Civil Services Preliminary Examination 2010

Study Material for Indian Economy

The economy of India is the twelfth largest economy in the world by nominal value and the fourth largest by purchasing power parity (PPP). In the 1990s, following economic reform from the socialist-inspired economy of post-independence India, the country began to experience rapid economic growth, as markets opened for international competition and investment.

In the 21st century, India is an emerging economic power with vast human and natural resources, and a huge knowledge base. Economists predict that by 2020, India will be among the leading economies of the world.

India was under social democratic-based policies from 1947 to 1991. The economy was characterised by extensive regulation, protectionism, and public ownership, leading to pervasive corruption and slow growth. Since 1991, continuing economic liberalisation has moved the economy towards a market-based system.

A revival of economic reforms and better economic policy in 2000s accelerated India's economic growth rate. By 2008, India had established itself as the world's second-fastest growing major economy. However, the year 2009 saw a significant slowdown in India's official GDP growth rate to 6.1% as well as the return of a large projected fiscal deficit of 10.3% of GDP, which would be among the highest in the world.

India's large service industry accounts for 62.6% of the country's GDP while the industrial and agricultural sector contribute 20% and 17.5% respectively. Agriculture is the predominant occupation in India, accounting for about 52% of employment. The service sector makes up a further 34%, and industrial sector around 14%. The labor force totals half a billion workers. Major agricultural products include rice, wheat, oilseed, cotton, jute, tea, sugarcane, potatoes, cattle, water buffalo, sheep, goats, poultry and fish. Major industries include telecommunications, textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, information technology enabled services and software.

India's per capita income (nominal) is $1032, ranked 139th in the world, while its per capita (PPP) of US$2,932 is ranked 128th. Previously a closed economy, India's trade has grown fast. India currently accounts for 1.5% of World trade as of 2007 according to the WTO.

According to the World Trade Statistics of the WTO in 2006, India's total merchandise trade (counting exports and imports) was valued at $294 billion in 2006 and India's services trade inclusive of export and import was $143 billion.

Thus, India's global economic engagement in 2006 covering both merchandise and services trade was of the order of $437 billion, up by a record 72% from a level of $253 billion in 2004. India's trade has reached a still relatively moderate share 24% of GDP in 2006, up from 6% in 1985.

Despite robust economic growth, India continues to face many major problems. The recent economic development has widened the economic inequality across the country. Despite sustained high economic growth rate, approximately 80% of its population lives on less than $2 a day (PPP).

Even though the arrival of Green Revolution brought end to famines in India, 40% of children under the age of three are underweight and a third of all men and women suffer from chronic energy deficiency.

Economic History

India's economic history can be broadly divided into three eras, beginning with the pre-colonial period lasting up to the 18th century. The advent of British colonisation started the colonial period in the early 19th century, which ended with independence in 1947. The third period stretches from independence in 1947 until now.

The citizens of the Indus Valley civilisation, were a permanent settlement and they did not like fish, that flourished between 2800 BC and 1800 BC, practiced agriculture, domesticated animals, used uniform weights and measures, made tools and weapons, and traded with other cities.

Evidence of well-planned streets, a drainage system and water supply reveals their knowledge of urban planning, which included the world's first urban sanitation systems and the existence of a form of municipal government.

The 1872 census revealed that 99.3% of the population of the region constituting present-day India resided in villages, whose economies were largely isolated and self-sustaining, with agriculture the predominant occupation.

This satisfied the food requirements of the village and provided raw materials for hand-based industries, such as textiles, food processing and crafts. Although many kingdoms and rulers issued coins, barter was prevalent. Villages paid a portion of their agricultural produce as revenue to the rulers, while its craftsmen received a part of the crops at harvest time for their services.

Religion, especially Hinduism, and the caste and the joint family systems, played an influential role in shaping economic activities. The caste system functioned much like medieval European guilds, ensuring the division of labour, providing for the training of apprentices and, in some cases, allowing manufacturers to achieve narrow specialization. For instance, in certain regions, producing each variety of cloth was the specialty of a particular sub-caste.

Textiles such as muslin, Calicos, shawls, and agricultural products such as pepper, cinnamon, opium and indigo were exported to Europe, the Middle East and South East Asia in return for gold and silver.

Assessment of India's pre-colonial economy is mostly qualitative, owing to the lack of quantitative information. One estimate puts the revenue of Akbar's Mughal Empire in 1600 at £17.5 million, in contrast with the total revenue of Great Britain in 1800, which totaled £16 million.

India, by the time of the arrival of the British, was a largely traditional agrarian economy with a dominant subsistence sector dependent on primitive technology. It existed alongside a competitively developed network of commerce, manufacturing and credit. After the decline of the Mughals, western, central and parts of south and north India were integrated and administered by the Maratha Empire.

The Maratha Empire's budget in 1740s, at its peak, was Rs. 100 million. After the loss at Panipat, the Maratha Empire disintegrated into confederate states of Gwalior, Baroda, Indore, Jhansi, Nagpur, Pune and Kolhapur.

Gwalior state had a budget of Rs. 30M. However, at this time, British East India company entered the Indian political theatre. Until 1857, when India was firmly under the British crown, the country remained in a state of political instability due to internecine wars and conflicts.

Colonial

Company rule in India brought a major change in the taxation environment from revenue taxes to property taxes, resulting in mass impoverishment and destitution of majority of farmers and led to numerous famines.

The economic policies of the British Raj effectively bankrupted India's large handicrafts industry and caused a massive drain of India's resources. Indian Nationalists employed the successful Swadeshi movement, as strategy to diminish British economic superiority by boycotting British products and the reviving the market for domestic-made products and production techniques.

India had become a strong market for superior finished European goods. This was because of vast gains made by the Industrial revolution in Europe, the effects of which was deprived to Colonial India.

The Nationalists had hoped to revive the domestic industries that were badly effected by polices implemented by British Raj which had made them uncompetitive to British made goods.

An estimate by Cambridge University historian Angus Maddison reveals that "India's share of the world income fell from 22.6% in 1700, comparable to Europe's share of 23.3%, to a low of 3.8% in 1952".

It also created an institutional environment that, on paper, guaranteed property rights among the colonizers, encouraged free trade, and created a single currency with fixed exchange rates, standardized weights and measures, capital markets. It also established a well-developed system of railways and telegraphs, a civil service that aimed to be free from political interference, a common-law and an adversarial legal system.

India's colonisation by the British coincided with major changes in the world economy industrialisation, and significant growth in production and trade. However, at the end of colonial rule, India inherited an economy that was one of the poorest in the developing world, with industrial development stalled, agriculture unable to feed a rapidly growing population, India had one of the world's lowest life expectancies, and low rates for literacy.

The impact of the British rule on India's economy is a controversial topic. Leaders of the Indian independence movement, and left-nationalist economic historians have blamed colonial rule for the dismal state of India's economy in its aftermath and that financial strength required for Industrial development in Europe was derived from the wealth taken from Colonies in Asia and Africa.

At the same time right-wing historians have countered that India's low economic performance was due to various sectors being in a state of growth and decline due to changes brought in by colonialism and a world that was moving towards industrialization and economic integration.

