs simultaneously with the business-cycle movements.
- b) It gives information about the rate of change of the expansion or contraction of an economy more or less at the same point of time when it happens.
- c) It coincides closely with changes in the cycle of economic activity, & describes the current state of the BC.
- d) Examples: Gross Domestic Product, Industrial Production, Inflation, Personal Income, Retail Sales and Financial Market Trends like Stock Market Prices, etc

External Causes of Business Cycle

Population	Natural Factors
Technology	Wars
Post War Construction	International Trade

Internal Causes of Business Cycle

Price Fluctuations	Innovations
Fluctuations in Effective Demand	Fluctuations in Investment
Fluctuations in Govt Spend	Macro-Economic Policy
Money Supply	Psychological Factors

Role of Business Cycle in Business Decision Making

Demand Impact	Policies
Expansion Decision	Production Aspects
Cyclical Business	Market Entry/Product Launch



National Income

National Income

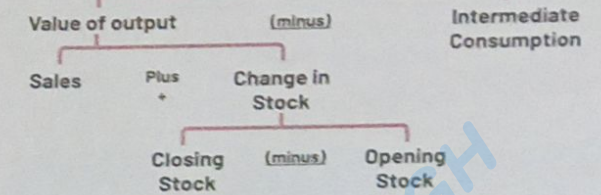
Domestic Income

Conversion Table

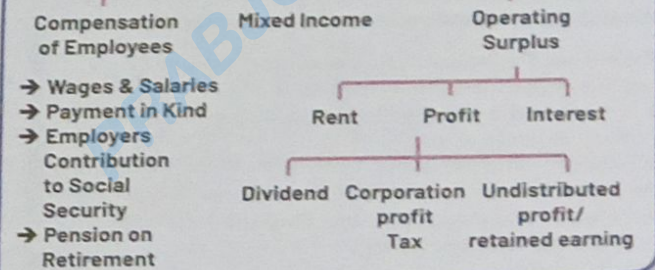
Particulars	Amount
NDPfc	
Factor Income from NDP Accruing to Private Sector	
Private Income	
Personal Income	
Personal Disposable Income	

National
Disposable =
Income

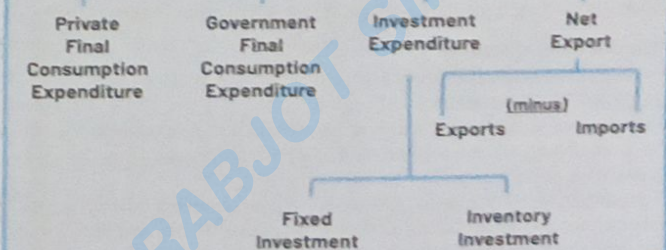
Value Added Method / Net Output Method/
Production Method / Industrial Origin Method
GDPmp



Income Method
NDPfc



Expenditure Method
GDPmp





Nominal Income

Real Income

It is the ratio of Nominal GDP (at Current Prices) to Real GDP (at Constant Prices)

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}}$$

Real Income to
Nominal Income

Nominal Income to
Real Income

Limitations and Challenges Of National Income Computation

1. Lack of an agreed definition of national income.
2. Accurate distinction between final goods and intermediate goods.
3. Issue of transfer payments.
4. Services of durable goods.
5. Difficulty of incorporating distribution of income.
6. Valuation of a new good at constant prices, and
7. Valuation of government services.

challenges relate to:

- (a) inadequacy of data and lack of reliability of available data,
- (b) presence of non-monetised sector,
- (c) production for self-consumption,
- (d) absence of recording of incomes due to illiteracy and ignorance,
- (e) lack of proper occupational classification, and
- (f) accurate estimation of consumption of fixed capital

The Circular Flow of Income

- (a) In the production phase, firms produce goods and services with the help of factor services.
- (b) In the income or distribution phase, the flow of factor incomes in the form of rent, wages, interest and profits from firms to the households occurs.
- (c) In the expenditure or disposition phase, the income received by different factors of production is spent on consumption goods and services and investment goods. This expenditure leads to further production of goods and services and sustains the circular flow.

The System Of Regional Accounts In India

- ✓ Regional accounts provide integrated database. Innumerable transactions taking place, regional economy help decision making at the regional level.
- ✓ At present states and union territories, compute state income estimates and district level estimates.
- ✓ State income or Net State Domestic Product (NSDP) measure monetary terms volume of all goods and services produced.
- ✓ Per Capita State Income is obtained by dividing the NSDP (State Income) by the mid year projected population of the state.
- ✓ State level estimates prepared by the State Income Units of the respective State Directorates of Economics and Statistics (DESs).
- ✓ Central Statistical Organisation assists the States, by rendering advice on conceptual and methodological problems.
- ✓ Activities such as railways, communications, banking and insurance and central government administration, that cut across state boundaries, their economic contribution cannot be assigned to any one state directly are known as the 'Supra-regional sectors of the economy.
- ✓ The estimates for these supra regional activities are compiled for the economy as a whole and allocated to the states on the basis of relevant indicators.

Usefulness and Significance Of National Income Estimates

1. businesses to forecast the future demand for their products.
2. Show the composition and structure of national income. In different sectors of the economy, the periodical variations, sectoral shifts in an economy over time, temporal and spatial comparisons. Government, sector-specific development targets.
3. Sectoral contribution to National Income Information is used by the government to decide various sector-specific development policies to increase growth rates.
4. National income statistics also provide a quantitative basis for macroeconomic modelling and analysis, for assessing and choosing economic policies and for objective statements as well as evaluation of governments' economic policies.
5. Income distribution among different categories of income earners, comparisons of structural statistics, such as ratios of investment, taxes, or government expenditures to GDP.
6. International comparisons, incomes and living standards, determining eligibility for loans, national income, useful to determine the share of nation's contributions to various international bodies.
7. Financial & monetary data with national income guide to make policies for growth and inflation.

GDP and Welfare

GDP measures exclude the following which are critical for the overall wellbeing (welfare) of citizens.

1. Income distributions and, therefore, GDP per capita is a completely inadequate measure of welfare. Countries may have significantly different income distributions and, consequently, different levels of overall well-being for the same level of per capita income.
2. Quality improvements in systems and processes due to technological & managerial innovations, reflect true growth in output.
3. Hidden Productions (illegal e.g. drugs, gambling etc.).
4. Nonmarket production (with a few exceptions) and Non-economic contributors to well-being for example health of a country's citizens, education levels, political participation, or other social and political factors that may significantly affect well-being levels.
5. The disutility of loss of leisure time.
6. Economic bads for example, crime, pollution, traffic congestion etc which make us worse off.
7. The volunteer work and services rendered without remuneration undertaken in the economy.
8. Many things that contribute to our economic welfare such as, leisure time, fairness, gender equality, security of community feeling etc.
9. Both positive and negative externalities which are external effects that do not form part of market transactions.
10. The distinction between production that makes us better off and production that only prevents us from becoming worse off, for e.g. defence expenditures such as on police.

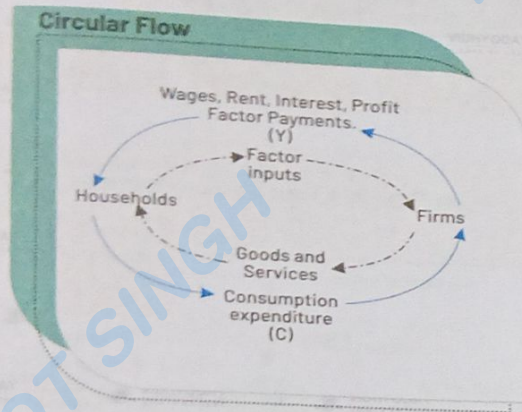
NATIONAL INCOME ACCOUNTING

- (i). National Income Accounting, pioneered by the Nobel prize-winning economists Simon Kuznets and Richard Stone.
- (ii). It is the system of macro-economic accounts from the stage of production of goods and services to the stage of their final disposal.
- (iii). It first define concepts and then construct measures.
- (iv). It helps of meet the needs of Government, private analysts, policy makers and decision takers.
- (v). The Central Statistical Organisation (CSO) in the Ministry of Statistics and Programme Implementation (MoSPI) is responsible for the compilation of National accounts statistics.
- (vi). At the State level, State Directorates of Economics and Statistics (DESs) have the responsibility of compiling their State Domestic Product and other aggregates.



THE KEYNESIAN THEORY OF DETERMINATION OF NATIONAL INCOME

Determination of Equilibrium level of Income in 2-Sector Economy



Factor Payments = Household Income = Household Expenditure =
Total Receipts of Firms = Value of Output.

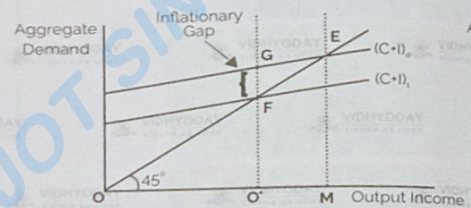
$$AD = AS$$

$$C + I = C + S$$

Or

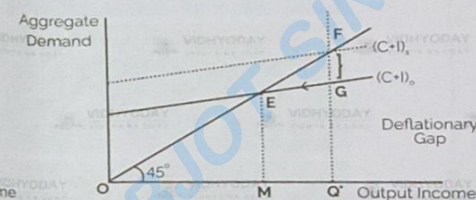
$$I = S$$

Inflationary Gap



$$\text{Inflationary Gap} = AD_2 - AD_1$$

Deflationary Gap



$$\text{Deflationary Gap} = AD_1 - AD_2$$

In Equilibrium

$$Y = C + I$$

Important Formula

$$AD = C + I$$

$$C = F(Y); C = a + by$$

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

$$AS = C + S = Y$$

$$S = y - c; S = -a + (1 - b)y$$

$$APS = \frac{s}{y}, MPS = \frac{\Delta S}{\Delta Y}$$

$$APC + APS = 1$$

$$MPC + MPS = 1$$

When the level of investment increases by an amount, say ΔI , the equilibrium level of income will increase by some multiple amounts, ΔY . The ratio of ΔY to ΔI is called the investment

multiplier, k .

$$k = \frac{\Delta Y}{\Delta I}$$

The size of the multiplier effect is given by $\Delta Y = K \Delta I$.

The process behind the multiplier can be compared to the 'ripple effect' of water.

The increase in equilibrium income per rupee increase in investment is:

$$k = \frac{\Delta Y}{\Delta I} = \frac{1}{1 - MPC} = \frac{1}{MPS}$$

Leakages :

1. Progressive rates of tax.
2. High liquidity preference and idle saving or holding of cash
3. Increased demand for consumer goods being met out of the existing stocks or through imports
4. Undistributed profits of corporations
5. Part of increment used for payment of debts
6. Purchase of government securities & shares from shareholders
7. In full employment additional investment will lead to inflation
8. & scarcity of goods /services.

Some Numericals:

1. Calculate marginal propensity to consume and marginal propensity to save from the following data about an economy which is in equilibrium:
National income = 2500,
Autonomous consumption expenditure = 300,
Investment expenditure = 100
Answer: $MPC = 0.84$ $MPS = 0.16$
2. An economy is in equilibrium. Calculate national income from the following:
Autonomous consumption = 100;
Marginal propensity to save = 0.2;
Investment expenditure = 200
Answer: $Y = 1500$
3. If saving function $S = 10 + 0.2Y$ and autonomous investment $I = 50$ Crores. Find out the equilibrium level of income.
Answer: $Y = 300$ CRORES
4. An increase in investment by 400 Crores leads to increase in national income by 1,600 Crores. Calculate k
Answer: $K = 4$
5. $C = 10 + 0.75Y_d$, $I = 50$, $G = T = 20$ where C is consumption, I is investment, Y_d is disposable income, G is government expenditure and T is tax.
(a) Find out the equilibrium level of national income.
Answer: 260
6. Consumption $C = 75 + 0.5(Y - T)$; Investment $I = 80$; Total tax $T = 25 + 0.1Y$; Government expenditure $G = 100$. calculate tax multipliers.
Answer: 1.82

