

LAST-HOUR CRAM SHEET · Economics

CBSE Class 12 Economics (030) · Macro 40 + Indian Economic Development 40 · Read this in the 60 minutes before you walk in

A. The Paper at a Glance

Part	Unit	Marks	Topic
A — Introductory Macroeconomics (40)	1	10	National Income and Related Aggregates
	2	6	Money and Banking
	3	12	Determination of Income and Employment ← largest macro unit
	4	6	Government Budget and the Economy
	5	6	Balance of Payments
B — Indian Economic Development (40)	6	12	Development Experience 1947-90 and Reforms since 1991
	7	20	Current Challenges ← LARGEST UNIT IN THE PAPER
	8	8	Comparison with Neighbours

STRATEGY Unit 7 alone is 20 marks and is almost pure definitions plus examples — the highest marks-per-hour in the whole paper. Unit 3 (12) is the biggest numerical block. Do those two first.

B. Every Macro Formula in One Place

NATIONAL INCOME

Domestic → National: + NFIA | Gross → Net: – Depreciation | MP → FC: – NIT

NIT = Indirect Taxes – Subsidies

National Income = NNP_{FC}

Value Added: GVA_{MP} = Value of Output – Intermediate Consumption

Value of Output = Sales + Change in Stock

Income: NDP_{FC} = Compensation of Employees + Operating Surplus + Mixed Income

Operating Surplus = Rent + Royalty + Interest + Profit

Expenditure: GDP_{MP} = $C + I + G + (X - M)$

GDP Deflator = $(\text{Nominal GDP} \div \text{Real GDP}) \times 100$

MONEY AND BANKING

M1 = Currency with public + Demand deposits + Other deposits with RBI

Money Multiplier = $1 \div \text{LRR}$ $\text{LRR} = \text{CRR} + \text{SLR}$

Total Deposit Creation = Initial Deposit $\times 1/\text{LRR}$

INCOME AND EMPLOYMENT

$\text{AD} = \text{C} + \text{I}$ | $\text{AS} = \text{Y} = \text{C} + \text{S}$ | Equilibrium: $\text{AD} = \text{AS}$ or $\text{S} = \text{I}$

$\text{C} = \bar{\text{C}} + b\text{Y}$ | $\text{S} = -\bar{\text{C}} + (1-b)\text{Y}$

$\text{APC} = \text{C}/\text{Y}$ $\text{APS} = \text{S}/\text{Y}$ $\text{MPC} = \Delta\text{C}/\Delta\text{Y}$ $\text{MPS} = \Delta\text{S}/\Delta\text{Y}$

$\text{APC} + \text{APS} = 1$ $\text{MPC} + \text{MPS} = 1$

Multiplier $k = 1/(1-\text{MPC}) = 1/\text{MPS}$ $\Delta\text{Y} = k \times \Delta\text{I}$

BUDGET

Revenue Deficit = Revenue Expenditure – Revenue Receipts

Fiscal Deficit = Total Expenditure – Total Receipts excluding borrowings

Primary Deficit = Fiscal Deficit – Interest Payments

Fiscal Deficit = Total Borrowings

BoP AND OTHERS

Balance of Trade = Export of goods – Import of goods

Worker-Population Ratio = (Total Workers ÷ Total Population) × 100

Head Count Ratio = (Number of poor ÷ Total population) × 100

C. The Include / Exclude List (National Income)

EXCLUDE	INCLUDE
Old-age pension, scholarship, unemployment allowance (transfers)	Retirement pension from employer (<i>factor income</i>)
Lottery win, capital gains	Commission/brokerage on second-hand sales
Sale of second-hand goods and shares	Imputed rent of owner-occupied house
Intermediate goods	Own-account production of goods
Services of a housewife	Final goods bought by households
Illegal income	Investment by firms

