ECONOMY

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Lesson - 1
Basic concepts

Economics is the branch of social science that it is concerned with production, distribution and consumption of goods and services within an economy.

Branches of economics

Microeconomics which deals with individuals behaviour and his choices.

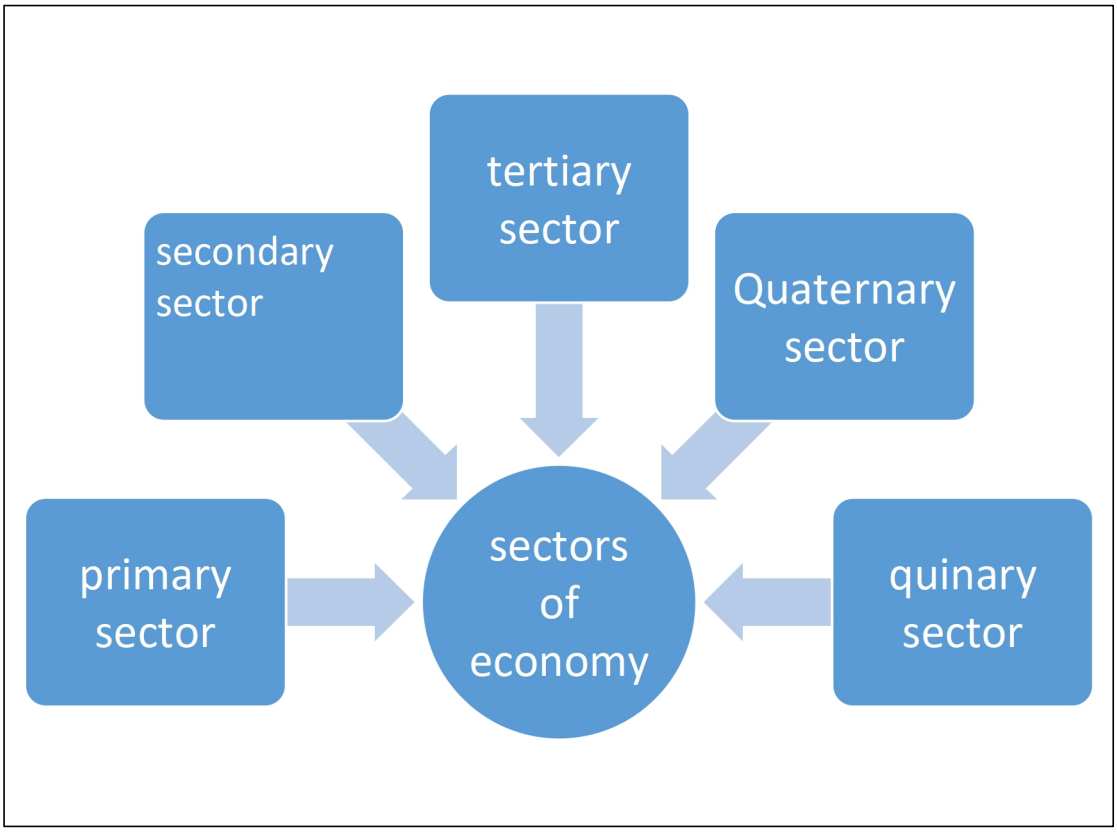
Microeconomics which deals with economy at a larger scale and includes employment,national income,poverty etc.

Mesoeconomics deals with the intermediate label for example a particular sector of economy like

agriculture, infrastructure, MSME although it is a relative term.

if macroeconomics (macro) is about the forest, microeconomics (micro) is about the trees.