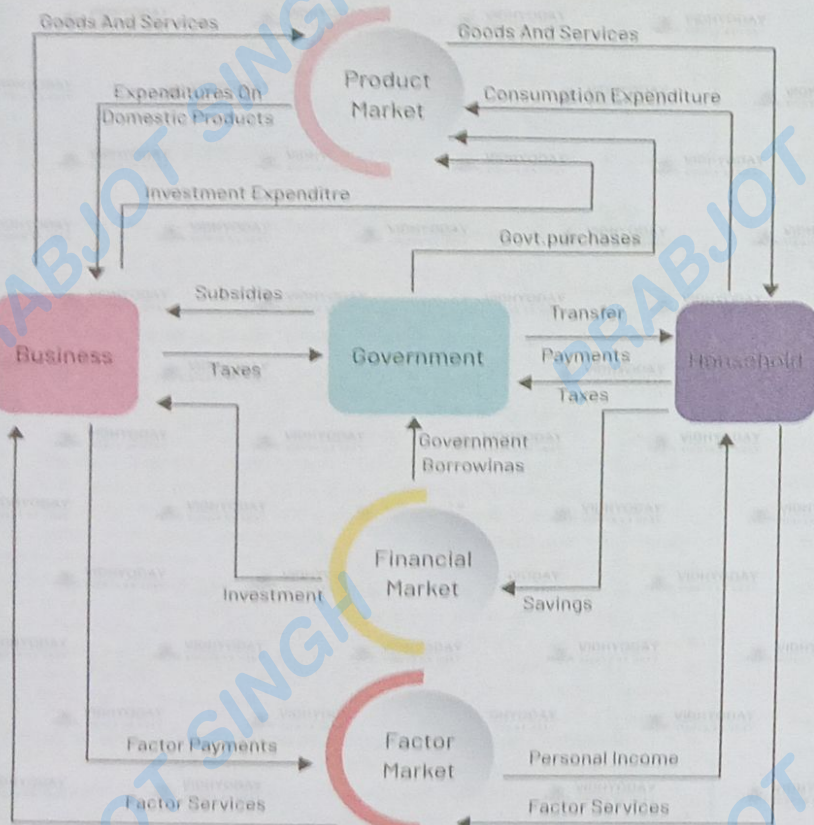


DETERMINATION OF EQUILIBRIUM LEVEL OF INCOME

3 - SECTOR ECONOMY

The Household Sector The Business Sector The Government Sector

Circular Flow In A Three Sector Economy



$$AD = C + I + G \quad AS = C + S + T$$

$$AD = Y = AS$$

In Equilibrium $Y = C + I + G$

Income Determination with Lump sum Tax

$$Y = a + b(y - T) + I + G$$

$$Y = \frac{1}{1-b} (a - bT + I + G)$$

Income Determination with Lump sum Tax and transfer payments.

$$Y = a + b(y - T + TR) + I + G$$

$$Y = \frac{1}{1-b} (a - bT + bTR + I + G)$$

Income Determination with tax as a function of income

$$\text{Tax Function } T = T + ty$$

$$Y = a + b(y - T) + I + G$$

$$Y = \frac{1}{1-b(1-t)} (a - bT + I + G)$$

Income Determination with Tax (as a Function of Income), Government Expenditure and Transfer Payments

$$C = a + b(y - T - ty + TR)$$

$$Y = \frac{1}{1-b(1-t)} (a - bT + bTR + I + G)$$

Income Determination with Import Function

$$M = \bar{M} + my$$

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

$$y = \frac{1}{1-b+m} (a - bT + I + G + X - \bar{M})$$

Income Determination with Tax Function, Import Function & TR =

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

$$C = a + b(y - T - ty + TR)$$

$$M = \bar{M} + my$$

$$Y = \frac{1}{1-b(1-t)+m} (a - bT + bTR + I + G + X - \bar{M})$$

The Tax Multiplier

$$\frac{1}{1-b(1-t)}$$

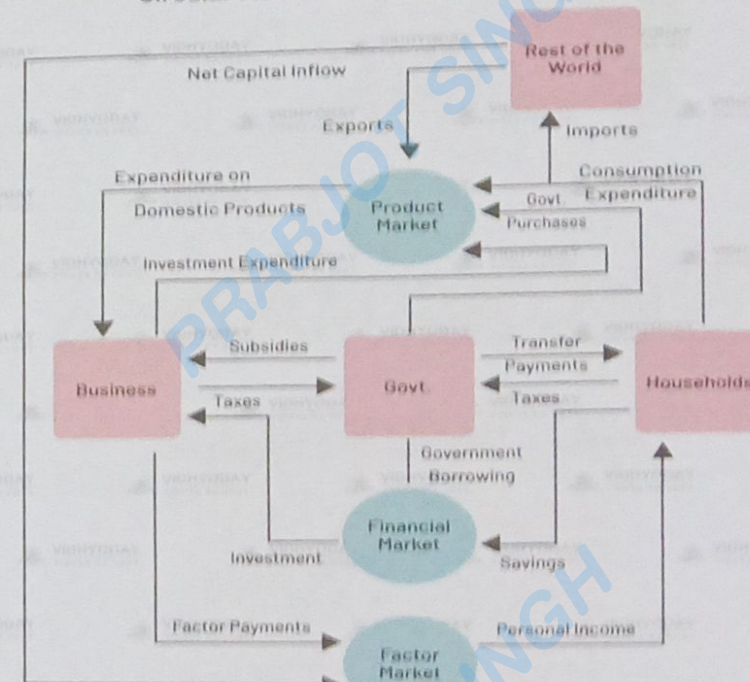
The Foreign Trade Multiplier

$$\frac{1}{1-b+m}$$

4 - SECTOR ECONOMY

The Household Sector The Business Sector The Government Sector The Foreign Sector

Circular Flow In A Four Sector Economy



$$AD = C + I + G + (X - M) \quad AS = C + S + T$$

$$AD = Y = AS$$

In Equilibrium $Y = C + I + G + X - M$



Fiscal Functions: An Overview, Centre And State Finance

Three Branch
Taxonomy

By

Richard
Musgrave

**Allocation
Function**

**Stabilization
Function**

**Resource
Allocation**
To ensure efficiency

**Income
Redistribution**
To ensure fairness

**Macroeconomic
Stabilization**
To ensure price stability

Micro Economic Function

Macro Economic Function

- Available factors of production are allocated.
- Determines how much of various goods & services actual produced

- Aims to eliminate macro economics fluctuations arising from sub optimal allocation.
- Concerned with performance of th aggregate economy

Objective

1. To achieve efficient allocation of scare resources.
2. Maximizing social welfare
3. To correct resource mis allocation
4. To ensures total resource are divided among various uses
5. To ensure proper resource allocation to merit goods beneficial to society.

Objective

- Full employment and price stability through stabilization policies

**Redistribution
Function**

- Redistribution of income so as to ensure equity & fairness to promote the well being of all section of people.
- Relates to manner in which effective demand over the economic goods.

Instrument

- **Direct Produce** : such as electricity & Public transport
- **Incentives & disincentives** : Such as subsidies for Merit goods & High Taxes on cigarettes
- **Legislation & Force** : Such as Ban on single use plastic
- **Competition Policies** : Such as competition Act petition to promote promo competition
- **Regulatory activities** : Such as Licensing, Min wages, Directives on location of Industries etc.
- **Legal & Administrative Framework**

Objective

1. To attain redistribution of income
2. To increase well being of members of society
3. To provide equality in Income wealth & opportunities
4. To provide security for people
5. To ensure minimal standard of living.

Instrument

- **Taxation Policies**: Progressive Tax on Rich subsidy to Poor Households
- **Proceeds from Progressive taxes used for financing** : Public services like subsidized food grain to BPL
- **Employment Reservation** : Min wages Min support Price to farmers
- **Unemployment benefits transfer payments** : To Dependent handicapped older citizens etc.
- **Regulation of manufacturing** : Sale of certain Products to ensure health well being
- **Monetary Aid & Aid in kind** : To BPL families
- **Special schemes for backward** : Regions and Vulnerable section of population

Stability Exist When

- Economy's output Matches its Production capacity
- Economy's Total spending Matches its Total output
- Economy's Labour resources are fully employed
- Inflation is Low and Stable

During Recession

Govt. cut down Tax increase Expenditure or Both so that Demand is boosted up.

During Inflation

Govt. Increase tax or cut Expenditure to control the Demand of Economy.

Expansionary Fiscal Policy

Contractionary Fiscal Policy

Stagflation

A state of affairs in which inflation & unemployment exist side by side

Contagion effect

Increased international interdependence financial integration cause forces instability to get easily transmitted from one countries



Centre And State Finance

Allocation of Power

Article 246

- **Union List** - Parliament
- **State List** - State legislative Assembly.
- **Concurrent List** - Both

Fiscal Federalism

Central

Central or Federal Govt. Should be responsible for functions related to Income Redistribution & Economic stabilization

State & Local

State & local Govt. should be responsible for functions related to Allocation of Resources

Allocation of Expenditure

Central

Central government is entrusted with the responsibilities of provision of nationally important areas like defense, foreign affairs, foreign trade and exchange management, money and banking, cross-state transport and communication, forex etc.

Borrowings

Article 292

Borrowings by Government of India

The centre may borrow within the limits fixed by parliament by law upon the security of the Consolidated Fund of India

Article 293

Borrowings by states

The state governments may borrow within the territory of India upon the security of the Consolidated Fund of the State

An independent judiciary is established to resolve dispute between central & state on division of power.

Allocation of Revenue

The Union Government

can levy taxes such as tax on income, other than agricultural income, customs and export duties, excise duties on certain goods, corporation tax, tax on capital value of assets excluding agricultural land, terminal taxes, security transaction tax, central GST, union excise duty, taxes other than stamp duties etc.

The State Government

can levy taxes on agricultural income, lands and buildings, mineral rights, electricity, vehicles, tolls, professions, collect land revenue and impose excise duties on certain items. The property of the union is exempt from state taxation.

State

State governments are entrusted with the responsibility of facilitating agriculture and industry, providing social sector service, such as health and education, police protection etc.

Local

Local self governments such as municipalities and panchayats are entrusted with the responsibility of providing public utility services such as water supply and sanitation, local roads, electricity etc.

Finance Commission

Horizontal Equity

Allocating among states their share of Central Revenue
Year 2021-26 @41% of NDP

Vertical Equity

Vertical Equity
Deciding about shares of all states in revenue collected by centre.
The criteria for distribution of central taxes among states for 2021-26 period

- Income Distance
- Area
- Population 2011
- Demographic Performance
- Forest and Ecology
- Tax & Fiscal efforts

Distribution Revenue

- 268** Duties levied by the union but collected and appropriated by the states.
- 269** Taxes levied and collected by the union but assigned to the states.
- 270** Taxes levied and collected by the union and distributed between the union and states as prescribed in clause 2 and the States.
- 271** Surcharge on certain duties and taxes for purposes of the union
- 275** Statutory Grants-in-aid from the union to certain states.
- 282** Grants for any public purpose
- 293** Loans for any public purpose

MONOPLY



GOVERNMENT INTERVENTION TO MINIMIZE MARKET POWER

Rules and Regulation such as: Competition Act, 2002 (as amended by the Competition (Amendment) Act, 2007)

Market Liberalisation eg: Tele-communication

Controls on Mergers & Acquisitions

Price capping & Price regulation

Profit or Rate of Return Regulation

Investigation on cartelization & Unfair practice like collusion & Predatory Pricing

Restriction on Monopsony power

Reduction in Import control

Nationalisation

Market Failure

Market failure is a situation in which the free market leads to misallocation of society's scarce resources in the sense that there is either overproduction or underproduction of particular goods and services leading to a less than optimal outcome.

Complete market failure
"Missing markets" and occurs when the market does not supply products at all despite the fact that such products and services are wanted by people. E.G. Pure public goods.

Partial market failure
occurs when the market does actually function, but it produces either the wrong quantity of a product or at the wrong price. This results in loss of economic welfare.

PRODUCTION EXTERNALITY

Initiated in Production Which
Impose External cost or confers External Benefits

Negative Externality

Production
When Factory discharge water waste into near by river & pollute the water causing less Catch for fishermen due to loss of fish Resources.

Consumption
When Factory discharge water waste into near by river pollute water causing health hazard for people use this in drinking.

Positive Externality

Production
When a Firm offer training to its employees for increasing their skills generate Positive Benefit on other firm when they hire such workers as they change their job.

Consumption
Playing the radio Loudly obstructing one from the study.

Negative Externality

Production
Excessive consumption of Alcohol causing impairment in efficiency for Work and Production

Consumption
When an individual raises an attractive garden and the Person walking by enjoy the garden.

Positive Externality

Production
consumption of service of health club by the employees of a firm would result in increased efficiency & Productivity in the firm.

Consumption
If People get immunized against contagious diseases, they confer social benefit as well by Preventing others from getting infected.

EXTERNALITIES

costs (negative externalities) or benefits (positive externalities) which are not reflected in free market prices

NEGATIVE EXTERNALITY

occur when the action of one party impose cost on another Party

POSITIVE EXTERNALITY

occur when the action of one party confer benefit on another Party

The market prices determined without incorporating externalities are not ideal as they do not reflect all social costs and benefits. Such prices send incorrect signals to producers and consumers and cause either overproduction or underproduction. This creates Market Failure

CONSUMPTIONS EXTERNALITY

Initiated in consumption Which
Impose External cost or confers External Benefits



GOVERNMENT INTERVENTION TO CORRECT NEGATIVE EXTERNALITY

Direct control

- i) Legislation,
- ii) Direct intervention like licensing, production quotas
- iii) Prohibition like smoking is completely banned in many public places.
- iv) Stringent rules like tobacco advertising, packaging and labeling etc.
- v) Laws like environment protection act, 1986.
- vi) Pollution-abatement mechanisms
- vii) Special bodies/ boards the ministry of environment & forest, the pollution control Board of India

Market Based Approaches

Pigouian tax

- These taxes by making the polluter pay, seek to internalize external costs into the price of a product or activity.
- Tax increases the private cost of production or consumption & would decrease the quantity demanded and therefore the output of the goods which creates negative externality.

Problems in administering an efficient pollution tax

- Difficult to determine & administer due to difficulty to discover the right level of taxation.
- Problems associated with inelastic nature of demand for the good.