D. Rules You Must Not Get Wrong

MEMORISE EXACTLY

- Final vs intermediate depends on USE, not the good. Milk to a household = final; milk to a sweet shop = intermediate.
- APC can exceed 1 (dis-saving). MPC always lies between 0 and 1.
- Higher MPC $\rightarrow$ bigger multiplier. Multiplier ranges from 1 to infinity.
- Higher LRR $\rightarrow$ smaller money multiplier $\rightarrow$ less credit creation.
- Inflation $\rightarrow$ RAISE all rates/ratios, SELL securities. Deflation $\rightarrow$ the reverse.
- Revenue receipt: no liability AND no asset reduction. Capital receipt: creates liability OR reduces asset.
- Recovery of loan = CAPITAL. Interest received = REVENUE.
- Interest PAYMENT = revenue expenditure. Loan REPAYMENT = capital expenditure.
- Fiscal deficit excludes borrowings from receipts. If your FD is zero, you included them.

- Depreciation = market forces.
Devaluation = government decision.
- Current account = no claim created.
Capital account = claim created or settled.
- BoP always balances in the accounting sense; deficit is measured on autonomous items only.
- Poverty line: 2400 calories rural, 2100 urban.
- China → manufacturing. India → services (skipped manufacturing).

E. Master Question Triggers

Question wording	Answer	Ch
"at current prices" / "at base year prices"	Nominal / Real GDP	1
"old-age pension received"	Exclude — transfer payment	1
"LRR 20%, deposit ₹10,000"	Multiplier 5 → ₹50,000	2
"RBI raised CRR"	Credit creation falls	2
" $C = 100 + 0.8Y$, $I = 200$ "	$Y = C + I \rightarrow Y = 1,500$	3
"involuntary unemployment exists"	Deficient demand → deflationary gap	3
"AD exceeds AS at full employment"	Excess demand → inflationary gap	3

"disinvestment of a PSU"	Capital receipt	4
"interest paid on public debt"	Revenue expenditure	4
"primary deficit is zero"	Borrowing only for past interest	4
"software exported to the USA"	Current account (invisible)	5
"FDI by a foreign firm"	Capital account	5
"₹ moved 74 → 78 per \$"	Depreciation	5
"HYV seeds, irrigation, fertiliser"	Green Revolution	6
"forex reserves for two weeks"	1991 crisis → reason for reforms	6
"short-run measures to correct BoP"	Stabilisation measures	6
"five work where three are needed"	Disguised unemployment	7
"education as a basic right"	Human development, not human capital	7
"100 days guaranteed employment"	MGNREGA	7
"Great Leap Forward"	China, 1958	8
"one-child policy"	China — lowest population growth	8

F. How to Write for Marks

Marks	What the examiner wants
1	A formula, a definition, or one term. No explanation.
3	Three points, or a numerical with the formula shown.

4	Four points with bold headings, or a full numerical with working. Diagram if the topic has one.
6	Six points + example, or a complete numerical checked two ways. Evaluate questions need both sides plus a verdict.
Diagrams	Exchange rate determination · AD-AS equilibrium · consumption and saving curves — each carries a mark on its own.

THE THREE CHECKS THAT SAVE QUESTIONS —

- 1.** Solve every equilibrium numerical twice — by $Y = C + I$ and by $S = I$. They must agree.
- 2.** For include/exclude items, always write the **reason**, not just the verdict.
- 3.** For fiscal deficit, confirm you **excluded borrowings** from receipts.

Chapter 1 · National Income and Related Aggregates

CBSE Class 12 Economics (030) · Part A

Macroeconomics · Unit 1 = 10 marks · Ultimate Revision Sheet

60-SECOND RECALL

3 methods	Value Added (Product) · Income · Expenditure — all give the same answer
Domestic → National	+ NFIA (Net Factor Income from Abroad)
Gross → Net	– Depreciation (Consumption of Fixed Capital)
MP → FC	– NIT (Net Indirect Tax = Indirect Tax – Subsidy)
National Income	= NNP_{FC}
Real vs Nominal	Real at base year prices · Nominal at current prices

1. Basic Concepts

Term	Meaning
Final goods	Bought for final use — consumption or investment. Included in national income.
Intermediate goods	Bought for resale or for further production in the same year. Excluded (avoids double counting).
Consumption goods	Satisfy human wants directly — durable, semi-durable, non-durable, services.