Independence to 1991

Indian economic policy after independence was influenced by the colonial experience and by those leaders' exposure to Fabian socialism. Policy tended towards protectionism, with a strong emphasis on import substitution, industrialization, state intervention in labor and financial markets, a large public sector, business regulation, and central planning.

Five-Year Plans of India resembled central planning in the Soviet Union. Steel, mining, machine tools, water, telecommunications, insurance, and electrical plants, among other industries, were effectively nationalized in the mid-1950s. Elaborate licenses, regulations and the accompanying red tape, commonly referred to as Licence Raj, were required to set up business in India between 1947 and 1990.

Jawaharlal Nehru, the first prime minister, along with the statistician Prasanta Chandra Mahalanobis, carried on by Indira Gandhi formulated and oversaw economic policy. They expected favorable outcomes from this strategy, because it involved both public and private sectors and was based on direct and indirect state intervention, rather than the more extreme Soviet-style central command system.

The policy of concentrating simultaneously on capital- and technology-intensive heavy industry and subsidizing manual, low-skill cottage industries was criticized by economist Milton Friedman, who thought it would waste capital and labour, and retard the development of small manufacturers.

The rate from 1947–80 was derisively referred to as the Hindu rate of growth, because of the unfavourable comparison with growth rates in other Asian countries, especially the "East Asian Tigers".

The Rockefeller Foundation's research in high-yielding varieties of seeds, their introduction after 1965 and the increased use of fertilizers and irrigation are known collectively as the Green Revolution in India, which provided the increase in production needed to make India self-sufficient in food grains, thus improving agriculture in India. Famine in India, once accepted as inevitable, has not returned since the end of colonial.

Since 1991

The economic liberalisation in India refers to ongoing reforms in India that started in 1991. After Independence in 1947, India adhered to socialist policies. In the 1980s, Prime Minister Rajiv Gandhi initiated some reforms. In 1991, after the International Monetary Fund (IMF) had bailed out the bankrupt state, the government of P. V. Narasimha Rao and his finance minister Manmohan Singh started breakthrough reforms.

The new policies included opening for international trade and investment, deregulation, initiation of privatization, tax reforms, and inflation-controlling measures. The overall direction of liberalisation has since remained the same, irrespective of the ruling party, although no party has yet tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labor laws and reducing agricultural subsidies.

As of 2009, about 300 million people equivalent to the entire population of the United States have escaped extreme poverty. The fruits of liberalisation reached their peak in 2007, with India recording its highest GDP growth rate of 9%. With this, India became the second fastest growing major economy in the world, next only to China.

An Organisation for Economic Co-operation and Development (OECD) report states that the average growth rate 7.5% will double the average income in a decade, and more reforms would speed up the pace.

Indian government coalitions have been advised to continue liberalisation. India grows at slower pace than China, which had liberalised economy in 1978.

Pre-liberalisation policies

Indian economic policy after independence was influenced by the colonial experience (which was seen by Indian leaders as exploitative in nature) and by those leaders' exposure to Fabian socialism. Policy tended towards protectionism, with a strong emphasis on import substitution, industrialization, state intervention in labor and financial markets, a large public sector, business regulation, and central planning.

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Impact

The low annual growth rate of the economy of India before 1980, which stagnated around 3.5% from 1950s to 1980s, while per capita income averaged 1.3%. At the same time, Pakistan grew by 5%, Indonesia by 9%, Thailand by 9%, South Korea by 10% and in Taiwan by 12%.

Only four or five licences would be given for steel, power and communications. License owners built up huge powerful empires.

A huge public sector emerged. State-owned enterprises made large losses.

Infrastructure investment was poor because of the public sector monopoly.

License Raj established the "irresponsible, self-perpetuating bureaucracy that still exists throughout much of the country and corruption flourished under this system.

1984-89

In the 80s, the government led by Rajiv Gandhi started light reforms. The government slightly reduced License Raj and also promoted the growth of the telecommunications and software industries. The Vishwanath Pratap Singh government (1989–1990) and Chandra Shekhar government (1990–1991) did not add any significant reforms.

Crisis (1991-1996)

The assassination of prime minister Indira Gandhi in 1984, and later of her son Rajiv Gandhi in 1991, crushed international investor confidence on the economy that was eventually pushed to the brink by the early 1990s.

As of 1991, India still had a fixed exchange rate system, where the rupee was pegged to the value of a basket of currencies of major trading partners. India started having balance of payments problems since 1985, and by the end of 1990, it was in a serious economic crisis.

The government was close to default, its central bank had refused new credit and foreign exchange reserves had reduced to the point that India could barely finance three weeks' worth of imports.

Reforms

The Government of India headed by Narasimha Rao decided to usher in several reforms that are collectively termed as liberalisation in the Indian media. Narasimha Rao appointed Manmohan Singh as a special economical advisor to implement liberalisation.

The reforms progressed furthest in the areas of opening up to foreign investment, reforming capital markets, deregulating domestic business, and reforming the trade regime. Liberalisation has done away with the Licence Raj (investment, industrial and import licensing) and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors.

Rao's government's goals were reducing the fiscal deficit, privatization of the public sector, and increasing investment in infrastructure. Trade reforms and changes in the regulation of foreign direct investment were introduced to open India to foreign trade while stabilizing external loans.

Rao's finance minister, Manmohan Singh, an acclaimed economist, played a central role in implementing these reforms. New research suggests that the scope and pattern of these reforms in India's foreign investment and external trade sectors followed the Chinese experience with external economic reforms.

In the industrial sector, industrial licensing was cut, leaving only 18 industries subject to licensing. Industrial regulation was rationalized.

Abolishing in 1992 the Controller of Capital Issues which decided the prices and number of shares that firms could issue.

Introducing the SEBI Act of 1992 and the Security Laws (Amendment) which gave SEBI the legal authority to register and regulate all security market intermediaries.

Starting in 1994 of the National Stock Exchange as a computer-based trading system which served as an instrument to leverage reforms of India's other stock exchanges. The NSE emerged as India's largest exchange by 1996.

Reducing tariffs from an average of 85 percent to 25 percent, and rolling back quantitative controls. (The rupee was made convertible on trade account.)

Encouraging foreign direct investment by increasing the maximum limit on share of foreign capital in joint ventures from 40 to 51 percent with 100 percent foreign equity permitted in priority sectors.

Streamlining procedures for FDI approvals, and in at least 35 industries, automatically approving projects within the limits for foreign participation. Opening up in 1992 of India's equity markets to investment by foreign institutional investors and permitting Indian firms to raise capital on international markets by issuing Global Depository Receipts (GDRs).

Marginal tax rates were reduced.

Privatization of large, inefficient and loss-inducing government corporations was initiated.

Later Reforms

Atal Bihari Vajpayee's administration surprised many by continuing reforms, when it was at the helm of affairs of India for five years.

The Vajpayee administration continued with privatization, reduction of taxes, a sound fiscal policy aimed at reducing deficits and debts and increased initiatives for public works.

The UF government attempted a progressive budget that encouraged reforms, but the 1997 Asian financial crisis and political instability created economic stagnation.