Tradable Emissions Permits

- These are marketable licenses to emit limited quantities of pollutants.
- High polluters have to buy more permits.
- Low polluters receive extra revenue from selling their surplus permits.

Benefits & Problems in administration

- Administratively cheap and simple
- 'Cap' puts a clear upper limit
- Demand for the good is inelastic, insignificant effect

Private Cost

cost of production incurred by the firm such as RM, wages, etc. these cost appear in the Firm's Account

Social Cost

Total cost to the society on account of a production or consumption activity

$$\text{Social cost} = \text{Private cost} + \text{External cost}$$

Merit & Demerit Goods

Merit Goods

- Socially desirable
- Involve substantial positive externalities in their consumption
- Example: Education, health care welfare service, housing etc.

Demerit Goods

- Socially Undesirable
- Involve high negative externalities in their consumption.
- Example: Tobacco, Cigarettes, Alcohol, Drugs etc.

- **Regulation**
- determines how a private activity may be conducted. For example,
- Governments can prohibit some type of goods and activities, set standards, and issue mandates
- Government could also use legislation to enforce the consumption of a good which generates positive externalities.
- An additional option is to compel individuals to consume the good or service that generates the external benefit.
- ultimate encouragement to consume is to make the good completely free cold at the point of consumption.

- **complete Ban on Demerit goods.**
- Persuasion is mainly intended to be achieved by negative advertising campaigns
- **Legislation**
- prohibit the advertising or promotion of demerit goods in whatsoever manner.
- **fix a minimum price**
- below which the demerit good should not be exchanged.
- **strict regulation**
- of the market for the good may be put in place so as to limit access
- **spatial Restriction**
- **High Taxes**

Government Intervention To Correct Positive Externality

Corrective subsidy to the Producers
aimed at increasing the supply of Good

Corrective subsidy to the consumers
aimed at increasing the demand of good



3 Public Goods

Paul A. Samuelson

Public Vs Private Goods

- 'rivalrous'
- 'excludable'
- No free-rider problem.
- Divisibility
- I efficiently allocate resources
- examples are: food items, clothing.

- Non-Rivalrous
- Non-Excludable
- free-rider problem.
- characterized by indivisibility.
- NO efficiently allocate resources
- national defence, highways, public education,

- Producers are not motivated to produce a socially-optimal amount of products if they cannot charge a positive price for them or make profits from them. they will not be produced at all or will be grossly under-produced. Thus, it creates market failure.

Government intervention in case of Public Goods

Direct Provision of a public good by govt.

Excludable Public goods such as Parks, Universities, Museum etc. can be provided by govt. and financed through Entry Fees.

Govt. Grant License to Pvt. Firms to build a Public good facility and charge fee from the user of good.

Govt. regulates the level of entry fee chargeable from the Public & kept strict watch on Functioning of licensee to guarantee equitable distribution of welfare

Some Public goods are Provided by Voluntary Contributions and Private donations

4 Incomplete Information

- **Perfect information**
- implies that both buyers and sellers have complete information about anything that may influence their decision making. However, this assumption is not fully satisfied in real markets because of-

Complexity of Products & Services. eg: Cardiac surgery, Mutual fund etc.

Deliberate Mis- information eg: Highly Persuasive advertisements

Adverse Selection
due to asymmetry of information, the party which has more information may take advantage ignorance and this could potentially put the ignorant party at a loss.

Mandatory to have Accurate Labeling & Content disclosures ✓ by Producers. eg: Labeling on cigarette packets.

Mandatory Disclosure of Information eg: SEBI require accurate information to be provided to Prospective Buyers of New stocks.

- Regulation of advertising and setting of advertising standards to make advertising more responsible, informative and less persuasive.

Difficulty to getting correct information eg: condition of second hand car.

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

Moral Hazard
opportunism characterized by an informed person's taking advantage of a less-informed person's gl

Government intervention for correcting information failure

Public Dissemination of Information to Improve Knowledge eg: पढ़ेगा India तो बढ़ेगा India

5 Equitable Distribution

- Government is to redistribute incomes so that there is equity and fairness in the society.
- Government also intervenes to combat black economy and market distortions associated with a parallel black economy.
- Some common policy intervention includes.

- 1) Progressive income tax
- 2) Targeted budgetary allocation
- 3) Unemployment Compensation
- 4) Transfer payments
- 5) Subsidies
- 6) Social security schemes
- 7) Job reservations
- 8) Land reforms
- 9) Gender sensitive budgeting

6. Price Intervention Non Market Pricing

Price Floor
A minimum Price Buyers are required to Pay.

Price ceiling
A maximum price sellers are allowed to charge for a good or service

Buffer stock
It involves purchases from the market during good harvest and releasing stocks during periods when production is below average.

Government Failure

- where government intervention in the economy to correct a market failure
- creates inefficiency and leads to a misallocation of scarce resources occur very often.
- Government failure occurs when:

Intervention Is Ineffective
Causing Wastage Of
Resources Expended For
The Interventions

Intervention Produces
Fresh And More Serious
Problems.



The Process Of Budget Making

Step 1 - Preparation

Aug - Sept

Budget Division

↓
issue circular to all ministries, States, UTS etc to prepare their estimates of Receipts & Expenditures

Oct - Nov

Each Ministry share its Budget estimates with Budget Division. The expenditure Division of Finance ministry Demand Estimated Expenditures. It includes

Budget Estimates of Receipts & Expd. in respect of current & ensuring Financial year

Revised Estimates for the current year

Actual of the year. Preceding the current year.

Pre-budget consultation Rounds

A series of pre-budget consultations are done by The union finance minister with-

- The finance ministers and chief ministers of states,
- various stakeholders and interest groups including industry associations,
- representatives from agriculture and social welfare sectors,
- labour organisations,
- experts from NITI Aayog,
- economists etc.
- to elicit their suggestions on the proposed budget.
- Tentative Budget get approval from council of ministers &
- Printing of Budget documents has started.

Article 112 of the constitution

It provides that in respect of every financial year the 'president shall cause to be laid before both the houses of parliament a statement of the estimated receipts and expenditure of the government of India for that year, referred to as the "Annual Financial Statement".

Administrative

- wherein the Budget along with the accompanying documents are prepared in consultation with various stakeholders;

Legislative

- wherein Budget is passed by the parliament after discussions.

Step 2- Presentation

The Budget Speech

Part A of the budget speech gives an outline of the prevailing macro economic situation of the country and the budget estimates for the next financial year.

Part B of the budget speech details the progress the government has made on various developmental measures, the direction of future policies and the government's tax proposals for the upcoming financial year

The Budget Documents

AFS
(Annual Financial Statement)

Demands for Grants

Finance Bill

Statements under FRBM Act

Consolidated Fund of India

+ Contingency Fund of India

+ Public Account

Macro-economic Framework Statement

Medium Term Fiscal Policy Cum Uday Fiscal Policy Strategy Statement

Nine other documents which are in the nature of explanatory statements supporting the mandated documents are also presented along with the documents mentioned above.



Budget Discussion

"General discussion on Fiscal policy issues only Adjourned For a file Period of time

standing committees consider Various Demands for Grants. By Ministries.

Voting in Lok Sabha Accept or Refuse any Demand (No voting for Grants in Rajya sabha)

Cut Motion

Motion for Reduction Various demand for grants to Reduce the sum sought by Govt.

Guillotine

Outstanding Demand to the Vote of the House

After Discussion & Voting on Grants

Govt. introduce "Appropriation Bill" (Authority to Govt. to incur expd. from & out of the "consolidated fund of the India")

Finance Bill

Detailing of the Imposition, Abolition, Alteration or Regulation of Taxes proposed in Budget.

one the President gives Assent, Budget is considered as final & Published in Official Gazette of India.

The expenditures of certain categories such as-

- The emoluments and allowances of the president of india and his/her office, and
 - Emoluments of judges of supreme courts and
 - High ranking personnel of constitutional bodies across india
- are 'charged' on the consolidated fund of india and are not subject to the vote of parliament, are also indicated separately in the budget.

Parliament has to pass Finance bill within 75 days of its introduction.

From Year 2017-18 Railway Budget Merged with General Budget.

By convention in an election year, the budget may be presented twice.

First

first to secure a Vote on Account for a few months.

Second

Is followed by the AFS for that year or the full-fledged Budget.

Step 3- Execution

(1 April - 31 March)

Implementation of Budget for whole financial year.

Objectives

Efficiently Allocate limited resources to ensure maximum social welfare.

reallocate Resources in accordance with its declared priorities.

Redistrib ution of income & wealth.

Bring in stability, sustainable increase in real GDP & reduction in regional disparities.



TYPES OF BUDGET

Government Receipts

Capital Receipts

(Reduction in Asset or Increase Liability)

Increase in Liability

Market loans / Borrowings
Treasury Bill Borrowings
• Provident Fund
• External Debts etc.

Reduction in Asset

Recoveries of Loans
Disinvestment etc.

Revenue Receipts

(Neither Reduce Asset Nor create Liability)

Tax Revenue

• Income Tax
• Corporation Tax
• Wealth Tax
• Customs Duty
• GST etc.

Non - Tax Revenue

• Dividends
• Profits
• Interest etc.
• escheat

Sources of Revenue

Ministry of Finance
↓
Department of Revenue
↓
Two statutory Bodies.

CBDT

Central Board of Direct Taxes

Levy & collection of all Direct Taxes

CBIC

Central Board of Indirect Taxes & Custom

Levy & collection of GST, Customs & other indirect tax

Calculate

- Revenue Deficit
- Fiscal deficit
- Primary Deficit.

Particulars

	(in crore)
i) Revenue Expenditure	45000
ii) Borrowings	12000
iii) Revenue Receipts	35,000
iv) Interest Payment	30% of Revenue Deficit

Balanced Budget

$$R = E$$

Surplus

$$R > E$$

Unbalanced Budget

Deficit

$$R < E$$

Budget Deficit

$$BD = TE - TR$$

Revenue Deficit

$$RD = RE - RR$$

Fiscal Deficit

$$FD = TE - TR \text{ ex. borrowing}$$

Primary Deficit

$$PD = FD - I$$

Government Expenditure

Capital Expenditure

(Reduction in Liability or creation of Asset)

Reduction in Liability

Repayment of Borrowings

Creation of Asset

• Acq. of Land, Building
• Purchase of P & M
• Investment
• Loans & Advances

Revenue Expenditure

(Neither Reduce Liability Nor create Asset)

Expd. for Normal Functioning Like

• Interest Payment
• Grants given to states
• Salaries to Govt. employees etc.

In Expenditure budget, the Central government expenditure is classified into six broad categories as below:

Centre's Expenditure

Establishment Expd.

Central sector schemes
eg: Namami Gange, PMEGP, Khelo India.

On CPSES & autonomys Bodies
eg: Indian Institute of Agri Research, ICAIDH etc. ADHYA

Centre's Sponsored

Centrally sponsored scheme
↓
eg: PMAY SBM PMGSY

Finance Commission Transfer

Transfer to State



Public Expenditure Management

Meaning

Public expenditure management is the process that allows governments to be fiscally responsible.

Effects

Larger Deficits

High Tax

Lower Growth

Greater Debt Burden

Fewer Resources were Available for Alternate use

Responsibility of-

The Department of Expenditure of the Ministry of Finance is responsible for-

Implementation of recommendations of the Finance Commission & Central Pay Commission

Monitoring of audit comments/ observations

Preparation of central govt. Accounts.

Assists central Ministries/ Department in

Controlling the costs & prices of public services

Reviewing systems & procedures to optimize outcomes

PDMC

- The Public Debt Management Cell
- This was created in 2016 under the Department of Economic Affairs.
- The Medium Term Debt Management Strategy or MTDS 2021-24 is a framework to determine the appropriate composition of the debt portfolio.

RBI Retail Direct

- As part of continuing efforts to increase retail participation in G-sec, 'RBI Retail Direct' facility was announced on February 5, 2021:
- for improving the ease of access by retail investors
- to provide the facility to open their government securities account ('Retail Direct') with the Reserve Bank.

Public Debt Management

- Government debt from internal and external sources contracted in the Consolidated Fund of India is defined as Public Debt.
- It is the process of setting up and implementing the strategy for managing public debt in order to raise the required amount of funding at the desired risk and cost levels.

Low Cost of borrowing

Risk Mitigation

Market Development

Institutions responsible For Public Debt Management

RBI

Domestic Marketable debt eg: dated securities, treasury bills

Ministry of Finance (MOF)
External Debts

MOF, Budget Division & RBI
other Liabilities such as small savings, deposit, reserves etc.

IDMD

Internal Debt Management Department of Reserve Bank of India

Act as a Debt Manager for internal debt

Treasury bill issued to meet short term cash requirements of the Govt.

Debted securities issued to mobilise longer term resources to Finance Fiscal Deficit

FRBM

The Fiscal Responsibility & Budget Management

- It was passed in 2003 to provide a legislative framework for reduction of deficit and thereby debt of the central government to a sustainable level.
- The objectives of the act are:
 - Inter-generational equity in fiscal management,
 - long run macroeconomic stability,
 - better coordination between fiscal and monetary policy, and
 - transparency in fiscal operation of the government.