Capital goods	Fixed assets used in production — machinery, buildings.
Stock	Measured at a point of time . Eg: capital, wealth, money supply, inventory.
Flow	Measured over a period of time . Eg: income, investment, exports, depreciation.
Gross Investment	Net Investment + Depreciation
Depreciation	Normal wear and tear + expected obsolescence. Not loss by accident.

THE TEST FOR FINAL vs INTERMEDIATE

It depends on the **USE**, not the good itself. Milk bought by a **household** = final. The same milk bought by a **sweet shop** = intermediate. Always ask who buys it and for what.

2. The Aggregates — the conversion map

THE THREE MOVES — learn these and every conversion follows

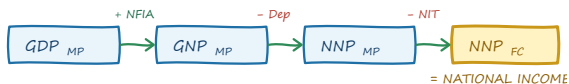
Domestic → National: ADD NFIA (National → Domestic: subtract NFIA)

Gross → Net: SUBTRACT Depreciation

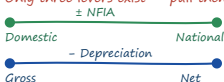
Market Price → Factor Cost: SUBTRACT Net Indirect Tax

NIT = Indirect Taxes – Subsidies

**NFIA = Factor income earned from abroad –
Factor income paid to abroad**



Only three levers exist — pull them in any order:



Eight aggregates, but only three moves. Any aggregate reaches any other by pulling some of these three levers.

THE EIGHT AGGREGATES

From	To	Operation
GDP_{MP}	NDP_{MP}	– Depreciation
GDP_{MP}	GNP_{MP}	+ NFIA
GDP_{MP}	GDP_{FC}	– NIT
NDP_{FC}	= Domestic Income	
NNP_{FC}	= NATIONAL INCOME	

WORKED CONVERSION $GDP_{MP} = ₹1,000,$

Depreciation = ₹100, NFIA = -₹20,

Indirect Tax = ₹80, Subsidy = ₹30.

$$NIT = 80 - 30 = ₹50$$

$$NNP_{FC} = 1,000 - 100 + (-20) - 50 =$$

₹830

So National Income = ₹830.

3. Method 1 — Value Added (Product) Method

FORMULAS

$GVA_{MP} = \text{Value of Output} - \text{Intermediate Consumption}$

$\text{Value of Output} = \text{Sales} + \text{Change in Stock (or Quantity} \times \text{Price)}$

$\text{Change in Stock} = \text{Closing Stock} - \text{Opening Stock}$

$NVA_{FC} = GVA_{MP} - \text{Depreciation} - NIT$

$\text{National Income} = \Sigma NVA_{FC} \text{ of all sectors} + NFIA$

EXCLUDE THESE • *Intermediate consumption*

(double counting)

- *Sale of second-hand goods* — but the *commission* on it IS included
- *Sale of shares/bonds* — a financial transaction, not production; the *brokerage* IS included
- *Own-account production of services by households* (a housewife's services)

INCLUDE: own-account production of *goods*, imputed rent of owner-occupied houses, and goods produced for self-consumption.