Strategies like forming Special Economic Zones - tax amenities, good communications infrastructure, low regulation to encourage industries has paid off in many parts of the country.

The Golden Quadrilateral project aimed to link India's corners with a network of modern highways.

Impact of Reforms

The impact of these reforms may be gauged from the fact that total foreign investment (including foreign direct investment, portfolio investment, and investment raised on international capital markets) in India grew from a minuscule US $132 million in 1991-92 to $5.3 billion in 1995-96.

Cities like Gurgaon, Bangalore, Hyderabad, Pune and Ahmedabad have risen in prominence and economic importance, became centres of rising industries and destination for foreign investment and firms.

Economic Development in India

The economic development in India followed a socialist-inspired policy for most of its independent history, including state-ownership of many sectors; extensive regulation and red tape known as "Licence Raj"; and isolation from the world economy. India's per capita income increased at only around 1% annualized rate in the three decades after Independence.
Since the mid-1980s, India has slowly opened up

its markets through economic liberalization. After more fundamental reforms since 1991 and their renewal in the 2000s, India has progressed towards a market-based system.

In the late 2000s, India's growth has reached 7.5%, which will double the average income in a decade. Analysts say that if India pushed more fundamental market reforms, it could sustain the rate and even reach the government's 2011 target of 10%. States have large responsibilities over their economies. The annualized 1999-2008 growth rates for Gujarat (8.8%), Haryana (8.7%), or Delhi (7.4%) were significantly higher than for Bihar (5.1%), Uttar Pradesh (4.4%), or Madhya Pradesh (3.5%).India is the twelfth-largest economy in the world and the fourth largest by purchasing power parity adjusted exchange rates (PPP). On per capita basis, it ranks 128th in the world or 118th by PPP. Although living standards are rising fast, 75.6% of the population still lives on less than $2 a day (PPP, around $0.5 in nominal terms), compared to 73.0% in Sub-Saharan Africa. In terms of occupation, two-thirds of the Indian workforce earn their livelihood directly or indirectly through agriculture in rural villages. As a proportion of GDP, towns and cities make over two thirds of the Indian economy. The progress of economic reforms in India is followed closely. The World Bank suggests that the most important priorities are public sector reform, infrastructure, agricultural and rural development, removal of labor regulations, reforms in lagging states, and HIV/AIDS. India ranked 120th on the Ease of Doing Business Index in 2008, compared with 83rd for China and 122nd for Brazil.

Agriculture

India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 18.6% of the GDP in 2005, employed 60% of the total workforce and despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India.
Yields per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since the green revolution.

India is the largest producer in the world of milk, cashew nuts, coconuts, tea, ginger, turmeric and black pepper. It also has the world's largest cattle population (193 million).

It is the second largest producer of wheat, rice, sugar, groundnut and inland fish. It is the third largest producer of tobacco. India accounts for 10% of the world fruit production with first rank in the production of banana and sapota.

The required level of investment for the development of marketing, storage and cold storage infrastructure is estimated to be huge. The government has implemented various schemes to raise investment in marketing infrastructure.

Among these schemes are Construction of Rural Go downs, Market Research and Information Network, and Development / Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization.

Main problems in the agricultural sector, as listed by the World Bank, are:

» India's large agricultural subsidies are hampering productivity-enhancing investment.

» Over regulation of agriculture has increased costs, price risks and uncertainty.

» Government interventions in labor, land, and credit markets.

» Inadequate infrastructure and services.

Research and Development

The Indian Agricultural Research Institute (IARI), established in 1905, was responsible for the research leading to the "Indian Green Revolution" of the 1970s. The Indian Council of Agricultural Research (ICAR) is the apex body in agriculture and related allied fields, including research and education.

The Union Minister of Agriculture is the President of the ICAR. The Indian Agricultural Statistics Research Institute develops new techniques for the design of agricultural experiments, analyses data in agriculture, and specializes in statistical techniques for animal and plant breeding.

Prof. M.S. Swaminathan is known as "Father of the Green Revolution" and heads the MS Swaminathan Research Foundation. He is known for his advocacy of environmentally sustainable agriculture and sustainable food security.

Industrial Output

India is fourteenth in the world in factory output. Manufacturing sector in addition to mining, quarrying, electricity and gas together account for 27.6% of the GDP and employ 17% of the total workforce.

Economic reforms introduced after 1991 brought foreign competition, led to privatisation of certain public sector industries, opened up sectors hitherto reserved for the public sector and led to an expansion in the production of fast-moving consumer goods.

Post-liberalisation, the Indian private sector, which was usually run by oligopolies of old family firms and required political connections to prosper was faced with foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, focusing on designing new products and relying on low labour costs and technology.

Services

India is fifteenth in services output. Service industry employs 23% of the work force and is growing quickly, with a growth rate of 7.5% in 1991–2000, up from 4.5% in 1951–80. It has the largest share in the GDP, accounting for 53.8% in 2005 up from 15% in 1950.

Business services (information technology, information technology enabled services, business process outsourcing) are among the fastest growing sectors contributing to one third of the total output of services in 2000.

The growth in the IT sector is attributed to increased specialisation and availability of a large pool of low cost, highly skilled, educated and fluent English-speaking workers on the supply side and on the demand side, has increased demand from foreign consumers interested in India's service exports or those looking to outsource their operations. India's IT industry, despite contributing significantly to its balance of payments, accounts for only about 1% of the total GDP or 1/50th of the total services.

The ITES-BPO sector has become a big employment generator especially amongst young college graduates. The number of professionals employed by IT and ITES sectors is estimated at around 1.3 million as on March 2006. Also, Indian IT-ITES is estimated to have helped create an additional 3 million job opportunities through indirect and induced employment.

Banking and Finance

Since liberalisation, the government has approved significant banking reforms. While some of these relate to nationalised banks (like encouraging mergers, reducing government interference and increasing profitability and competitiveness), other reforms have opened up the banking and insurance sectors to private and foreign players.

Currently, in 2007, banking in India is generally mature in terms of supply, product range and reach-even, though reach in rural India still remains a challenge for the private sector and foreign banks.

In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies of Asia. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate. Currently, India has 88 scheduled commercial banks (SCBs) 28 public sector banks (that is with the Government of India holding a stake), 29 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 31 foreign banks.

They have a combined network of over 53,000 branches and 17,000 ATMs. The public sector banks hold over 75% of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

India's Resource Consumption

OIL

India had about 5.6 billion barrels (890,000,000 m3) of proven oil reserves as of January 2007, which is the second-largest amount in the Asia-Pacific region behind China.

Most of India's crude oil reserves are located in the western coast (Mumbai High) and in the north-eastern parts of the country, although considerable undeveloped reserves are also located in the offshore Bay of Bengal and in the state of Rajasthan. The combination of rising oil consumption and fairly unwavering production levels leaves India highly dependent on imports to meet the consumption needs. In 2006, India produced an average of about 846,000 barrels per day (bbl/d) of total oil liquids, of which 77%, or 648,000 bbl/d (103,000 m3/d), was crude oil. During 2006, India consumed an estimated 2.63 Mbbl/d (418,000 m3/d) of oil. The Energy Information Administration (EIA) estimates that India registered oil demand growth of 100,000 bbl/d (16,000 m3/d) during 2006. EIA forecasts suggest that country is likely to experience similar gains during 2007 and 2008.