FISCAL POLICY

Objective

- Full employment
- Price stability
- Economic development
- Equitable distribution of income and wealth

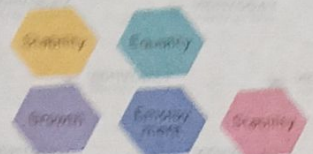
Fiscal policy is the deliberate policy of the government under which it uses the instruments of taxation, public expenditure and public borrowing to influence both

Features

- To influence pattern & level of economic activity
- Nature of demand side policy
- Does not assume full employment level
- Aimed at managing macro-economic aggregates.

For Developed Nations

For Developing Nations



Pattern of Economic Activity

Level Of Output & Employment

Instruments of fiscal policy

Expansionary Fiscal Policy

- When Used ?**
- During Contractionary phase of business cycle
 - Anticipation of business cycle contraction

- Applies to Scenario:**
- Recession situation
 - Growth Rate ↓ Aggregate Demand ↓

- Gaps to be addressed:**
- Economic Activity ↓
 - Real Income (GDP) ↓
 - Unemployment ↑
 - Aggregate Demand ↓
 - Lower quality of goods & services

Contractionary Fiscal Policy

- When Used ?**
- During Inflationary Phase
 - Anticipation of business cycle expansion

- Applies to Scenario:**
- Inflation Situation
 - Growth Rate ↑ Cause Inflation & asset bubbles

- Gaps to be addressed:**
- Aggregate Demand ↑
 - Consumption ↑ Investment ↑
 - Income with Household and firms ↑
 - Factor price ↑ Cost of goods ↑

Tools

- Taxes ↓
- Govt expd. ↑
- Combination of Both

Deficit Budget

Tools

- Taxes ↑
- Govt expd. ↓
- Combination of Both

Surplus Budget

Taxes

Determines size of disposable income with household and firms

Impact

- During Inflation:**
 - New taxes levied
 - Existing taxes ↑
 - To wipe off surplus purchasing power
 - Disposable income ↓
 - New investment ↓
- During Recession:**
 - Personal tax ↓ Income ↑
 - Consumption ↑
 - Corporate tax ↓ Profit ↑
 - Investment ↑
 - Encourage private Expenditure on consumption & investment

Government Expenditure

Expenditure towards Consumption, Investment and transfer payments, to generate income and also effect of multiplier

Impact

- During Inflation:**
 - Spending ↓ Employment in Government Institutions ↓
 - Labour Income ↓ Govt Purchase ↓
 - Help to eliminate excess demand
- During Recession:**
 - Spending ↑ Employment ↑
 - Labour Income ↑ Firms Income ↑
 - Public Investment by Government leads to willingness to invest by Businessmen.
 - ↑ Labour Income
 - ↑ Demand for Consumption and multiple effect.

Public Debt

Government Borrowings from its own people in the country as well as outside sources

Types

- Market loans**
 - T-Bills
 - Govt Securities
- Small savings**
 - Non Negotiables
 - Non transferable public borrowing
 - PPF, NSC, KUP

Impact

- During Inflation:**
 - Borrowing ↑ Rate of interest ↑
 - Wipe out excess purchasing power
 - Reduce demand pull inflation
- During Recession:**
 - Borrowing ↓ Repayment Public debt timely
 - Money in Economy ↑
 - Aggregate Demand ↑

Budget

Budget is a statement of revenue from taxes & other sources and expenditure made by Govt. in a year

Types

- Balanced
- Surplus
- Deficit

Impact

- During Inflation:**
 - Govt proposes surplus budget
 - Surplus budget ($R > E$)
 - Leakages exceed Injections
 - Income for Consumption & Investment ↓
- During Recession:**
 - Government proposes Deficit Budget
 - Deficit Budget ($R < E$)
 - Injection exceed leakage
 - Consumption & Investment ↑
 - Financed through past surplus, Govt borrowing & Monetization.



Fiscal policy for Reduction in Inequalities of Income & Wealth

It is used as an effective tool for re-distribution function, to handle inequality in opportunities, income and wealth

This is done to achieve equity and social justice

Government Spendings

Expenditure on re-distributing income from rich to the poorer section of the society, involve spending programmes:

- Strengthening of human capital for enhance skill development
- Infrastructure provision on selective basis
- Subsidized production of products of mass consumption.
- Social security schemes
- Free or subsidized medical care, housing, education, essential goods.
- Poverty Alleviation Programmes

Taxes

1) Direct Taxes:

- Progressive Direct tax
↑ Rate ↑ Income
- Regressive direct tax
↓ rate ↓ Income

2) Indirect Taxes:

- Luxuries goods & services taxed at higher rates
- Necessities goods & services taxed at lower rates or even exempt from tax

Limitation Of Fiscal Policy

Recognition Lag

Delay in recognize the need for a policy change.

Decision Lag

Delay in make & Decision on Most appropriate policy

Implementation Lag

Delay in bringing in Legislation & implement on account of Bureaucracy

Impact Lag

Outcomes Of A Policy Are Not Visible

2 Difficulties In Instantly Changing Governments' Spending And Taxation

3 Practically Difficult To Reduce Government Spending On Various Items Such As Defence

4 Public works cannot be adjusted easily along with movements of the trade cycle

5 Certain Fiscal Measures Will Cause Disincentives

6 Perpetual Burden On Even Future Generations

7 Crowding Out.

Concept of Crowding out

- When spending by government in an economy replace private spending, is crowded out. Crowding out effect is negative effect, when money crowded out from private to public sector.

Fiscal Policy for Long-run Economic Growth

Infrastructure Spending

Having Positive Supply Side Effects To Build A Modern Infrastructure

Education Health Nutrition Etc. Provide Economic Growth To Human Capital Formation

Taxes

Have Either Positive Or Negative Effect On Growth Depending On Whether It Encourages Or Discourages Saving And Investment

Well Design Tax Policy Reward Innovation & Entrepreneurship

Tax & Subsidies

Used To Correct Market Failure Resulting From Externalities

Increase In Environment Taxes

Increase The Cost Of Firms And Reduce The Output

Subsidies On Inputs And Support Prices

To Producers (farmers) Generate Higher Output.

Concept of Money Demand

Meaning

Anything That Can Serve As A

Medium of Exchange

People Can Buy Or Sell Anything With The Use Of Money

Measure of Value or Unit of Account

Provide A Common Base For Prices

Store of Value

People Can Save It and Use It Later Smoothing Their Purchase Over Time

Money

For Policy Purpose

Set Of Liquid Financial Asset, The Variation Of Stock Which Could Impact on Aggregate Economic Activity.

As Statistical Concept

It Includes Liquid Liabilities Of Particular Financial Intermediaries Or Other Issuers.

Demand For Money

Meaning

- 1 The demand for money is driven demand and is a decision about how much of one's given stock of wealth should be held in the form of money rather than as other assets such as bonds.
- 2 It play important role in the determination off interest, prices and income in an economy.

Factors

Factors	Nature of Relation	Relationship
Income and Expenditure	Directly	↑ Income and Expenditure ↑ Demand for Money
General Price Level	Directly	↑ Price Levels ↑ Holding for Money
Interest Rate	Inversely	↑ Interest Rate ↑ Opportunity Cost ↓ Demand for Money
Degree of Financial Innovation	Inversely	Internet Banking, ATM, UPI ↓ Holding Of Liquid Money

Characteristic

- 1 Generally Acceptable
- 2 Durable
- 3 Effortlessly Recognizable
- 4 Relatively Scarce
- 5 Portable
- 6 Uniform
- 7 Divisible
- 8 Difficult To Counterfeit

Fiat Money

A Govt. Issued Currency Which Is Not Backed By Physical Commodity (representative Money)
Fiat Money Is Materially Worthless.
Eg: currency Notes & Coins

HOW MONEY IS MEASURED

Money In An Economy Is Generally Measured Through "broad Money" Which Encompasses Everything That Provide

Store of Value

• People Can Save It And Use It Later-smoothing Their Purchase Over Time

Liquidity

• The Extent To Which Financial Assets Can Sold At Close To Full Market Value At Short Notice.

Narrow Money

Includes

Currency

Transferable Deposits

Broad Money

Includes

National Currencies

Transferable Deposits

Other Deposits

Securities Other Than Shares

Issued By Central Government

It Includes

Demand Deposits
Transferable By Check or Money Order

Travelers Checks
Used For Transactions With Residents

Saving Deposits
Non Transferable Saving Deposits

Term Deposits
Deposit For A Fixed Period of A Times

Bank Checks
Used As A Medium of Exchange

Deposits Otherwise Commonly Used To Make Payments
Some Foreign Currency Deposits

Repurchase Agreement
One Party Sell A Security & Agree To Buy Back At Fixed Price

Theories of Demand for Money

Theory of Money	Concept: People Hold money in cash for	Determination of Demand
1 Quantity theory of money	Transaction motive only	Supply of money
2 Neo classical approach	Transaction and precautionary motive	Real income
3 Keynesian theory of demand	Transaction, precautionary and speculative motive	Supply, Income and interest rate
4 Post Keynesian theories	Stock of value	Refer Book



Theories of Demand for Money

Classic Approach: The Quantity Theory of Money

- one of the oldest theory of economics, was first propounded by Irving Fisher of Yale University in his book "The Purchasing Power Of Money" published in 1911.
- There is a strong relationship between money and price level and the quantity of money is the main determinant of the price level and the value of money.
- Equation of exchange:

1. Fisher's Equation (with only Actual Money)

$$MV = PT$$

2. Fisher's Extended Equation (with Actual & Credit Money)

$$MV + MV' = PT$$

where, M = Total amount of money in circulation

M' = Total quantity of credit money

V = Transaction velocity of circulation

V' = Velocity of circulation of credit money

P = Average price level

T = Total number of transactions

Higher the number of transaction that people want, higher will be the demand for money (transaction motive).

NEO Classical approach: Cambridge approach

- In the early 1900S, Cambridge economist Alfred Marshall, A.C. Pígon, D.H. Robertson and John Maynard Keynes put forward a fundamentally different approach to quantity theory known neoclassical theory or cash balance approach.
- Money increase utility in the following two ways:

1. Enabling the possibility of split up of sale and purchase to two different point of time rather than being Simultaneous.
2. Being a hedge against uncertainty

Equation : $Md = kPY$

where, Md = demand of money

Y = real national income

P = average price level of currently produced goods and services

PY = nominal income

k = proportion of nominal income

Keynesian theory of demand for money

- It is also called a "liquidity preference theory"
- Liquidity Preference, a term that was coined by John Maynard Keynes in his Masterpiece.
- It denotes peoples desire to hold money rather than securities or long-term interest bearing investments.

People Hold money in cash for 3 motives

1. Transactions Motive

- The transaction motive for holding cash relates to the need current transaction for personal and business exchange.

- The aggregates transaction demand for money is a function of national income.

- $L_r = kY$, where L_r is transaction demand for money, k is the ratio of earnings which is kept for transaction purpose and Y is the earning.

2. Precautionary Motive

- It is to meet unforeseen and unpredictable contingencies involving money payments and depends on the size of the income, prevailing economic as well as political conditions and personal characteristics of the individual such as optimism/pessimism, farsightedness etc.

2. Speculative Motive

- It reflects people's desire to hold cash in order to be equipped to exploit any attractive investment opportunity requiring cash expenditure
- The speculative demand for money and interest are inversely related

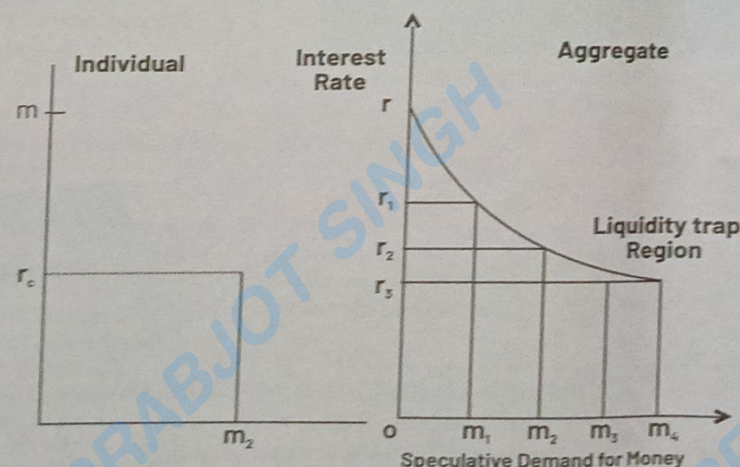
Individual Speculative Demand for Money:

When $r > r_c$, the entire wealth is held by the individual wealth holder in the form of Government Bonds.

When $r < r_c$, the individual will hold his entire wealth in the form of spectacle speculative cash balance.

Where, r = rate of interest

r_c = critical rate of interest



Aggregate Speculative Demand for money:

According to Keynes,

↑ Rate of interest

↓ Speculative demand for money

↓ Rate of interest

↑ Speculative demand for money.

Liquidity Trap Ineffective Monetary Policy

The Situation In Which Expansionary Monetary Policy Does Not Stimulate Economic Growth.