4. Method 2 — Income Method

FORMULA

$NDP_{FC} = \text{Compensation of Employees} + \text{Operating Surplus} + \text{Mixed Income of Self-Employed}$

$\text{Operating Surplus} = \text{Rent} + \text{Royalty} + \text{Interest} + \text{Profit}$

$\text{Profit} = \text{Corporate Tax} + \text{Dividend} + \text{Undistributed Profit (Retained Earnings)}$

$\text{National Income (NNP}_{FC}) = NDP_{FC} + NFIA$

EXCLUDE THESE — the exam always plants two or three

- **Transfer payments** — old-age pension, scholarship, unemployment allowance, gifts, donations. No production, so no income.
 - **Windfall gains** — lottery, betting.
 - **Capital gains** — profit on sale of land or shares.
 - **Illegal income** — smuggling, black-marketing.
 - **Indirect taxes and corporate savings tax** are already inside; do not add separately.
- NOTE:** Retirement pension is a **factor income** (deferred wage) and IS included. Old-age pension is a **transfer** and is NOT.

5. Method 3 — Expenditure Method

FORMULA

$$\text{GDP}_{\text{MP}} = C + I + G + (X - M)$$

C = Private Final Consumption

Expenditure · **I** = Gross Domestic Capital

Formation · **G** = Government Final

Consumption Expenditure · **X - M** = Net

Exports

Gross Domestic Capital Formation = Gross Fixed Capital Formation + Change in Stock

National Income = GDP_{MP} - Depreciation - NIT + NFIA

EXCLUDE Expenditure on *intermediate goods, second-hand goods, financial assets, and all transfer payments by government.*

6. Real vs Nominal GDP & Welfare

FORMULAS

Real GDP = Quantity of current year $\times$ Price of BASE year

Nominal GDP = Quantity of current year $\times$ Price of CURRENT year

GDP Deflator = $(\text{Nominal GDP} \div \text{Real GDP}) \times 100$

Real GDP = $(\text{Nominal GDP} \div \text{GDP Deflator}) \times 100$

Real GDP is the better indicator of welfare because it removes the effect of price change and reflects an actual change in output.

GDP AND WELFARE — the 4-marker Higher GDP

does **not** always mean higher welfare, because it ignores:

1. **Distribution of income** — GDP may rise while inequality widens.
2. **Non-monetary exchanges** — household services, barter, are not counted.
3. **Externalities** — pollution and environmental damage are not deducted.
4. **Composition of output** — a rise driven by arms production does not raise welfare.

7. Circular Flow of Income (Two-Sector Model)

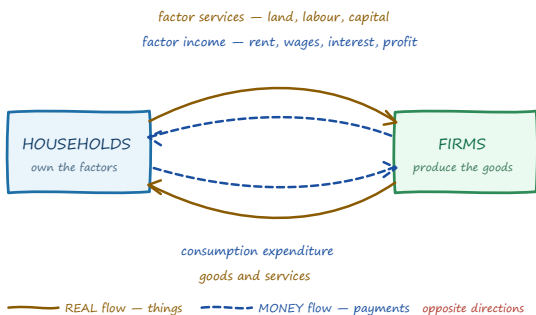
Two sectors: **households** and **firms**.

Households supply **factor services** and receive **factor income**; firms supply **goods and services** and receive **consumption expenditure**.

THE IDENTITY Real flow = flow of goods and services and factor services.

Money flow = flow of factor payments and consumption expenditure.

In equilibrium: **Total Production = Total Income = Total Expenditure**. This is exactly why the three methods give the same answer.



Two sectors, two loops. Production = Income = Expenditure because it is one circle measured at three points.

8. Question Triggers

include or exclude?

Item in the question	Treatment
Old-age pension, scholarship, unemployment allowance	EXCLUDE — transfer payment
Retirement pension paid by an employer	INCLUDE — factor income

Sale of an old car	EXCLUDE ; broker's commission INCLUDE
Purchase of shares / debentures	EXCLUDE ; brokerage INCLUDE
Lottery win, capital gain on land	EXCLUDE
Services of a housewife	EXCLUDE — no market transaction
Imputed rent of an owner-occupied house	INCLUDE
Vegetables grown and consumed by a farmer	INCLUDE — own-account production of goods
Wheat bought by a flour mill	EXCLUDE — intermediate
Wheat bought by a household	INCLUDE — final
Expenditure on a machine by a firm	INCLUDE — investment
"at current prices"	Nominal GDP
"at constant / base year prices"	Real GDP

MOST-ASKED BOARD QUESTIONS

1. **[4-6M]** Calculate National Income by the income / expenditure / value added method.
2. **[3-4M]** Distinguish between Real and Nominal GDP; calculate the GDP deflator.
3. **[3-4M]** "Is a higher GDP always a sign of higher welfare?" Explain.