Sector Organisation

India’s oil sector is dominated by state-owned enterprises, although the government has taken steps in past recent years to deregulate the hydrocarbons industry and support greater foreign involvement.

India’s state-owned Oil and Natural Gas Corporation (ONGC) is the largest oil company, and also the country’s largest company overall by market capitalization. ONGC is the leading player in India’s upstream sector, accounting for roughly 75% of the country’s oil output during 2006, as per Indian government estimates.

As a net importer of oil, the Government of India has introduced policies aimed at growing domestic oil production and oil exploration activities. As part of the effort, the Ministry of Petroleum and Natural Gas crafted the New Exploration License Policy (NELP) in 2000, which permits foreign companies to hold 100% equity possession in oil and natural gas projects.

However, to date, only a handful of oil fields are controlled by foreign firms. India’s downstream sector is also dominated by state-owned entities, though private companies have enlarged their market share in past recent years.

Natural Gas

As per the Oil and Gas Journal, India had 38 trillion cubic feet of confirmed natural gas reserves as of January 2007. A huge mass of India’s natural gas production comes from the western offshore regions, particularly the Mumbai High complex. The onshore fields in Assam, Andhra Pradesh, and

Gujarat states are also major producers of natural gas. As per EIA data, India produced 996 billion cubic feet (Bcf) of natural gas in 2004.

India imports small amounts of natural gas. In 2004, India consumed about 1,089×10^9 cu ft (3.08×1010 m3) of natural gas, the first year in which the country showed net natural gas imports. During 2004, India imported 93×10^9 cu ft (2.6×109 m3) of liquefied natural gas (LNG) from Qatar.

Sector Organization

As in the oil sector, India's state-owned companies account for the bulk of natural gas production. ONGC and Oil India Ltd. (OIL) are the leading companies with respect to production volume, while some foreign companies take part in upstream developments in joint-ventures and production sharing contracts (PSCs).

Reliance Industries, a privately-owned Indian company, will also have a bigger role in the natural gas sector as a result of a large natural gas find in 2002 in the Krishna Godavari basin.

The Gas Authority of India Ltd. (GAIL) holds an effective control on natural gas transmission and allocation activities. In December 2006, the Minister of Petroleum and Natural Gas issued a new policy that allows foreign investors, private domestic companies, and national oil companies to hold up to 100% equity stakes in pipeline projects.

While GAIL's domination in natural gas transmission and allocation is not ensured by statute, it will continue to be the leading player in the sector because of its existing natural gas infrastructure.

Pharmaceuticals

India has a self reliant Pharmaceuticals industry. The majority of its medical consumables are produced domestically. Pharmaceutical Industry in India is dotted with companies like Ranbaxy Laboratories, Dr. Reddy's Laboratories, Cipla which have created a niche for themselves at world level. Today, India is an exporter of countries like United States and Russia. In terms of the global market, India currently holds a modest 1-2% share, but it has been growing at approximately 10% per year. Indian Pharmaceutical Industry is often compared to Pharmaceutical Industry in the USA.

External Trade And Investment

(Global Trade Relations)

India's economy is mostly dependent on its large internal market with external trade accounting for just 20% of the country's GDP. In 2008, India accounted for 1.45% of global merchandise trade and 2.8% of global commercial services export.

Until the liberalization of 1991, India was largely and intentionally isolated from the world markets, to protect its economy and to achieve self-reliance. Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment (FDI) was restricted by upper-limit equity participation, restrictions on technology transfer, export obligations and government approvals; these approvals were needed for nearly 60% of new FDI in the industrial sector.

The restrictions ensured that FDI averaged only around US$200 million annually between 1985 and 1991; a large percentage of the capital flows consisted of foreign aid, commercial borrowing and deposits of non-resident Indians.

India's exports were stagnant for the first 15 years after independence, due to the predominance of tea, jute and cotton manufactures, demand for which was generally inelastic. Imports in the same period consisted predominantly of machinery, equipment and raw materials, due to nascent industrialization.

Since liberalization, the value of India's international trade has become more broad-based and has risen to Rs. 63,080,109 crores in 2003–04 from Rs.1,250 crores in 1950–51. India's major trading partners are China, the US, the UAE, the UK, Japan and the EU.

The exports during April 2007 were $12.31 billion up by 16% and import were $17.68 billion with an increase of 18.06% over the previous year. In 2006-07, major export commodities included engineering goods, petroleum products, chemicals and pharmaceuticals, gems and jewellery, textiles and garments, agricultural products, iron ore and other minerals.

Major import commodities included crude oil and related products, machinery, electronic goods, gold and silver.

India is a founding-member of General Agreement on Tariffs and Trade (GATT) since 1947 and its successor, the WTO. While participating actively in its general council meetings, India has been crucial in voicing the concerns of the developing world.

For instance, India has continued its opposition to the inclusion of such matters as labour and environment issues and other non-tariff barriers into the WTO policies.

Balance of Payments

Since independence, India's balance of payments on its current account has been negative. Since liberalisation in the 1990s (precipitated by a balance of payment crisis), India's exports have been consistently rising, covering 80.3% of its imports in 2002–03, up from 66.2% in 1990–91. India's growing oil import bill is seen as the main driver behind the large current account deficit.

In 2007-08, India imported 120.1 million tonnes of crude oil, more than 3/4th of the domestic demand, at a cost of $61.72 billion.

Although India is still a net importer, since 1996–97 its overall balance of payments (i.e., including the capital account balance) has been positive, largely on account of increased foreign direct investment and deposits from non-resident Indians; until this time, the overall balance was only occasionally positive on account of external assistance and commercial borrowings. As a result, India's foreign currency reserves stood at $285 billion in 2008.

Due to the global late-2000s recession, both Indian exports and imports declined by 29.2% and 39.2% respectively in June 2009. The steep decline was because countries hit hardest by the global recession, such as United States and members of the European Union, account for more than 60% of Indian exports.

However, since the decline in imports was much sharper compared to the decline in exports, India's trade deficit reduced to 252.5 billion rupee.

India's reliance on external assistance and commercial borrowings has decreased since 1991–92, and since 2002–03, it has gradually been repaying these debts. Declining interest rates and reduced borrowings decreased India's debt service ratio to 4.5% in 2007.

In India, External Commercial Borrowings (ECBs) are being permitted by the Government for providing an additional source of funds to Indian corporates. The Ministry of Finance monitors and regulates these borrowings (ECBs) through ECB policy guidelines.

Foreign Direct Investment in India

As the fourth-largest economy in the world in PPP terms, India is a preferred destination for foreign direct investments (FDI); India has strengths in telecommunication, information technology and other significant areas such as auto components, chemicals, apparels, pharmaceuticals, and jewellery.

Despite a surge in foreign investments, rigid FDI policies resulted in a significant hindrance. However, due to some positive economic reforms aimed at deregulating the economy and stimulating foreign investment, India has positioned itself as one of the front-runners of the rapidly growing Asia Pacific Region.