In This Situation Consumer & Investor Hoard Cash Rather Than Investing And Spending. Even If Interest Rate Are Low.

This Is Because of Fear of Adverse Event. Like Recession, War, Pandemic Etc.

Speculative Demand For Money Becomes Perfect Elastic With Respect To Interest Rate.

This Situation Is Called "Liquidity Trap".

Post Keynesian Developments in the Theory of Demands for Money

Inventory Approach

- Baumol and Tobin developed a deterministic theory of transaction demand for Real cash balance, in which money is essentially viewed as an inventory had for transaction purpose.
- People hold an Optimum combination of bond and cash balance i.e. an amount that minimize the opportunity cost.
- The optimal average money holding is:**
 - a positive function of income Y
 - a positive function of price level P
 - a positive function of transaction costs C
 - a negative function of nominal interest rate i.

Factor determining demand for money:

Factors	Nature of Relation
1 Income Levels	<ul style="list-style-type: none"> ↑ Income ↑ Expenditure ↑ Income ↑ Inventory Of Money Holdings
2 Other Assets	<ul style="list-style-type: none"> Money holding on average will be lower
3 No. of transfer	<ul style="list-style-type: none"> ↑ Number of Transfer ↓ Average Transaction Balance Holdings
4 Transaction Cost	<ul style="list-style-type: none"> It refers to fixed Cost Per Transfer
(5 Brokerage Fees)	<ul style="list-style-type: none"> ↑ Transaction Cost ↑ Marginal Cost ↓ Number of Such Transaction ↓ Average Bond Holding
6 Opportunity Cost	<ul style="list-style-type: none"> People hold cash which involves an opportunity cost in terms of Interest lost. Carrying Cost means Interests Foregone by Holding Money and not Bonds.

Baumol Has Proved That The Average Amount of Cash Withdrawal Which Minimises Cost Is Given By

$$C = \sqrt{\frac{2by}{R}}$$

- C Cash Withdrawal
- B Broker's Fees
- Y Income
- R Interest Rate

Fredman's Theory

- Milton Friedman 1956 extending Keynes speculative money demand within the framework of a set price Theory holds that demands for money is affected by the same factors as demand for any other asset, namely, permanent income and relative Returns on assets.
- Four determinants of the demand for money:

Factors	Nature of Relation
1. Permanent Income	<ul style="list-style-type: none"> It is the present expected value of all the future income nominal demand for money is a function of total wealth.
2. Price Level	<ul style="list-style-type: none"> ↑ Price level ↓ Demand for money
3. Opportunity Cost	<ul style="list-style-type: none"> ↓ Return on Bond and Stock ↓ Nominal Demand for Money
4. Inflation	<ul style="list-style-type: none"> +ve Inflation ↓ Real Value of Money ↑ Opportunity costs of Money holdings

The Demand for Money as Behaviour toward risk

- An investor is faced with a problem of what proportion of his portfolio of Financial assets he should keep in the form of ready money (which earns Fo interest) and in the form of investment (which earns interest) such as Bonds.
- People prefer a mixed or diversified portfolio of money, bonds and Shares, with each person opting for a little different balance Between risk and return.

Factors

- Risk and uncertainty involved in buying bonds
- Interest Rate

Nature of Relation

- Portfolio (all bonds) ↑ Return
- An risk-averse investor will exercise trade off and sacrifice to some extant higher return for reduction in Risk, because money is safe asset.
- Amount of money held as an asset depend on the level of interest rate
- ↑ Interest rate ↑ Payment Received for undertaking risk
- If payment is greater than before, investor is willing to put a greater proportion of the portfolio into the risk asset and thus smaller proportion into money.

Tobin,s Liquidity Preference Function

Liquidity Preference Function Showing The Relationship Between Rate Of Interest And Demand For Money. The Downward Sloping Liquidity Preference Function Curve Shows That The Asset Demand Fo Money In The Portfolio Increases As The Rate Of Interest On Bonds Falls.

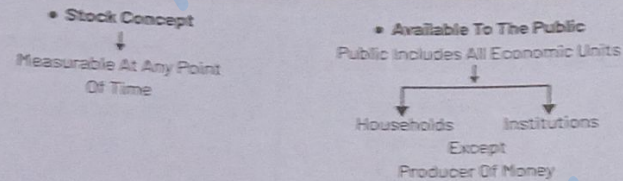


Supply of Money

Meaning

Money supply denote the total quantity of money available to the people in an economy. The quantity of money at any point of time is a measurable concept.

Key Observation



In Money Supply Inter Bank Deposits And Money Held By Govt. & Banking System Not Included

Rationale of Measuring Money Supply

- For Analysis of Monetary Developments
- Provide Framework To Make Monetary Policy

Sources of Money Supply

High-Powered Money/ Fiat Money

- Central Bank is primary source of money supply in all countries.
- Currency issued by the central bank is Fiat money by adopting minimum Reserve System.
- Quantity of Fiat money depends on the decision of Central Bank based on the authority conferred on it.

Credit Money

- Money supply in the Economy is also determined by the extent of credit created by commercial Banks.
- Banks create money supply through borrowing and lending.
- Variables initiated by Central Bank to control the total money supply in the economy.

Reserve Money

Reserve money = Currency in Circulation + Bankers deposit with the RBI + other Deposits with the RBI

Evolution

- Commodity Money
- Metallic Currency
- Paper Currency
- Digital Currency
- RBI's 2018 order barred banks & FIS from dealing with virtual crypto currencies.
- CBDC

Central Bank Digital Currencies Digital currency of India (e₹) Legal Tender issued by Central bank in Digital Form.

Measurement of Money Supply in India

Monetary Aggregates

- M1 Currency notes and coins with the people + Net demand deposits of banks (CASA Deposits) + other deposit of RBI.
- M2 M1 + Saving deposit with post office saving banks.
- M3 M1 + Net time deposit with the banking system.
- M4 M3 + Total Deposits with Post office Savings Banks (Excluding NSCs)

Note : M1 is called narrow money, while M4 is called broad money.

Currency With Public

=

Currency In Circulation

-

Cash In Hand With Banks

Questions

- Calculate M1.
Currency with Public = 9,000 cr.
Demand Deposits with Banks = 10,000 cr.
Time Deposits with Banks = 20,000 cr.
Other Deposits with RBI = 80,000 cr.
Saving Deposits of Post office saving banks = 6000 cr.
Ans. 99000 cr.
- If Required Reserve Ratio is 12-5% and Initial Deposit is ₹ 1,00,000. calculate credit money created by banking system.
Ans. ₹ 8,00,000
- Calculate currency with Public. (Data in cr.)
Notes in circulation = 25,00,000
circulation of coins = 26,000
Cash in hand with Banks = 98000
Ans. 24,28,000 Cr.
- If $r = 10\%$, currency in circulation is ₹ 600 billion, demand deposits are ₹ 1000 billion and Excess Reserve ₹ 1 billion, find money multiplies.
Ans. 2.28

Determinants of money supply

Central Bank Behaviour

Money supply is determined exogenously by the central bank.

People Behaviour

Money supply is determined exogenously by changes in economic activities which affect people's desire to hold currency relative to deposits, rate of interest etc.

Combined Behaviour

Supply of nominal money in the economy is determined by the joint behaviour of Central Bank, commercial bank and public.

Money multiplier approach to supply of money

This Approach focuses on the relation between the money stock and the Money Supply in terms of the Monetary Base or High Powered Money and the behaviour of Central Bank, Commercial Bank and Public.

Factors	Denoted as	Description
1. Stock of High Powered Money	H	<ul style="list-style-type: none"> H means behaviour of the central bank. Control over issue of currency is reflected. Other variables unchanged total supply of nominal money will differ directly with supply of nominal high powered Money.
2. Ratio of Reserves to deposit or Reserve Ratio	$r = \frac{R}{D}$	<ul style="list-style-type: none"> RDR represents behaviour of the commercial bank. It is reflected in the ratio of their cash reserves to deposits known as reserve ratio.
3. Ratio of currency to deposits or Currency Ratio	$c = \frac{C}{D}$	<ul style="list-style-type: none"> CDR represents behaviour of the general Public. Influence nominal demand deposits of commercial banks in respect of money holding as cash designated as currency ratio.

Money Multiplier

A one-rupee increase in Monetary base cause Increase in Money Supply By More than one rupee. this increase in Money Supply is the Money Multiplier.

$$M = m \times MB$$

$$m = \frac{M}{MB}$$

Money Supply
Monetary Base

Impact of RDR on Money Supply and Money Multiplier

The Behaviour Of Central Bank $M \propto H$

M is Directly Proportionate with H

As $H \uparrow M \uparrow$

$H \downarrow M \downarrow$

(A) The Behaviour of Commercial Banks

$$M \propto \frac{1}{r} \quad \text{Here } r = \frac{\text{Reserve}}{\text{Deposits}}$$

Smaller The Reserve Ratio Larger Will Be The Money Multiplier.

As $r \uparrow M \downarrow$

$r \downarrow M \uparrow$

Because \rightarrow As $r \propto \text{Reserve}$
Reserve $\uparrow r \uparrow$
Reserve $\downarrow r \downarrow$

(B) Practically commercial banks keeps Excess Reserve (ER)

$$ER = \text{Total Reserve} - \text{Required Reserve}$$

$$M \propto \frac{1}{e} \quad \text{Here } e = \frac{ER}{D}$$

"e" depends upon

Market Interest

$$e \propto \frac{1}{i}$$

$i \uparrow e \downarrow$
 $i \downarrow e \uparrow$

Expected Deposit Outflows

$e \propto \text{Exp. Outflow}$

Exp. outflow $\uparrow e \uparrow$
Exp. outflow $\downarrow e \downarrow$

(A) The Behaviour of The Public

$$M \propto \frac{1}{c} \quad \text{Here } c = \frac{C}{D}$$

Money supply is Negatively related to c

As $C \uparrow M \downarrow$
 $C \downarrow M \uparrow$

(B) The Behaviour of The Public

$$\frac{TD}{DD} = \frac{\text{Time Deposits}}{\text{Demand Deposits}}$$

$\frac{TD}{DD} \uparrow M \uparrow$

$\frac{TD}{DD} \downarrow M \downarrow$

Importance

- Degree of adoption of Banking habits by the people
- People's preference for liquidity
- GDP growth
- Degree of financial sophistication
- Driven by a temporary factors

Money Multiplier

$$M = \frac{1+c}{r+c}$$

$$M = \frac{1+c}{r+e+c}$$

- IS
- $m = 0$?
- It may happen When interest rates are too low & banks prefer to hold new injected money as Excess Reserve.

Credit Multiplier

- It also referred to as the deposits multiplier or the deposit expansion multiplier.
- Describes the amount of additional money created by commercial bank through the process of lending the available money it has in excess of the central bank reserve requirements.
- Credit Multiplier = $\frac{1}{\text{Required Reserve Ratio}}$

Impact of Government Expenditure

- Central and state government cash balances fall short of minimum requirement, eligible to avail facility ways and means advance or overdraft facility.
- Government Expenditure \rightarrow debit government balance with RBI \rightarrow credit reserve account with commercial bank
- Generation of excess reserve.
- Excess reserves creates \rightarrow \uparrow money supply through money multiplier process.