4. [3M] Will the following be included in National Income? Give reasons. (list of 3)
5. [1M] Define NFIA. → Factor income from abroad – factor income to abroad
6. [1M] National Income is which aggregate? → NNP_{FC}

THE HABIT THAT SCORES — For every “include or exclude” item, **write the one-line reason**: “Excluded — it is a transfer payment, no production takes place.” The mark is for the reason, not the verdict.

Chapter 2 · Money and Banking

CBSE Class 12 Economics (030) · Part A

Macroeconomics · Unit 2 = 6 marks · Ultimate Revision Sheet

60-SECOND RECALL

Money supply	M1 = Currency with public + Demand deposits + Other deposits with RBI
Money multiplier	$1 \div \text{LRR}$ (LRR = CRR + SLR)
Total deposit creation	Initial Deposit $\times$ $1/\text{LRR}$
4 functions of money	Medium of exchange · Measure of value · Store of value · Standard of deferred payment
To CONTROL inflation	RAISE CRR, SLR, Repo · SELL securities → money supply falls
To fight deflation	LOWER CRR, SLR, Repo · BUY securities → money supply rises

1. Money — Meaning and Functions

DEFINITION

Money is anything that is generally accepted as a medium of exchange and that acts as a measure of value, a store of value and a standard of deferred payment.

Functions

Function	Meaning
Medium of exchange (primary)	Solves the double coincidence of wants problem of barter
Measure of value (primary)	Provides a common unit in which all goods are priced
Store of value (secondary)	Purchasing power can be carried into the future
Standard of deferred payment (secondary)	Makes future/credit transactions possible

Problems of barter that money solves: lack of double coincidence of wants · lack of a common measure of value · lack of a store of value · lack of a standard for deferred payments · indivisibility of goods.

2. Supply of Money

THE MEASURES

M1 = Currency with the public + Demand deposits with banks + Other deposits with RBI

M2 = M1 + Savings deposits with Post Office savings banks

M3 = M1 + Net time deposits with commercial banks

M4 = M3 + Total deposits with Post Office savings

organisations

M1 and M2 are narrow money. M3 and M4 are broad money. M3 is the most commonly used aggregate.

TRAP Money supply counts only money held by the public. Cash held by banks themselves and inter-bank deposits are excluded — otherwise it would be counted twice.

3. Money Creation by Commercial Banks

CONCEPT Banks keep only a fraction of deposits as reserves (the **Legal Reserve Ratio**) and lend the rest. The borrower spends it, it returns to the banking system as a fresh deposit, and the process repeats. This is **credit creation**.

THE FORMULA

$$\text{Money Multiplier} = 1 \div \text{LRR}$$

$$\text{Total Deposit Creation} = \text{Initial Deposit} \times (1 \div \text{LRR})$$

$$\text{LRR} = \text{CRR} + \text{SLR}$$

WORKED EXAMPLE

Initial deposit ₹10,000,
LRR = 20%.

Money multiplier = $1 / 0.20 = 5$

Total deposits created = $10,000 \times 5 =$
₹50,000

Total credit created = $50,000 - 10,000$
= ₹40,000

Round 1: deposit 10,000, keep 2,000,
lend 8,000

Round 2: deposit 8,000, keep 1,600, lend
6,400 ... and so on until it dies out.

TRAP

The multiplier and LRR move in opposite directions. A higher LRR gives a smaller multiplier and therefore less credit creation. If the question raises the CRR, credit creation must fall.