SECTORS OF ECONOMY



Primary production

1. extraction of natural resources
2. Example- fishing , mining, Farming

Secondary sectors

1. manufacturing
2. Example- steel industry, textile,food processing

Tertiary sector

Related to services

Example- insurance,healthcare

Quaternary sector

Related to creation and distribution of knowledge

Ex- research and development

Quinary sector

Highest level of decision making

Types of economy

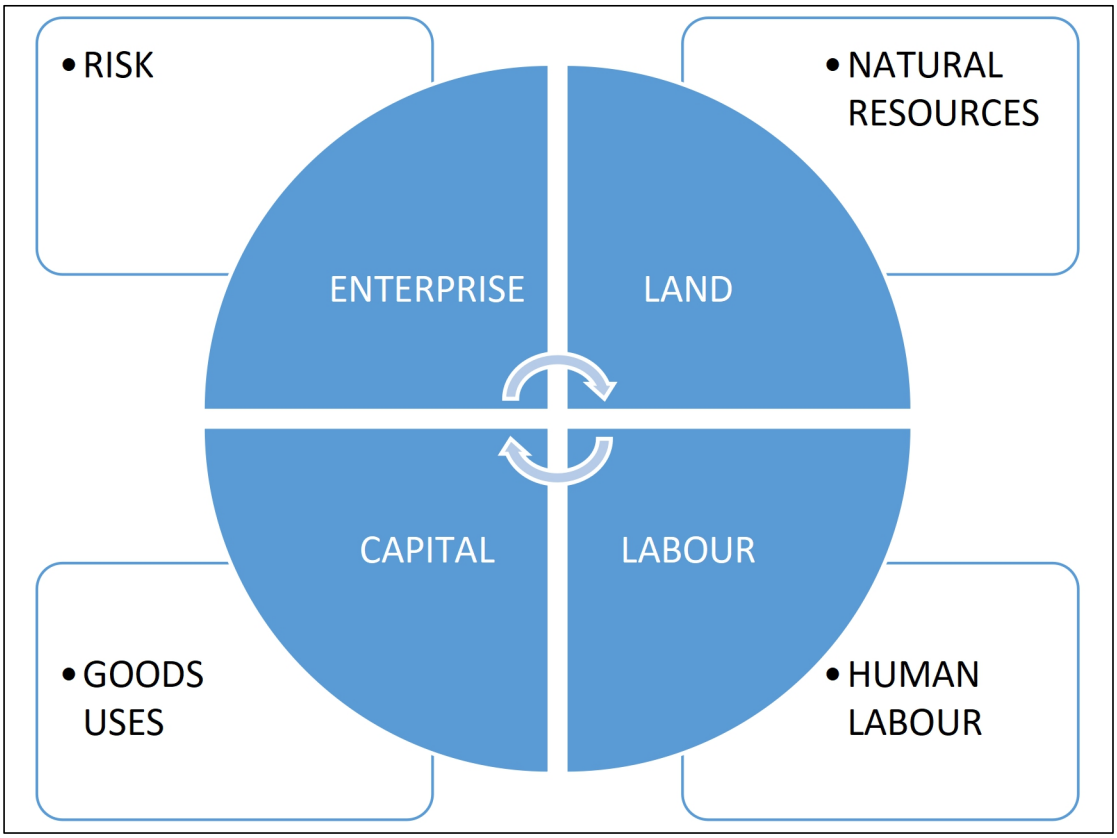
Socialist economy-
Resources are controlled by the government and government is responsible for distribution and allocation of resources.

Capitalist economy market is the factor that determines distribution and allocation of resources.

Mixed economy both market and the government plays important role.Government act as a regulator or facilitator.

Gandhian economy based on the ideas of Gandhian concept of trusteeship.

Factors of production in an economy



Types of Goods

Intermediate goods - items used material input for production of other items.

Example -rubber , steel

Final goods - meant for final consumption
Example biscuit,car

Consumer goods goods that are consumed when purchased by ultimate consumers
Example clothes

Capital goods - goods that are durable in nature
Examples- tools and machine

Luxury goods- goods whose demand increases with increase in income
Example - Gold , luxury cars

Snob / veblen goods- Goods where an increase in price encourages people to buy it more
Example - diamond, luxury cars.
Giffen goods - demand goes up in the prices increases generally used as a symbol of the status.
Example- iPhone.