Monetary Policy

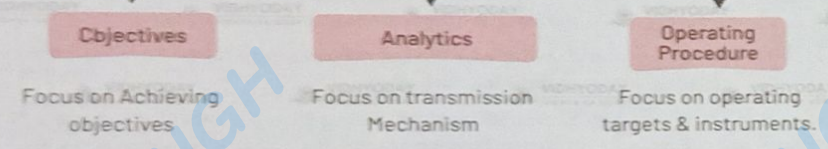
Monetary Policy

= Action Programme of the Monetary Authorities

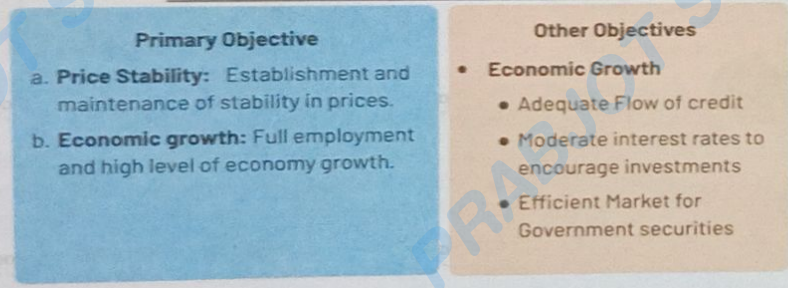
To Control and Regulate Demand and Supply of money with the public and the flow of credit

For achieving predetermined macro-economics goals

Monetary Policy Framework



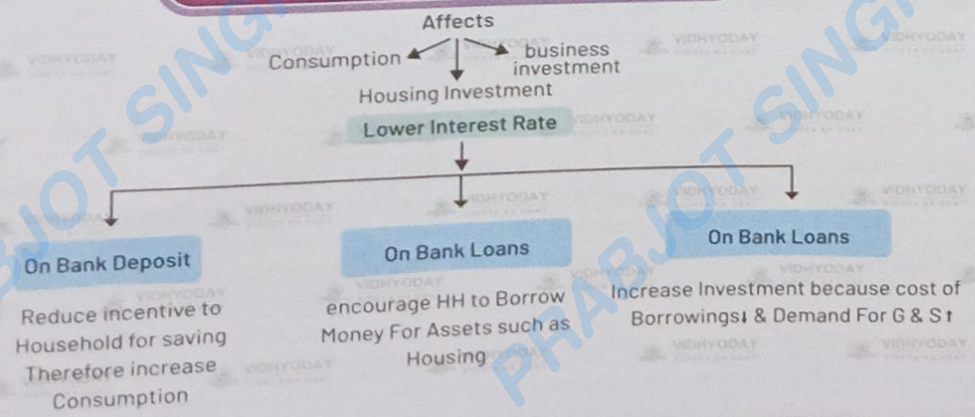
Objective of Monetary Policy



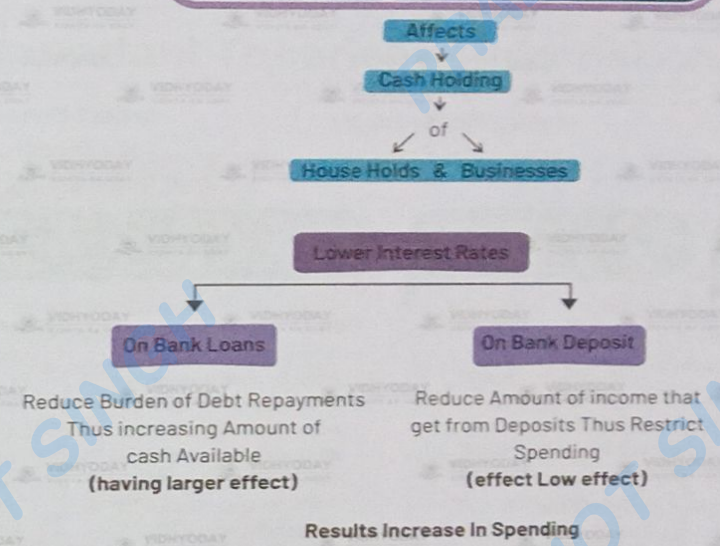
Analytics of monetary policy

Process for channel through which the change of monetary aggregates affects the level of products and price is called "Monetary Transmission Mechanism"

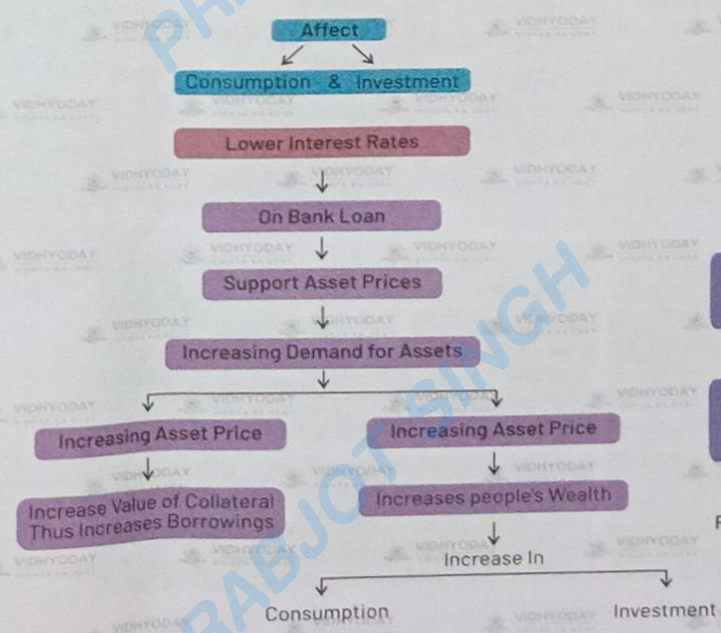
SAVING & INVESTMENT CHANNEL



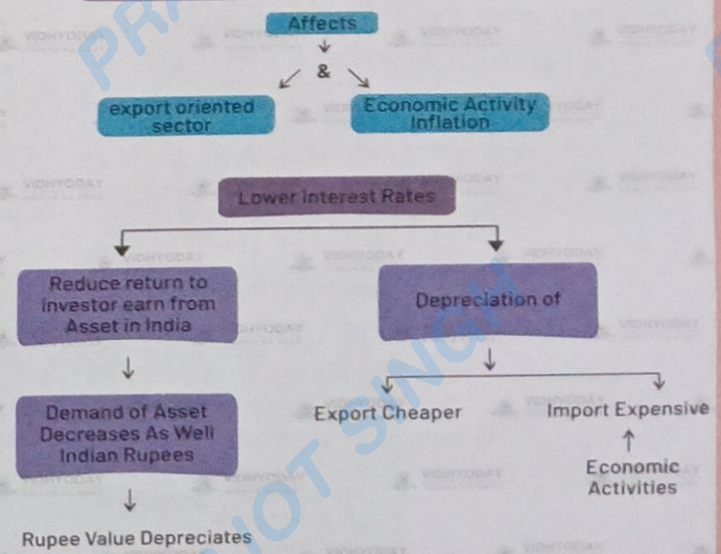
CASH FLOW CHANNEL



Asset Price & Wealth Channel



EXCHANGE RATE CHANNEL





OPERATING PROCEDURES & INSTRUMENTS

Tools of Monetary Policy

Quantitative tools

Impact Money supply
in the entire Economy.

Qualitative tools

Impact Money supply
of a specific sector
of the Economy.

Cash Reserve Ratio (CRR)

1. Scheduled Commercial Banks should maintain a fraction of total net demand and time liabilities as cash deposit with RBI.
2. a. Quantitative tool in liquid management.
b. \uparrow CRR \rightarrow \downarrow Liquidity of Banks
c. Slow Down \rightarrow RBI \downarrow CRR \rightarrow \uparrow money supply
d. High Inflation \rightarrow RBI \downarrow CRR \rightarrow \downarrow money supply
3. CRR is 4%

Statutory Liquidity Ratio (SLR)

1. Scheduled commercial banks should maintain stipulated percentage of their total/Net DTL in cash, or gold or prescribed investment.
2. a. Tool for controlling liquidity in the domestic market.
b. Change in SLR influence availability of resources for lending.
c. High Liquidity \rightarrow \uparrow SLR \rightarrow \uparrow Bank Assets \rightarrow \downarrow credit creations.
d. Economic slowdown \rightarrow \downarrow SLR \rightarrow \uparrow credit creation
3. SLR is 18%

Liquidity Adjustment Facility (LAF)

Repo

1. Instrument for borrowing funds by selling securities with an agreement to repurchase them on a mutually agreed future dates at an agreed price which include interest for funds borrowed.
2. It takes place when other banks borrow money from RBI.
3. Inject liquidity into the system.
4. Interest rate charged by RBI.
5. Repo rate higher than reverse repo rate for stop
6. Repo rate is 6.25 %

Reverse Repo

1. Instrument for lending funds by purchasing securities with an agreement to resell them on a mutually agreed future dates at an agreed price which include interest for the fund lent.
2. It take place when RBI borrows money from banks.
3. Absorbs the liquidity in the system.
4. Interest rate paid by RBI.
5. Reverse repo rate in less than repo rate.
6. Reverse repo rate is 6%.

Bank Rate

1. Rate at which RBI lends long term funds to banks
2. is used to prescribe penalty to the bank
3. If it does not maintain the prescribed SLR or CRR

Marginal Standing Facility (MSF)

1. Commercial Banks
2. Can borrow additional amount of overnight money from RBI over and above LAF window.
3. MSF rate being a penal rate.
4. a maximum of 1% of SLR securities.
5. MSF Rate = Repo Rate + 1%

Open Market Operations

1. Market operation conducted by RBI by way of sale/ purchase of government securities to/from the market.
2. During excess liquidity conditions, RBI sells securities their by sucking out the liquidity.
3. During tight liquidity condition, it buy securities in that way releasing liquidity.

Marginal Requirements

A certain margin against collateral, impacts the borrowing habit of customers. When the margin requirements are raised customers will be able to borrow less.

Moral Suasion

RBI convinces banks to keep money in government securities, rather than certain sectors.

Monetary Policy Framework Agreement

- a. It is an agreement reached between the Government of India and RBI on the **Maximum Targeting Rate** that RBI should target to achieve price stability.
- b. The RBI act provides for statutory basis for implementation of the flexible inflation Targeting Framework.
- c. Announcement of an official target range for inflation is known as **Inflation Targeting**.
- d. Earlier, RBI was following a 'Multiple Indicator' approach Now Inflation Targeting target the primary objective of its policy.

Inflation Target

- a. Inflation target is to be set by every 5 years.
- b. Central government has notified 4% consumer price index CPI inflation as the target for the period from 05.08.2016 to 31.03.2021 [Upper tolerance limit - 6% lower tolerance limit - 2%]
- c. Following factors are notified by the central government as constituting failure to achieve inflation target
 - Average inflation > upper tolerance level of inflation target for any three consecutive quarters or
 - Average inflation < lower tolerance level for any 3 consecutive quarters.

Theory of International Trade

International trade is the exchange of goods and services as well as resources between countries and involves greater complexity compared to internal trade.

Advantages

- 1 Cost-Efficiency
- 2 Economics Of Scale
- 3 Competition
- 4 Resource Usage
- 5 Better Standard
- 6 Price Stability
- 7 Innovation
- 8 Employment
- 9 Labour and Environmental Standard
- 10 Development and Strengthening Bond Between Nation

Disadvantages

- 1 Negative labour market outcomes
- 2 Economic exploitation
- 3 Exhaustion of natural resources
- 4 Result in consumerism
- 5 Dependence
- 6 Inflation
- 7 Disregard for Welfare of people
- 8 Quick transmission of trade cycles
- 9 Rivalries
- 10 Global warming

Theory of Comparative Cost

- Based on labour theory of value
- Domestic trade
- Comparative cost advantage of nations
- Labour is only factor of production
- Comparative cost of goods only
- Normative

Modern Theory

- Based on factor endowment of nation
- Inter regional trade
- Comparative factor endowment of nation
- Labour and capital treated as factor of production
- Cost of goods and also factor price
- Constitutes positive economics

5. New Trade Theory

- Economic theory that was developed in 1970 as a way to understand international trade patterns.
- New trade theory is the latest entrant to explain the rising proportion of World Trade in the developed world and bigger developing economics (such as BRICS) which trade in similar products
- These countries constitute more than 50% of World Trade.
- According to this theory, two key concept: Economics of scale and network effects, affects international trade in a major way.

Important Theories of International Trade

1. Mercantilist Approach

- Maximizing export
- Bring more precise metals
- Minimising import
- State imposing very high tariff on foreign goods
- Zero Sum game, one country's gain is the other countries loss

3. Theory of Comparative Advantage

- Giving by David Ricardo
- Nation should specialize in the production and export of commodity
- Where its absolute this advantage is smaller.
- Import the commodity in which its absolute disadvantage is Greater.
- Explain how international trade can create value for both parties.
- Net benefits of such an outcome are called gains from trade.

2. Theory of Absolute Advantage

- Giving by Adam Smith
- Supported absolute cost advantage
- Countries specialise in production and export of commodity which has absolute cost benefit.
- Absolute advantage is ability of party to produce more using same amount of resources.
- Based on principle of division of labour

4. Heckscher-Ohlin theory

- Also referred as factor endowment theory or modern theory.
- Comparative advantage in cost of production is explained exclusively by differences in factor endowment.
- Capital abundant country produce and export capital intensive goods.
- Labour abundant country produce and export labour intensive goods.
- Country tends to specialise in export of commodity which require intensive use.
- Trade in goods is perfect substitute.
- Foreign trade eliminate for factor priced differentials.



Instruments of Trade Policy

- All instruments that government may use to promote or restrict imports and export.
- Price Related Measures → Tariffs, Non Price Related Measures → Non Tariffs Measures

Tariffs Measures

- Also known as custom duty as a financial charge in the form of tax,
- Imposed at the border on goods going from one custom territory to another
- Most visible and universally used trade measures

Forms of Import Tariff

1. Specific Tariff :

- fixed amount of money per physical unit of good imported
- calculated on the basis of unit of measures as weight, volume.
- Its protective value varies inversely with the price of import

2. Ad valorem Tariff

- Constant percentage of the monetary value of one unit of the imported goods
- Protective value of tariff on home products for stop
- Deliberately undervalue the goods price on invoices and bill of lading to reduce tax Burden

Other Variations of Tariffs

- Mixed Tariff
- Compound Tariff Or Duty
- Technical /other Tariff
- Tariff Rate Quotas
- Most Forward Nation Tariff
- Variable Tariff
- Preferential Tariff
- Bound Tariff
- Applied Tariff
- Escalated Tariff
- Prohibitive Tariff
- Import Subsidies
- Tariff As a Response

a. Anti Dumping Duties

- Dumping occurs when manufacturers sell goods in a foreign country below the sales price in their domestic market or below their full average cost of the product.
- It measures are additional import duties so as the offset of foreign form and their prize advantage

b. Countervailing Duties

- These are tariffs to offset the artificially low prices charged by exporters who enjoy export subsidies and Tax concessions offered by the governments in their home country.