4. Central Bank — Functions

1. **Bank of issue** — monopoly over issuing currency notes (except the one-rupee note and coins, issued by the Ministry of Finance).

2. **Banker to the government** — maintains government accounts, gives advances, manages public debt.
3. **Banker's bank and supervisor** — holds banks' reserves, supervises and regulates them.
4. **Lender of last resort** — lends to commercial banks in a crisis when no one else will.
5. **Clearing house** — settles inter-bank claims.
6. **Custodian of foreign exchange reserves.**
7. **Controller of money supply and credit** — see below.

5. Instruments of Monetary Policy

QUANTITATIVE INSTRUMENTS

Instrument	Meaning	To fight INFLATION
CRR Cash Reserve Ratio	% of total deposits banks must keep with the RBI	INCREASE
SLR Statutory Liquidity Ratio	% of deposits banks must keep with themselves in liquid form	INCREASE
Repo Rate	Rate at which RBI lends to commercial banks	INCREASE

Reverse Repo Rate	Rate at which RBI borrow s from commercial banks	INCREASE
Bank Rate	Rate at which RBI lends long term without collateral	INCREASE
Open Market Operations	RBI buys/sells government securities in the open market	SELL securities

QUALITATIVE INSTRUMENTS *Margin*

requirement — the gap between the value of security and the loan given. *Raise it* to reduce credit.

Moral suasion — persuasion, advice and requests by RBI to banks.

Selective credit controls — restricting credit to specific sectors (e.g. speculation).

THE ONE THING TO REMEMBER *Excess demand*

/ inflation → **TIGHT** money policy → **RAISE** every rate and ratio, **SELL** securities.

Deficient demand / deflation → **EASY** money policy → **LOWER** every rate and ratio, **BUY** securities.

Every monetary policy question in the paper reduces to this one line.

6. Question Triggers

what the wording is really asking

If the question says...	Answer
"there is excess demand / inflationary gap"	Raise CRR, SLR, Repo; sell securities
"there is deficient demand / deflationary gap"	Lower CRR, SLR, Repo; buy securities
"LRR is 25%, initial deposit ₹X"	Multiplier = 4; total deposits = $X \times 4$
"RBI raised the CRR"	Multiplier falls → credit creation falls
"rate at which RBI lends to banks"	Repo rate
"rate at which RBI borrows from banks"	Reverse repo rate
"RBI lends when no one else will"	Lender of last resort
"cash held by banks in their own vaults"	Not part of money supply
"time deposits included"	M3 , not M1
"margin requirement raised"	Qualitative instrument → credit falls

MOST-ASKED BOARD QUESTIONS

1. **[4-6M]** Explain the process of money creation by commercial banks with an example.
2. **[3-4M]** Explain how the RBI controls credit / the instruments of monetary

policy.

3. [3M] Explain any three functions of the central bank.
4. [3M] Calculate total deposit creation given the initial deposit and LRR.
5. [1M] Define money multiplier. $\rightarrow 1 \div \text{LRR}$
6. [1M] Which is the primary function of money? $\rightarrow$ Medium of exchange

THE HABIT THAT SCORES — For any policy question, state the **direction** and the **reason** together: “RBI should **raise** the repo rate, because costlier borrowing reduces credit, which reduces money supply and therefore aggregate demand.” The direction alone is half the mark.

Chapter 3 · Determination of Income and Employment

CBSE Class 12 Economics (030) · Part A

Macroeconomics · Unit 3 = 12 marks (largest macro unit) · Ultimate Revision Sheet

60-SECOND RECALL

Equilibrium	$AD = AS$ or $S = I$
Consumption function	$C = \bar{C} + b \cdot Y$ ($\bar{C}$ = autonomous consumption, b = MPC)
Saving function	$S = -\bar{C} + (1-b)Y$
Multiplier	$k = 1 \div (1 - MPC) = 1 \div MPS$
Key identity	$MPC + MPS = 1$ $APC + APS = 1$
Excess demand	$AD > AS$ at full employment → inflationary gap
Deficient demand	$AD < AS$ at full employment → deflationary gap

1. Aggregate Demand and Aggregate Supply

DEFINITIONS Aggregate Demand (AD) is

the total value of goods and services all sectors of the economy plan to buy at a given level of income during a period.