India has a large pool of skilled managerial and technical expertise. The size of the middle-class population stands at 300 million and represents a growing consumer market.

The inordinately high investment from Mauritius is due to routing of international funds through the country given significant capital gains tax advantages; double taxation is avoided due to a tax treaty between India and Mauritius, and Mauritius is a capital gains tax haven, effectively creating a zero-taxation FDI channel.

India's recently liberalized FDI policy (2005) allows up to a 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and foreign direct investment FDI.

The upward moving growth curve of the real-estate sector owes some credit to a booming economy and liberalized FDI regime. In March 2005, the government amended the rules to allow 100 per cent FDI in the construction business.

This automatic route has been permitted in townships, housing, built-up infrastructure and construction development projects including housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, and city- and regional-level infrastructure.

A number of changes were approved on the FDI policy to remove the caps in most sectors. Fields which require relaxation in FDI restrictions include civil aviation, construction development, industrial parks, petroleum and natural gas, commodity exchanges, credit-information services and mining. But this still leaves an unfinished agenda of permitting greater foreign investment in politically sensitive areas such as insurance and retailing.

FDI inflows into India reached a record $19.5 billion in fiscal year 2006-07 (April-March), according to the government's Secretariat for Industrial Assistance. This was more than double the total of US$7.8bn in the previous fiscal year.

The FDI inflow for 2007-08 has been reported as $24 billion and for 2008-09, it is expected to be above $35 billion. A critical factor in determining India's continued economic growth and realizing the potential to be an economic superpower is going to depend on how the government can create incentives for FDI flow across a large number of sectors in India.

Currency

The Indian rupee is the only legal tender accepted in India. The exchange rate as on 23 March 2010 is 45.40 INR the USD, 61.45 to a EUR, and 68.19 to a GBP. The Indian rupee is accepted as legal tender in the neighboring Nepal and Bhutan, both of which peg their currency to that of the Indian rupee.

The rupee is divided into 100 paise. The highest-denomination banknote is the 1,000 rupee note; the lowest-denomination coin in circulation is the 25 paise coin (it earlier had 1, 2, 5, 10 and 20 paise coins which have been discontinued by the Reserve Bank of India).

The Rupee hit a record low during early 2009 on account of global recession. However, due to a strong domestic market, India managed to bounce back sooner than the western countries. Since September 2009 there has been a constant appreciation in Rupee versus most Tier 1 currencies.

On 11 January 2010 Rupee went as high as 45.50 to a United states dollar and on 10 January 2010 as high as Rupee 73.93 to a British Pound. A rising rupee also prompted Government of India to buy

200 tonnes of Gold from IMF.

The RBI, the country's central bank was established on 1 April 1935. It serves as the nation's monetary authority, regulator and supervisor of the financial system, manager of exchange control and as an issuer of currency. The RBI is governed by a central board, headed by a governor who is appointed by the Central government of India.

Income And Consumption

As of 2005:

» 85.7% of the population lives on less than $2.50 (PPP) a day, down from 92.5% in 1981. This is much higher than the 80.5% in Sub-Saharan Africa.

» 75.6% of the population lives on less than $2 a day (PPP), which is around 20 rupees or $0.5 a day in nominal terms. It was down from 86.6%, but is still even more than the 73.0% in Sub-Saharan Africa.

» 24.3% of the population earned less than $1 (PPP, around $0.25 in nominal terms) a day in 2005, down from 42.1% in 1981.

» 41.6% of its population is living below the new international poverty line of $1.25 (PPP) per day, down from 59.8% in 1981. The World Bank further estimates that a third of the global poor now reside in India.

Today, more people can afford a bicycle than ever before. Some 40% of Indian households owns a bicycle, with ownership rates ranging from around 30% to 70% at state level. Housing is modest.

Around half of Indian children are malnourished. The proportion of underweight children is nearly double that of Sub-Saharan Africa. However, India has not had famines since the Green Revolution in the early 1970s.
While poverty in India has reduced significantly, official figures estimate that 27.5% of Indians still lived below the national poverty line of $1 (PPP, around 10 rupees in nominal terms) a day in 2004-2005.

A 2007 report by the state-run National Commission for Enterprises in the Unorganised Sector (NCEUS) found that 65% of Indians, or 750 million people, lived on less than 20 rupees per day with most working in "informal labour sector with no job or social security, living in abject poverty." Since the early 1950s, successive governments have implemented various schemes, under planning, to alleviate poverty, that have met with partial success. All these programmes have relied upon the strategies of the Food for work programme and National Rural Employment Programme of the 1980s, which attempted to use the unemployed to generate productive assets and build rural infrastructure.

In August 2005, the Indian parliament passed the Rural Employment Guarantee Bill, the largest programme of this type in terms of cost and coverage, which promises 100 days of minimum wage employment to every rural household in all the India's 600 districts.

The question of whether economic reforms have reduced poverty or not has fuelled debates without generating any clear cut answers and has also put political pressure on further economic reforms, especially those involving the downsizing of labour and cutting agricultural subsidies.

Employment

Agricultural and allied sectors accounted for about 60% of the total workforce in 2003 same as in 1993–94. While agriculture has faced stagnation in growth, services have seen a steady growth. Of the total workforce, 8% is in the organised sector, two-thirds of which are in the public sector.

The NSSO survey estimated that in 1999–2000, 106 million, nearly 10% of the population were unemployed and the overall unemployment rate was 7.3%, with rural areas doing marginally better

(7.2%) than urban areas (7.7%). India's labor force is growing by 2.5% annually, but employment only at 2.3% a year.

Official unemployment exceeds 9%. Regulation and other obstacles have discouraged the emergence of formal businesses and jobs. Almost 30% of workers are casual workers who work only when they are able to get jobs and remain unpaid for the rest of the time. Only 10% of the workforce is in regular employment.

India's labor regulations are heavy even by developing country standards and analysts have urged the government to abolish them.

Unemployment in India is characterized by chronic underemployment or disguised unemployment. Government schemes that target eradication of both poverty and unemployment (which in recent decades has sent millions of poor and unskilled people into urban areas in search of livelihoods) attempt to solve the problem, by providing financial assistance for setting up businesses, skill honing, setting up public sector enterprises, reservations in governments, etc.

The decreased role of the public sector after liberalization has further underlined the need for focusing on better education and has also put political pressure on further reforms.

Child labor is a complex problem that is basically rooted in poverty. The Indian government is implementing the world's largest child labor elimination program, with primary education targeted for ~250 million.

Numerous non-governmental and voluntary organizations are also involved. Special investigation cells have been set up in states to enforce existing laws banning employment of children (under 14) in hazardous industries. The allocation of the Government of India for the eradication of child labor was $10 million in 1995-96 and $16 million in 1996-97. The allocation for 2007 is $21 million.
In 2006, remittances from Indian migrants overseas made up $27 billion or about 3% of India's GDP.

Economic Trends

In the revised 2007 figures, based on increased and sustaining growth, more inflows into foreign direct investment, Goldman Sachs predicts that "from 2007 to 2020, India’s GDP per capita in US$ terms will quadruple", and that the Indian economy will surpass the United States (in US$) by 2043.