Effects of tariff

- Increase Government Revenues
- Create obstacles to trade
- Reduce the Prospect Of Market Access
- Make Imported Goods More Expensive
- Increase Consumption Of Domestic Goods
- Protect Domestic Industries

Non tariff measures

- Potentially have an economic effect on international trade in goods changing quantities traded or price or both
- Alter the condition of international trade

Category of Non Tariff Measures

Sanitary and Phytosanitary SPS measures

- Protect human, animal or plant life from risk arising from additives, Pests, contaminants toxins or disease causing organism and the protect biodiversity.
- Ban or prohibition of import of certain goods , all measures governing quality and hygienic requirement, production process and associated compliance assessment.
- For example: prohibition of import of poultry from countries affection by Avian flu etc.

Technical barriers to trade TBT:

- Both food and non food traded product refer to mandatory standards and technical regulations.
- It define the specific characteristic that a product should have such as its size, shape, design, labeling marking / packaging, functionally or performance and production methods, excluding measures covered by the SPS agreements
- Comoulsory quality, quantity and price control of goods before shipment from the exporting country.
- Some example of TBT are: Food laws, quality standards, industrial standards, organic certification, eco-labeling, marketing and label requirements.

1 Technical Measures

2 Non Technical Measures

- It relate to trade requirement; for example: shipping requirements, custom formalities, trade rules, taxation policies etc.

Type of NTMs

Export Quotas

- Quto on export of product from a country
- Imposed when excess export will affect interest of domestic consumers

Import Quotas

- Control as quantity of goods to be allowed into the country in a year
- Binding quota and non binding quota
- Absolute Quotas and Tariff Rate Quota
- Unilateral and Bilateral Quota



Export Related Measures

3

Non-automatic Licensing and Prohibitions

- ✓ Prospective Importers are required to apply and obtain a licence from Licensing Authorities.
- ✓ Licensing seeks to limit the quantities of goods to be imported.

4

Price Control Measures

- ✓ To control or increase the price of imported goods
- ✓ Also referred to as "Para-Tariff Measures"
- ✓ Increase the cost of imports

5

Distribution Restrictions

- ✓ Restrictions that imported goods may be sold only –
 - (a) In specified areas of country
 - (b) All the way through certified distributors
 - (c) For specified purposes

6

Restriction on Post-sales Services

- ✓ Relating to imported goods
- ✓ E.g. Installation, Maintenance

7

Financial Measures

- ✓ To increase import costs, through measures Advance Payment Requirements, Foreign Exchange Controls

8

Government Procurement Policies

- ✓ Directive that the whole or specified portion of Government Purchases should be from Domestic Firms, even if Foreign Suppliers charge a lower price.

9

Measures Affecting Competition

- ✓ Grant exclusive privileges and special preferences to a few Operators / Agencies.
- ✓ Government imposed Special Import Channels

10

Trade Related Investment Measures

- ✓ Atleast certain % of the Components should be sourced domestically.
- ✓ Restrictions on the level of imported components.
- ✓ Quantity of Imports is restricted to the Quantity of Exports by that Firm

11

Safeguard Measures

- ✓ Initiated by countries to restrict imports of a product temporarily if its domestic industry is injured

12

Administrative Procedures

- ✓ Procedural Obstacles which enhance the transaction costs thereby discouraging imports, e.g. Licences, Administrative Delay, Permission for Foreign Exchange Remittance, etc.

13

Rules of origin

- ✓ These include specifying conditions as to "Rules of Origin" Certificate, e.g. the country / source from which the item is imported. The cost of obtaining this Certificate will discourage imports.

14

Embargo

- ✓ An absolute prohibition on the purchase and import of goods from the sanctioned/embargoed/boycotted country.

1. Ban on exports

- ✓ Certain items are specifically banned from export at all times.
- ✓ During periods of shortages, specified products are banned for home consumption use.

2. Export Taxes

- ✓ Collected on exported goods
- ✓ Raise the price of the good and to decrease exports.
- ✓ Reduces exports → increases domestic supply → reduces domestic prices → higher domestic consumption.

3. Export Subsidies and Incentives

- ✓ To promote exports and to make product competitive in global market
- ✓ Direct tax concessions may also granted to exporters
- ✓ Government provide financial contribution to domestic producers in the form of grants, loans.
- ✓ Compensatory measures for exporters like export subsidies, duty drawback, duty-free access to imported intermediates etc

4. Voluntary Export Restraints

- ✓ A VER is a "voluntary" agreement between two Countries, that the Exporting Country will restrict the volume of exports of the specified goods.
- ✓ These agreements are only supposedly voluntary. They are generally agreed to under threat of stiffer quotas and/or tariffs, or retaliatory measures being applied to the Exporting Country by the Importing Country.
- ✓ VERs may sometimes be called as Orderly Marketing Agreements (OMA).

International trade negotiations, especially the ones aimed at formulation of international trade rules, are complex interactive processes engaged in by countries having competing objectives.

Major Types of Agreements in International Trade

1. Unilateral trade agreements

- Importing country offers trade incentives
- to encourage the exporting country
- to engage in international economic activities

2. Bilateral Agreements

- Agreements are between on two nations at a time
- Agreements give those 2 Nations favoured trading status between each other

3. Multilateral Agreements

- Trade Agreement is between many nations at one time
- Very complicated to negotiate, but are very powerful once all parties sign the agreement

4. Regional Preferential Trade Agreements

- Group of countries reduce trade barriers on a reciprocal
- Preferential basis for only the members of the group

5. Trading Bloc

- Group of countries that have a free trade agreement between themselves
- apply a common External Tariff to other Countries

6. Free-trade Area

- Permanent arrangement between neighbouring countries
- complete removal of tariffs on goods traded among the members

7. Customs Union

- Removes barriers to trade in goods and services among themselves
- Maintain a Common External Tariff on trade with Countries outside

8. Common Market

- Resembles a Customs Union
- Removes restrictions on the movement of Factors of Production
- Member Countries attempt to harmonise laws & regulations

9. Economic and Monetary Union

- Members share a common currency and macroeconomics policies

General Agreement on Tariff and Trade (GATT)

Concept

The general agreement on tariffs and trade (gatt) covers international trade in goods. The workings of the gatt agreement are the responsibility of the council for trade in goods (goods council) which is made up of representatives from all wto member countries. The goods council has 10 committees dealing with specific subjects (such as agriculture, market access, subsidies, anti-dumping measures, and so on). Again, these committees consist of all member countries.

Loss Of Relevance

- It Was Obsolete To The Fast-evolving Contemporary Complex World Trade Scenario
- International Investments Had Expanded Substantially
- Intellectual Property Rights and Trade In Services Were Not Covered By Gatt
- World Merchandise Trade Increased By Leaps and Bounds and Was Beyond Its Scope.
- The Ambiguities In The Multilateral System Could Be Heavily Exploited
- Efforts At Liberalizing Agricultural Trade Were Not Successful
- There Were Inadequacies In Institutional Structure and Dispute Settlement System
- It Was Not A Treaty

Uruguay Round & Establishment of WTO

- The 8th Round or Uruguay Round of GATT Negotiation Process, was launched in September 1986, in Punta del Este, Uruguay.
- It Culminated in the birth of WTO- a new set of agreements, to meet the shortcomings of GATT.
- The final act concluding the Uruguay Round and officially establishing the WTO Regime was signed 15 April 1994, during the ministerial meeting at Marrakesh, Morocco.
- WTO took effect from 1 July 1995. The WTO Secretariat is located at Geneva

World Trade Organisation

The Principal Objective Of The Wto Is To Facilitate The Flow Of International Trade Smoothly, Freely, Fairly, and Predictably.

- Objectives:
1. To Set and Enforce Rules For International Trade.
 2. To Provide A Forum For Negotiating and Monitoring Further Trade Liberalization.
 3. To Resolve Trade Disputes.
 4. To Increase The Transparency Of Decision-making Processes.
 5. To Cooperate With Other Major International Economic Institutions Involved In Global Economic Management, and
 6. To Help Developing Countries Benefit Fully From The Global Trading System.

Structure of WTO

- WTO Activities are supported by the Secretariat located in Geneva, headed by a Director General.
- Has Three Tier system of decision making
- Top level -> Ministerial Conference.
- Followed by General Council & Goods Council, services and Intellectual Property Council.
- Members:** The WTO currently has 164 members, of which 117 are developing or separate customs territories accounting for about 95% of world trade.

1. Trade Without Discrimination

- No discrimination between their trading partners
- Any advantage granted by any of the Country to any product originating
- Results in Most Favoured Nation Status.

2. National Treatment Principle

- Complementary to the MFN principle
- A country should not discriminate between its own and foreign products, services or nationals.

3. Free trade

- Lowering trade barriers
- Non-tariff barriers on goods
- Progressive Liberalization
- longer time to conform to their obligations

4. Predictability

- Foreign Companies, Investors and Governments should be confident on Business environment.
- Change Trade Barrier by negotiating with its Trading Partners

5. Greater competitiveness

- Charging additional import duties
- Reimburse for injury caused by Unfair Trade
- Export Subsidies, Dumping

6. Encouraging Development and Economic Reform

- WTO Favour Less Developed Countries
- Giving Greater Flexibility
- Granted Transition Periods



Overview Of The WTO Agreements

1. Agreement on Agriculture

- ✓ Aims at improving and strengthening agricultural trade
- ✓ Commitments from the Member Countries on Market access, Domestic support and Export subsidies

2. Application of Sanitary and Phytosanitary

- ✓ Proper use of SPS measures
- ✓ Minimize their adverse effects on trade
- ✓ SPS measures are not used for arbitrary & camouflaged restraint on international trade

3. Agreement on Textiles and Clothing

- ✓ Replaced The Multi-fibre Arrangement (mfa)
- ✓ Textile Trade Should Be Deregulated By Gradually Integrating It Into Gatt

4. Technical Barriers to Trade:

- ✓ Regulate "Standards" in respect of manufactured goods or safety
- ✓ "Standards" are transparent
- ✓ To create unnecessary Trade Barriers

5. Trade-Related Investment Measures

- ✓ Covers cross-border Investments.
- ✓ Stipulates that Countries receiving Foreign Investments
- ✓ Not impose restrictions inconsistent with WTO Principles

6. Anti Dumping

- ✓ Ensure Not abused or misused
- ✓ Indicate measures for computing Dumping Margins
- ✓ Determine the scope for conducting Dumping investigations

7. Customs Valuation

- ✓ Avoid arbitrary valuation systems used in various Member Countries
- ✓ Indicate rules for consistent, reliable and harmonized Customs Valuation on international basis

8. Pre-Shipment Inspection

- ✓ Approved (PSI) Agencies can inspect the quality, volume, price, Tariff Classification, Customs Valuation, etc. of goods in the territory of Exporting Country
- ✓ Disputes between PSI Agencies and Exporters can be handled through the specified Dispute Resolution Mechanism

9. Rules of Origin

- ✓ Set up a "Rules of Origin" Committee
- ✓ Harmonise the Rules for application to all non-preferential commercial policy instruments
- ✓ Provide for Dispute Settlement Procedures

10. Import Licensing Procedures

- ✓ Agreement on Import Licensing Procedures
- ✓ Simplification of Import-related administrative procedures
- ✓ Procedural Obstacles are not created

11. Subsidies / Countervailing Measures

- ✓ Indicate the scope of Subsidies, by providing definition of Subsidies,
- ✓ Strengthen disciplines on various goods / services, by Subsidy type, and
- ✓ Clarify the procedures for adopting Countervailing Tariff (cvds) by Member Countries.

12. Safeguards

- ✓ Emergency measures to restrict imports
- ✓ Creating a trade distortion
- ✓ Clarifies the requirements and procedures for imposing Safeguards

13. GATS

- ✓ Control obligations regarding trade in Services
- ✓ List out the Service Sectors in respect of WTO Members give binding commitments
- ✓ No barriers or discriminatory measures

14. Trade-Related Aspects of Intellectual Property Rights

- ✓ Stipulate MFN Treatment and National Treatment as per the WTO Principles, for IPRs,
- ✓ Maintain high levels of IPR protection, by framing required Law,
- ✓ Provide for settlement of disputes relating to the IPRs referred to WTO

15. Trade Policy Review Mechanism (TPRM)

- ✓ conduct periodical reviews of members' trade policies
- ✓ by the Trade Policy Review Body (TPRB).

16. Specific Plurilateral Agreements

- ✓ In addition to the above general Multi Lateral Agreements covered by WTO, there are also specific Pluri-Lateral Agreements pertaining to following matters - Trade in Civil Aircraft, Government Purchases / Procurement

Doha Round

- (A) The 9th Round of Negotiations known as Doha Round (or Doha Development Round, or Doha Development Agenda) was launched in Nov 2001.
- (B) Revised Trade Rules and further lowering of Trade Barriers, are considered for discussion in this ongoing Round.
- (C) Negotiations include issues in Agriculture, Services and improved market access for the non-agri products

G 20 Economies: Facilitating Trade

G20 economies must build on their collective pledges from the 12th Ministerial Conference and demonstrate leadership to keep markets open and predictable, so that food and fertilizer in particular can flow to where they are needed

G20 members are: Argentina; Australia; Brazil; Canada; China; the European Union; France; Germany; India; Indonesia; Italy; Japan; the Republic of Korea; Mexico; the Russian Federation; Saudi Arabia; South Africa; Türkiye; the United Kingdom; and the United States.