Public goods- non rival consumption and non- excludable .
Example - park , defence , police

Private goods- both rival and excludable.
Example - club membership

Merit goods have positive externalities
Example- health and education

Demerit goods they have negative externalities like alcohol , cigarette etc

FORMAL AND INFORMAL SECTORS OF ECONOMY

Formal sector of economy -This sector is regulated and registered with the government and it complies with the laws like companies act, factory act and other regulations and acts passed by the government.

Informal sector the unorganized sector which are not regulated by the government .
Example - Farmers , landless labourer Street vendors.
More than 80% of Indian economy is in informal sector.

Growth versus development

Economic growth is different from economic development.

Economic growth include-

- increase in GDP
- higher income
- increase in investment capacity
- better performance of macroeconomic variables.

Economic development includes-

- improvement in quality of life of the people
- better human development index better access to health care and education

It is measured using a range of variable infusing including -

- happiness index,
- human development index
- inequality adjusted human development index
- social progress index
- green GDP
- National happiness index

Economic development is qualitative term whereas Economic growth is a quantitative term.

Important definition

GDP gross domestic production referred to production of final goods and services within an economy with respect to a particular time period generally a year or quarter.

Gross National product GNP- it is the value of all finished goods and services

produce by residents of a country over a period of time.
GNP = GDP + net factor income from abroad

Base year- is the year in which prices are taken for calculating the economic variables like GDP / GNP.

Nominal GDP - it is not adjusted with respect to inflation where as **real GDP** is calculated on the basis of prices with respect to base year thus it is adjusted for inflation.

Method of GDP calculation

- ✓Income method
- ✓expenditure method
- ✓Value addition method

Changes in GDP GDP calculation

- ✓ Change in base year from 2004 -05 to 2011-12
- ✓ Use of market price instead of factor cost
- ✓ Use of gross value addition method

Transfer payment is the payment given by government to the people who are in need of it but these people do not provide any service to the government. Example - widow pension unemployment allowance.

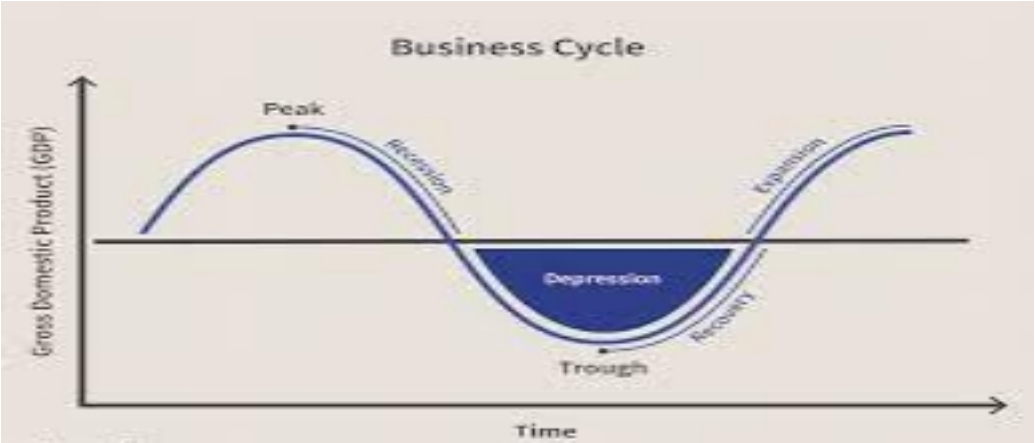
Net production = gross production - depreciation

Depreciation is defined as wear and tear of capital in an economy.

Gross capital formation - The percentage of investment with respect to total GDP is known as gross capital formation.
Higher GCF means higher savings

Gross value added- it is the value of goods and services produced in an economy after deducting the input cost. About the actual value added by a particular sector. it gives better picture of every sector within an economy.
Value addition = output - input

Economic cycle



Economic slowdown - situation where GDP growth rate slows down.

Economic recession it is a period of decline in economic activity.

Economic depression is situation where recession last for more than 3 years and decline in real GDP by at least 10%

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