In spite of the high growth rate, the report stated that India would continue to remain a low-income country for decades to come but could be a "motor for the world economy" if it fulfills its growth potential. Goldman Sachs has outlined 10 things that it needs to do in order to achieve its potential and grow 40 times by 2050. These are

- Improve governance
- Raise educational achievement
- Increase quality and quantity of univer sities
- Control inflation
- Introduce a credible fiscal policy
- Liberalize financial markets
- Increase trade with neighbours
- Increase agricultural productivity
- Improve infrastructure and
- Improve environmental quality.

Issues

Agriculture

The low productivity in India is a result of the following factors:

According to "India: Priorities for Agriculture and Rural Development" by World Bank, India's large agricultural subsidies are hampering productivity-enhancing investment.
Overregulation of agriculture has increased costs, price risks and uncertainty. Government interven-

tions in labor, land, and credit markets are hurting the market. Infrastructure and services are inadequate.

Illiteracy, slow progress in implementing land reforms and inadequate or inefficient finance and marketing services for farm produce.

The average size of land holdings is very small (less than 20,000 m²) and is subject to fragmentation, due to land ceiling acts and in some cases, family disputes. Such small holdings are often overmanned, resulting in disguised unemployment and low productivity of labour.

Adoption of modern agricultural practices and use of technology is inadequate, hampered by ignorance of such practices, high costs and impracticality in the case of small land holdings.

World Bank says that the allocation of water is inefficient, unsustainable and inequitable. The irrigation infrastructure is deteriorating. Irrigation facilities are inadequate, as revealed by the fact that only 52.6% of the land was irrigated in 2003–04, which result in farmers still being dependent on rainfall, specifically the Monsoon season.

A good monsoon results in a robust growth for the economy as a whole, while a poor monsoon leads to a sluggish growth. Farm credit is regulated by NABARD, which is the statutory apex agent for rural development in the subcontinent.

India has many farm insurance companies that insure wheat, fruit, rice and rubber farmers in the event of natural disasters or catastrophic crop failure, under the supervision of the Ministry of Agriculture. One notable company that provides all of these insurance policies is Agriculture Insurance Company of India and it alone insures almost 20 million farmers.

India's population is growing faster than its ability to produce rice and wheat. The most important structural reform for self-sufficiency is the ITC Limited plan to connect 20,000 villages to the Internet by 2013. This will provide farmers with up to date crop prices for the first time, which should minimise losses incurred from neighbouring producers selling early and in turn facilitate investment in rural areas.

Corruption

Corruption has been one of the pervasive problems affecting India. The economic reforms of 1991 reduced the red tape, bureaucracy and the Licence Raj that had strangled private enterprise and was blamed by Chakravarthi Rajagopalachari for the corruption and inefficiencies.

Yet, a 2005 study by Transparency International (TI) India found that more than half of those surveyed had firsthand experience of paying bribe or peddling influence to get a job done in a public office.

The Right to Information Act (2005) and equivalent acts in the Indian states, that require government officials to furnish information requested by citizens or face punitive action, computerisation of services and various central and state government acts that established vigilance commissions have considerably reduced corruption or at least have opened up avenues to redress grievances.
The 2009 report by Transparency International ranks India at 84th place and states that significant improvements were made by India in reducing corruption.

Infrastructure

Development of infrastructure was completely in the hands of the public sector and was plagued by corruption, bureaucratic inefficiencies, urban-bias and an inability to scale investment.

India's low spending on power, construction, transportation, telecommunications and real estate, at $31 billion or 6% of GDP in 2002 had prevented India from sustaining higher growth rates.

This has prompted the government to partially open up infrastructure to the private sector allowing foreign investment which has helped in a sustained growth rate of close to 9% for the past six quarters.

Some 600 million Indians have no mains electricity at all. While 80% of Indian villages have at least an electricity line, just 44% of rural households have access to electricity.

According to a sample of 97,882 households in 2002, electricity was the main source of lighting for 53% of rural households compared to 36% in 1993. Some half of the electricity is stolen, compared with 3% in China.

The stolen electricity amounts to 1.5% of GDP. Almost all of the electricity in India is produced by the public sector. Power outages are common. Many buy their own power generators to ensure electricity supply.

As of 2005 the electricity production was at 661.6 billion kWh with oil production standing at 785,000 bbl/day. In 2007, electricity demand exceeded supply by 15%.Multi Commodity Exchange has tried to get a permit to offer electricity future markets.

Indian Road Network is developing. Trucking goods from Gurgaon to the port in Mumbai can take up to 10 days. India has the world's third largest road network. Container traffic is growing at 15% a year. Some 60% of India's container traffic is handled by the Jawaharlal Nehru Port Trust in Mumbai.

Internet use is rare; there were only 7.57 million broadband lines in India in November 2009, however it is still growing at slower rate and is expected to boom after the launch of 3G and wimax services.

Most urban cities have good water supply water 24 hours a day, while some smaller cities face water shortages in summer season. A World Bank report says it is an institutional problem in water agencies, or "how the agency is embedded in the relationships between politics and the citizens who are the consumers.

Know About Some Necessary Economic Indicators

What is Cyclical Unemployment?
A factor of overall unemployment that relates to the cyclical trends in growth and production that occur within the business cycle. When business cycles are at their peak, cyclical unemployment will be low because total economic output is being maximized. When economic output falls, as measured by the gross domestic product (GDP), the business cycle is low and cyclical unemployment will rise.

Economists describe cyclical unemployment as the result of businesses not having enough demand for labor to employ all those who are looking for work. The lack of employer demand comes from a lack of spending and consumption in the overall economy. Cyclical unemployment is one of five classes of unemployment as recognized by economists. Other types include structural, frictional, classical and Marxian. In most cases, several types of unemployment exist at the same time. With the exception of cyclical unemployment, the other classes can be occurring even at the peak ranges of business cycles, when the economy is said to be at or near "full employment".

What is Fiscal Policy?
Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy. Since the 1980s, most western countries have held a "tight" policy, limiting public expenditure.

What is Prime Rate?
The interest rate that commercial banks charge their most credit-worthy customers. Generally a bank's best customers consist of large corporations. Default risk is the main determiner of the interest rate a bank will charge a borrower. Because a bank's

best customers have little chance of defaulting, the bank can charge them a rate that is lower than the rate that would be charged to a customer who has a higher likelihood of defaulting on a loan.

What is Recession?
A significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession. Recession is a normal (albeit unpleasant) part of the business cycle; however, one-time crisis events can often trigger the onset of a recession.

A recession generally lasts from six to 18 months, and interest rates usually fall in during these months to stimulate the economy by offering cheap rates at which to borrow money.

What is Portfolio?
A grouping of financial assets such as stocks, bonds and cash equivalents, as well as their mutual, exchange-traded and closed-fund counterparts. Portfolios are held directly by investors and/or managed by financial professional.

What is Sovereign Bond?
A debt security issued by a national government within a given country and denominated in a foreign currency. The foreign currency used will most likely be a hard currency, and may represent significantly more risk to the bondholder.

What is Hard Loan?
A foreign loan that must be paid in the currency of a nation that has stability and a reputation abroad for economic strength (a hard currency). For example, a loan agreement between a Brazilian company and an Argentinean company where the debt is to be paid in U.S. dollars.