Exchange Rate

Foreign Exchange Rate

- Price of one currency, expressed in terms of units of another currency
- Value of one currency for the purpose of conversion to another
- Number of units of one currency that can be exchanged for a unit of the another currency

DIRECT QUOTE

Number of units of a Local Currency exchangeable for one unit of a Foreign Currency

INDIRECT QUOTE

Number of units of a Foreign Currency exchangeable for one unit of the Local Currency

Nominal vs Real exchange rate

- Nominal exchange rate** States how much of one currency can be traded for a unit of another currency
- Real exchange rate:** the 'real exchange rate' incorporates change in price and describes 'how many' of a good or service in one country can be traded for 'one' of that good or service in a foreign country
- Real exchange rate = $\frac{\text{Domestic Price Index}}{\text{Foreign Price Index}} \times \text{Nominal exchange rate}$
- Real Effective Exchange Rate (REER)** is the nominal effective exchange rate (a measure of the value of currency against a weight average of several foreign currencies) divided a prize deflator or index of cost.

Exchange Rate Regimes

- ✓ The system by which a country manages its currency in respect to Foreign Currencies
- ✓ Methods by which the value of the Domestic Currency in terms of Foreign Currencies is determine

1. Floating Exchange Rate Regime

Concept

- Equilibrium Value of the Exchange Rate of a Country's currency
- Based on the market forces of Demand and Supply
- Based on the changing demand for and supply of currency in the market
- Preventing undue fluctuations in the FE Rate

Merit

- To pursue its own independent Monetary Policy
- Not required to maintain huge FE Reserves
- Permits Exchange Rate to be used as a Policy Tool

Demerit

- Lot of uncertainties in relation to international transactions
- Risk Premium to the costs of goods and assets

2. Fixed Exchange Rate Regime

Concept

- Country's Central Bank and/or Government announces or decrees the FE Rate –
 - either another country's currency
 - a basket of currencies, or
 - another measure of value, Example: Gold
- Government intervenes in the foreign exchange market
- Exchange rate is different from what market produced

Merit

- Ensures stability
- Increase in Foreign Trade and Capital movements
- Enhances the credibility of the Country's Monetary Policy
- Avoids the Currency Fluctuations
- Generates lower levels of inflation

Demerit

- To maintain large reserves of Foreign Currencies
- To Maintain the exchange Rate at fixed level
- No role in the determination of Equilibrium FE rate

Managed Float Systems

- Exchange Rates Are Still Free To Float, But Governments Try To Influence Their Values.
- Government Or Central Bank Participation In A Floating Exchange Rate System Is Called A Managed Float.

Foreign Exchange Market

Concept

1. Electronically-linked network of Banks, Dealers and Foreign Exchange Brokers
2. Bring Buyers and Sellers in Foreign Exchange together

Participants

1. Central Banks
2. Commercial Banks
3. Governments
4. Foreign Exchange Dealers
5. Multinational Firms
6. Non-Bank Financial Institutions
7. Arbitrageurs and Speculators

Types of Transaction in Forex Market

1. Spot Market

- Currency Transactions which involves immediate delivery
- Exchange Rates prevailing for Spot Trading are known as Spot Exchange Rates

2. Forward/Future Market

- Contracts to buy or sell Currencies for future delivery
- Also called as Futures Market.
- Forward Rates are quoted just like Spot Rate.

3. Related Terms

Forward Premium: If Forward Exchange Rate is more than Spot Rate.
Forward Discount: If Forward Exchange Rate is lower than Spot Rate.

Determination Of Nominal Exchange Rate

Supply of and demand for Foreign Exchange in the Domestic Foreign Exchange Market determines the external value of the Domestic Currency, means a Country's Exchange Rate.

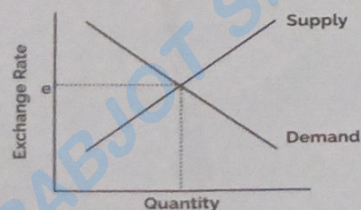
Factors causing Demand and Supply

Demand for Foreign Currency in the Home Country

1. Imports
2. Unilateral transfers outward
3. Income Payments abroad
4. FDI Abroad (Outflow)
5. FPI (Outflow)
6. Open Foreign Bank A/c
7. Speculation & Hedging

Supply of Foreign Currency to Home Country

1. Exports
2. Unilateral transfers inward
3. Incomes from abroad
4. FDI Abroad (Inflow)
5. FPI (Inflow)
6. Open Bank A/c by Foreign Resident
7. Speculation & Hedging



Equilibrium Rate:

- (a) The Forex Market also faces a downward- sloping Demand Curve and an upward- sloping Supply Curve for Foreign Currency.
- (b) The Equilibrium Rate of the Exchange is determined by interaction of the Supply and Demand for a particular foreign currency.
- (c) The Point on the Horizontal Axis shows Quantity of the Currency Exchanged (Q).

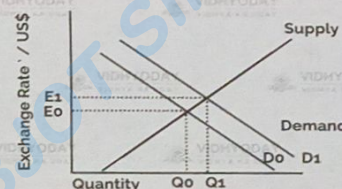
Depreciation and Appreciation in Exchange Rates

Home Currency Depreciation (or Foreign-Currency Appreciation)

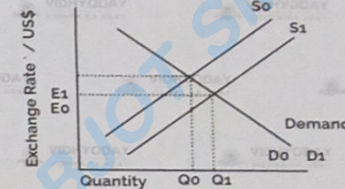
Basic Meaning	An increase in the Home Currency Price of the Foreign Currency (or a decrease in the Foreign Currency Price of the Home Currency).
Effect	Relatively less valuable.
Illustration	Suppose Rs. 72/ US\$ becomes Rs. 75/ US\$. This is called Depreciation of Indian Rupee, and Appreciation of the US Dollar.
Demand Curve	For Foreign Currency shifts to the right Increased demand for Foreign Currency
Supply Curve	Remains unaffected

Home Currency Appreciation (or Foreign-Currency Depreciation)

Basic Meaning	An decrease in the Home Currency Price of the Foreign Currency (or a increase in the Foreign Currency Price of the Home Currency).
Effect	Relatively more valuable.
Illustration	Suppose Rs. 72/ US\$ becomes Rs. 69/ US\$. This is called Appreciation of Indian Rupee, and Depreciation of the US Dollar.
Demand Curve	Remains unchanged
Supply Curve	For Foreign Currency shifts to the right Increased supply for Foreign Currency



Demand increases from D0 to D1, causing the Equilibrium Exchange Rate to increase from E0 to E1. This constitutes Home Currency Depreciation.



Supply increases from S0 to S1, causing Equilibrium Exchange Rate to decrease from E0 to E1. This constitutes Home Currency Appreciation.

Devaluation

It is deliberate adjustment in the value of country's currency related to another currency or group of currencies. It take place in fixed exchange rate regime.

Depreciation

It is Decrease In Value Of Currency Due To Market Forces Of Demand and Supply. It Take Place In Floating Exchange Rate Regime.

Effect of the Exchange Rate Fluctuations

Basis

- Exports
- Imports
- Domestic Inflation
- Domestic Demand
- Factor Mobility
- Foreign Currency Debt
- Current Account Balance

Home Currency Depreciation

- Depreciation ↓; Export=Cheaper ; Export Demand ↑
- Import Demand ↓; Importers have to pay more Home Currency
- Cost Push Inflation
- Output Expansion
- Factors of Production will be induced to move into the tradable goods sectors and out of the non-tradable goods sectors.
- Interest and Principal payout will be greater
- Export Earnings rise faster than the Imports Spending, then Current Account will improve

Home Currency Appreciation

- Depreciation ↑; Export=Expensive ; Export Demand ↓
- Import Demand ↑; Consumers pay less for foreign products
- Reduction in Inflation levels
- Output Contraction
- Factors of Production will be induced to move into the non-tradable goods sectors and out of the tradable goods sectors.
- Interest and Principal payout will be lower
- Increasing Imports and declining Exports cause larger deficits and worsen the Current Account balance.



International Capital Movement

Foreign Capital: Inflow of capital into the home country from abroad. Types:

1. Foreign Aid or Assistance

- ✓ Direct inter government grants
- ✓ Multilateral aid from many governments
- ✓ Tied aid Untied aid
- ✓ Foreign grants

2. Borrowings

- ✓ Direct inter government loans
- ✓ Loans from international institutions
- ✓ Trade credit facilities
- ✓ External commercial borrowing
- ✓ Soft Loans

3. Investments

- ✓ Foreign portfolio investment (FPI) in bonds, stocks and securities
- ✓ Foreign direct investment (FDI) in industrial, commercial and similar other enterprises

4. Deposits from Non-resident Indians (NRI)

Foreign Direct Investment

Concept

1. Act of acquisition or construction of physical capital
2. By a firm from one country in another country
3. Sometimes stock of capital
4. Ownership, control as well as management of the asset

IMF Definition

1. All investments involving a long-term relationship
2. Reflecting a lasting interest
3. Control of a resident entity

Control

More than 10% of the shares of the target asset

Component

- (a) Equity Capital
- (b) Reinvested Earnings
- (c) Other Direct Capital

Includes

1. Relationship between the investor and the enterprise
2. Transactions between them and among affiliated enterprises

Eligibility to become Foreign Direct Investor

- a) Individuals,
- b) Private or Public Enterprises, incorporated or unincorporated,
- c) Associated Groups of the Individuals or Enterprises,
- d) Governments or Government Agencies,
- e) Estates, Trusts, or other organizations, or

Category of FDI

Horizontal FDI

- ✓ FDI in the same industry abroad, as the investor operates in Home Country

➤ **Example:** Dutch Mobile Company, investing in Mobile Co in India

Vertical FDI

- ✓ FDI is a interrelated industry abroad, which provides Raw Materials/Inputs/ Services to the Investors' Business in the Home Country.

➤ **Example:** Publisher of Books based in Europe, acquiring Printing Facilities / Firms in USA.

Conglomerate FDI

- ✓ FDI in a business that is not related to the investor's existing business in the Home Country

➤ **Example :** Swiss Dairy Company investing in Telecom Sector abroad.

Modes of FDI

1. Opening of a Subsidiary or Associate Company
2. Equity Injection
3. Acquiring a controlling interest
4. Mergers and Acquisitions
5. Joint Venture
6. Greenfield Investment
7. Brown Field Investment

Foreign Portfolio Investment (FPI)

Process in which the Resident of one Country (Home Country) acquires ownership of Financial Assets / Securities in another Country (Host Country)

Features

- Obtaining an adequate Return on the Financial Capital
- Portfolio Capital moves to a Recipient Country
- Mainly by Individuals and Institutions through the mechanism of Capital Market
- Investors do not have any intention of exercising the voting power, Generally, Voting Share is < 10%
- Direct impact on Balance of Payments rather than income generation
- Economists call 'financial capital' rather than 'real capital'

Factors that discourage Foreign Investments in Host Country

General	Macro-Economic Factors	Labour related	Law related
<ul style="list-style-type: none"> ▪ Political instability, ▪ Lack of security to life and the property, ▪ Poor infrastructure, ▪ Small size of market with lack of growth potential, ▪ Poor track-record of the investments, ▪ lack of openness or friendliness for Foreign Investments, 	<ul style="list-style-type: none"> ▪ High rates of Inflation, ▪ Balance of Payment deficits, ▪ Exchange Rate volatility, ▪ Low income levels and lower demand, 	<ul style="list-style-type: none"> ▪ Poor literacy and low labour skills, ▪ Rigidity in labour market, ▪ Dominance of Labour Unions, ▪ High rates of industrial disputes, ▪ language barriers, 	<ul style="list-style-type: none"> ▪ Bureaucracy and corruption, ▪ Higher degree of Non-Tariff Barriers, ▪ Unfavourable tax regime, ▪ Law unfavourable to IPR protection, ▪ Cumbersome legal formalities and delays, ▪ No facilities for immigration and employment of the Foreign Technical and Administrative Personnel,

Difference Between Foreign Investment and Foreign Portfolio Investment is as Follows:

Basis of difference	Foreign direct investment FDI	Foreign portfolio investment (FPI)
Investment	Investment involves creation of physical assets	Investment is only in financial assets
Duration	Has a long term interest and therefore remain invested for long	only short term interest and generally remain invested for short periods
Withdrawal	Relatively difficult to withdraw	Relatively easy to withdraw
Nature	No inclined to be speculative	Speculative in nature
Technology transfer	Often accompanied by technology transfer	Not accompanied by technology transfer
Impact on labour and wages	Direct impact on employment of labour and wages	No direct impact on employment of labour and wages
Impact on management and control	Enduring investment in management and control	No abiding interest in management and control
Securities held	Securities are held with significant degree of influence by the investor on the management of the Enterprise	Securities are held purely as a financial investment and no significant degree of influence on the management of the Enterprise