What is Hard Money?
Funding by a government or organization that is repetitive, rather than a one-time grant. Examples include ongoing government daycare subsidies or firms that pay annual scholarships to post-secondary students.

Describes gold/silver/platinum (bullion) coins. A government that uses a hard money policy backs the value of the currency it uses with a hard, tangible and lasting material that will retain its relative value over time.

Governments and organizations prefer hard money because it provides a predictable stream of funds. For example, in the early 1900s, the U.S. dollar was backed by the value of gold. Today, most countries use fiat money, which is made legal tender by government decree but has no intrinsic value of its own.

What is Gold Standard?
A monetary system in which a country's government allows its currency unit to be freely converted into fixed amounts of gold and vice versa. The exchange rate under the gold standard monetary system is determined by the economic difference for an ounce of gold between two currencies. The gold standard was mainly used from 1875 to 1914 and also during the interwar years. The use of the gold standard would mark the first use of formalized exchange rates in history. However, the system was flawed because countries needed to hold large gold reserves in order to keep up with the volatile nature of supply and demand for currency.

After World War II, a modified version of the gold standard monetary system, the Bretton Woods monetary system, was created as its successor. This successor system was initially successful, but because it also depended heavily on gold reserves, it was abandoned in 1971 when U.S president Nixon "closed the gold window".

What is Bullion ?
Gold and silver that is officially recognized as high quality (at least 99.5% pure), and is in the form of bars rather than coins.

Traditionally, bullion has been a good hedge against inflation.

What is Inflation?

The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Central banks attempt to stop severe inflation, along with severe deflation, in an attempt to keep the excessive growth of prices to a minimum. As inflation rises, every dollar will buy a smaller percentage of a good. For example, if the inflation rate is 2%, then a $1 pack of gum will cost $1.02 in a year.
Most countries' central banks will try to sustain an inflation rate of 2-3%.

What is Consumer Price Index?

A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Sometimes referred to as "headline inflation".

The U.S. Bureau of Labor Statistics measures two kinds of CPI statistics: CPI for urban wage earners and clerical workers (CPI-W), and the chained CPI for all urban consumers (C-CPI-U). Of the two types of CPI, the C-CPI-U is a better representation of the general public, because it accounts for about 87% of the population.

CPI is one of the most frequently used statistics for identifying periods of inflation or deflation. This is because large rises in CPI during a short period of time typically denote periods of inflation and large drops in CPI during a short period of time usually mark periods of deflation.

What is Deflation?

A general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending. The opposite of inflation, deflation has the side effect of increased unemployment since there is a lower level of demand in the economy, which can lead to an economic depression. Central banks attempt to stop severe deflation, along with severe inflation, in an attempt to keep the excessive drop in prices to a minimum.

The decline in prices of assets, is often known as Asset Deflation.

Declining prices, if they persist, generally create a vicious spiral of negatives such as falling profits, closing factories, shrinking employment and incomes, and increasing defaults on loans by companies and individuals. To counter deflation, the Federal Reserve (the Fed) can use monetary policy to increase the money supply and deliberately induce rising prices, causing inflation. Rising prices provide an essential lubricant for any sustained recovery because businesses increase profits and take some of the depressive pressures off wages and debtors of every kind.

Deflationary periods can be both short or long, relatively speaking. Japan, for example, had a period of deflation lasting decades starting in the early 1990's. The Japanese government lowered interest rates to try and stimulate inflation, to no avail. Zero interest rate policy was ended in July of 2006.

What is Disinflation?

A slowing in the rate of price inflation. Disinflation is used to describe instances when the inflation rate has reduced marginally over the short term. Although it is used to describe periods of slowing inflation, disinflation should not be confused with deflation. Disinflation is commonly used by the Federal Reserve to describe situations of slowing inflation. Instances of disinflation are not uncommon and are viewed as normal during healthy economic times. Although sometimes confused with deflation, disinflation is not considered to be as problematic because prices do not actually drop and disinflation does not usually signal the onset of a slowing economy.

What is Reflation?

A fiscal or monetary policy, designed to expand a country's output and curb the effects of deflation. Reflation policies can include reducing taxes, changing the money supply and lowering interest rates.

The term "reflation" is also used to describe the first phase of economic recovery after a period of contraction. Reflation policy has been used by American governments, to try and restart failed business expansions since the early 1600s. Although almost every government tries in some form or another to avoid the collapse of an economy after a recent boom, none have ever succeeded in being able to avoid the contraction phase of the business cycle. Many academics actually believe government agitation only delays the recovery and worsens the effects.

What is Price Inflation?
An increase in the price of a standardized good/service or a basket of goods/services over a specific period of time (usually one year). Because the nominal amount of money available in an economy tends to grow larger every year relative to the supply of goods available for purchase, this overall demand pull tends to cause some degree of price inflation. Price inflation can also be seen in a slightly different form, where the price of a good is the same year over year, but the amount of the good received gradually decreases. For example, you may notice this in low-cost snack foods such as potato chips and chocolate bars, where the weight of the product gradually decreases, while the price remains the same.

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What is Stagflation?
A condition of slow economic growth and relatively high unemployment - a time of stagnation - accompanied by a rise in prices, or inflation. Stagflation occurs when the economy isn't growing but prices are, which is not a good situation for a country to be in. This happened to a great extent during the 1970s, when world oil prices rose dramatically, fueling sharp inflation in developed countries. For these countries, including the U.S., stagnation increased the inflationary effects.

What is Stagnation?
A period of little or no growth in the economy. Economic growth of less than 2-3% is considered stagnation. Sometimes used to describe low trading volume or inactive trading in securities. A good example of stagnation was the U.S. economy in the 1970s.

What is Producer Price Index?
A family of indexes that measures the average change in selling prices received by domestic producers of goods and services over time. PPIs measure price change from the perspective of the seller. The PPI looks at three areas of production: industry-based, commodity-based, and stage-of-processing-based companies.

What is Hyperinflation?
Extremely rapid or out of control inflation. There is no precise numerical definition to hyperinflation. Hyperinflation is a situation where the price increases are so out of control that the cWhen associated with depressions, hyperinflation often occurs when there is a large increase in the money supply not supported by gross domestic product (GDP) growth, resulting in an imbalance in the supply and demand for the money. Left unchecked this causes prices to increase, as the currency loses its value.

When associated with wars, hyperinflation often occurs when there is a loss of confidence in a currency's ability to maintain its value in the aftermath. Because of this, sellers demand a risk premium to accept the currency, and they do this by raising their prices.

One of the most famous examples of hyperinflation occurred in Germany between January 1922 and November 1923. By some estimates, the average price level increased by a factor of 20 billion, doubling every 28 hoursoncept of inflation is meaningless.

What is Agflation?
An increase in the price of food that occurs as a result of increased demand from human consumption and use as an alternative energy resource. While the competitive nature of retail supermarkets allows some of the effects of agflation to be absorbed, the price increases that agflation causes are largely passed on to the end consumer. The term is derived from a combination of the words "agriculture" and "inflation".

Interest in alternative energies contributes to agflation. In order to produce biofuel (such as biodiesel and ethanol), manufacturers need to use food products such soybeans and corn. This creates more demand for these products, which causes their prices to increase.

Unfortunately, these price increases spread to other non-fuel related grains (such as rice and wheat) as consumers switch to less expensive substitutes for consumption. Furthermore, agflation will also affect non-vegetative foods (eggs, meat and dairy) as the price increases for grain will make livestock feed more expensive as well.

What is Retail Price Index?
An index that gathers the prices of several retail goods in outlets across the United States in order to give an indication of the rate of inflation. This is similar to the CPI and PPI reports that are released each month. An index that measures and tracks the changes in price of goods in the stages before the retail level. Wholesale price indexes (WPIs) report monthly to show the average price changes of goods sold in bulk, and they are a group of the indicators that follow growth in the economy.

Although some countries still use the WPIs as a measure of inflation, many countries, including the United States, use the producer price index (PPI) instead.

What is Gross Domestic Product ?
The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

GDP is commonly used as an indicator of the economic health of a country, as well as to gauge a country's standard of living. Critics of using GDP as an economic measure say the statistic does not take into account the underground economy - transactions that, for whatever reason, are not reported to the government. Others say that GDP is not intended to gauge material well-being, but serves as a measure of a nation's productivity, which is unrelated.

What is Gross National Product?
An economic statistic that includes GDP, plus any income earned by residents from overseas investments, minus income earned within the domestic economy by overseas residents. GNP is a measure of a country's economic performance, or what its citizens produced (i.e. goods and services) and whether they produced these items within its border.

What is Real Economic Growth Rate?
A measure of economic growth from one period to another expressed as a percentage and adjusted for inflation (i.e. expressed in real as opposed to nominal terms). The real economic growth rate is a measure of the rate of change that a nation's gross domestic product (GDP) experiences from one year to another. Gross national product (GNP) can also

be used if a nation's economy is heavily dependent on foreign earnings.

The real economic growth rate builds onto the economic growth rate by taking into account the effect that inflation has on the economy. The real economic growth rate is a "constant dollar" and is therefore a more accurate look at the rate of economic growth because it is not distorted by the effects of extreme inflation or deflation.

What is Bank Statement?
A record, usually sent to the account holder once per month, summarizing all transactions in an account during the time from the previous statement to the current statement. The opening balance from the prior month combined with the net of all transactions during the period should result in the closing balance for the current statement.

Consumers should carefully review their bank statements and retain them for their own records. In reconciling their own record of transactions with the bank's records, account holders should be on the lookout for incorrect or transposed numbers as well as unauthorized transactions. Discrepancies should be reported as soon as possible, in writing if possible.

What is Bankruptcy?
A legal proceeding involving a person or business that is unable to repay outstanding debts. The bankruptcy process begins with a petition filed by the debtor (most common) or on behalf of creditors (less common). All of the debtor's assets are measured and evaluated, whereupon the assets are used to repay a portion of outstanding debt. Upon the successful completion of bankruptcy proceedings, the debtor is relieved of the debt obligations incurred prior to filing for bankruptcy.

What is Banknote?
A negotiable promissory note issued by a bank and payable to the bearer on demand. The amount payable is stated on the face of the note. Banknotes are considered legal tender, and, along with coins, make up the bearer forms of all modern money.
Also known as a "bill" or a "note."

Originally, objects such as gold and silver were used to pay for goods and services. Eventually, they were replaced by paper money and coins that were backed by precious metals.

Currently, banknotes are backed only by the government. Although in earlier times commercial banks could issue banknotes, the Federal Reserve Bank is now the only bank in the United States that can create banknotes.

What is Promissory Note?
A written, dated and signed two-party instrument containing an unconditional promise by the maker to pay a definite sum of money to a payee on demand or at a specified future date. The only difference between a promissory note and a bill of exchange is that the maker of a note pays the payee personally, rather than ordering a third party to do so.

When a bank is the maker promising to repay money it has received plus interest, the promissory note is called a certificate of deposit (CD)

What is Treasury Note?
A marketable U.S. government debt security with a fixed interest rate and a maturity between one and 10 years. Treasury notes can be bought either directly from the U.S. government or through a bank.

When buying Treasury notes from the government, you can either put in a competitive or noncompetitive bid. With a competitive bid, you specify the yield you want; however, this does not mean that your bid will be approved. With a noncompetitive bid, you accept whatever yield is determined at auction. Treasury notes are extremely popular investments as there is a large secondary market that adds to their liquidity. Interest payments on the notes are made every six months until maturity. The income for interest payments is not taxable on a municipal or state level but is federally taxed.
What is Hard Currency?
A currency, usually from a highly industrialized

country, that is widely accepted around the world as a form of payment for goods and services. A hard currency is expected to remain relatively stable through a short period of time, and to be highly liquid in the forex market. Another criterion for a hard currency is that the currency must come from a politically and economically stable country. The U.S. dollar and the British pound are good examples of hard currencies.

What is Okun's Law?
A relationship between an economy's GDP gap and the actual unemployment rate. The relationship is represented by a ratio of 1 to 2.5. Thus, for every 1% excess of the natural unemployment rate, a 2.5% GDP gap is predicted.

What is Phillips Curve?
An economic concept developed by A. W. Phillips stating that inflation and unemployment have a stable and inverse relationship. According to the Phillips curve, the lower an economy's rate of unemployment, the more rapidly wages paid to labor increase in that economy. The theory states that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment. However, the original concept has been somewhat disproven empirically due to the occurrence of stagflation in the 1970s, when there were high levels of both inflation and unemployment.

What is Structural Unemployment?
Unemployment resulting from changes in the basic composition of the economy. These changes simultaneously open new positions for trained workers. An example of structural unemployment is the technological revolution. Computers may have eliminated jobs, but they also opened up new positions for those who have the skills to operate the computers.

What is Cyclical Unemployment?
A factor of overall unemployment that relates to the cyclical trends in growth and production that occur within the business cycle. When business cycles are at their peak, cyclical unemployment will be low because total economic output is being maximized. When economic output falls, as measured by the gross domestic product (GDP), the business cycle is low and cyclical unemployment will rise.

Economists describe cyclical unemployment as the result of businesses not having enough demand for labor to employ all those who are looking for work. The lack of employer demand comes from a lack of spending and consumption in the overall economy. Cyclical unemployment is one of five classes of unemployment as recognized by economists. Other types include structural, frictional, classical and Marxian. In most cases, several types of unemployment exist at the same time. With the exception of cyclical unemployment, the other classes can be occurring even at the peak ranges of business cycles, when the economy is said to be at or near “full employment”.

What is Full Employment?
A situation in which all available labor resources are being used in the most economically efficient way. Full employment embodies the highest amount of skilled and unskilled labor that could be employed within an economy at any given time. The remaining unemployment is frictional. Frictional unemployment is the amount of unemployment that results from workers who are in between jobs, but are still in the labor force. Full employment is attainable within any economy, but may result in an inflationary period. The inflation would result from workers, as a whole, having more disposable income, which would drive prices upward.

Many economists have estimated the amount of frictional unemployment, with the number ranging from 2-7% of the labor force.