Aggregate Supply (AS) is the total value of goods and services all producers plan to produce during a period. AS is equal to national income, so $AS = Y$.

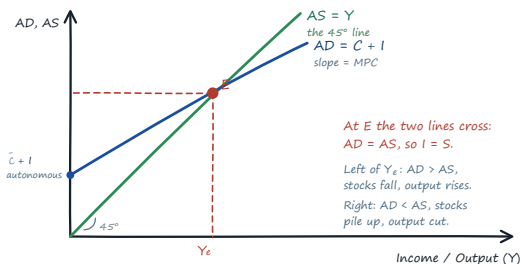
COMPONENTS

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

In the two-sector model used for numericals: $AD = C + I$

$$AS = Y = C + S$$

At equilibrium $AD = AS$, so $C + I = C + S$, which gives $I = S$.



AD is flatter than AS because its slope is the MPC, which is less than 1. They can only meet once.

2. Propensity to Consume and Save

THE FOUR RATIOS

$APC = C \div Y$ — Average Propensity to Consume

$APS = S \div Y$ — Average Propensity to Save

$MPC = \Delta C \div \Delta Y$ — Marginal Propensity to Consume

$MPS = \Delta S \div \Delta Y$ — Marginal Propensity to Save

$APC + APS = 1$ $MPC + MPS = 1$

THE FACTS EXAMINERS TEST

- **APC** can be greater than 1 (when $Y < C$, i.e. dis-saving at very low income). **APS** is then negative.
- **MPC** lies between 0 and 1. It can never exceed 1 and never be negative.
- As income rises, **APC** falls and **APS** rises.
- At the break-even point, $Y = C$, so **APC** = 1 and **APS** = 0.

3. Consumption and Saving Functions

THE EQUATIONS

$C = \bar{C} + b \cdot Y$ where $\bar{C}$ = autonomous consumption, b = MPC

$$S = Y - C = -\bar{C} + (1 - b) \cdot Y$$

At $Y = 0$, consumption is $\bar{C}$ (funded by past savings) and saving is $-\bar{C}$ (dis-saving).

WORKED EXAMPLE Given $C = 100 + 0.8Y$
and $I = 200$.

At equilibrium $Y = C + I$

$$Y = 100 + 0.8Y + 200$$

$$Y - 0.8Y = 300 \rightarrow 0.2Y = 300 \rightarrow Y = \text{₹}1,500$$

$$\text{Check via } S = I: S = -100 + 0.2(1500) = -100 + 300 = 200 = I \checkmark$$

Multiplier $k = 1/0.2 = 5$. Autonomous expenditure = 300, so $Y = 300 \times 5 = 1,500 \checkmark$

4. The Investment Multiplier

FORMULAS

$$k = \Delta Y \div \Delta I$$

$$k = 1 \div (1 - \text{MPC}) = 1 \div \text{MPS}$$

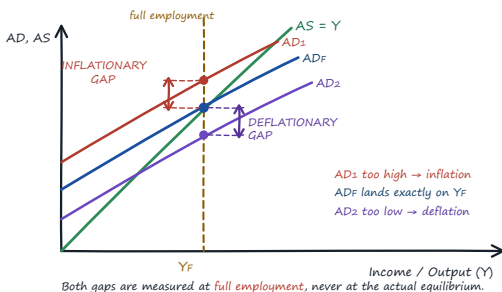
$$\Delta Y = k \times \Delta I$$

MPC	MPS	Multiplier k
0.5	0.5	2
0.75	0.25	4
0.8	0.2	5
0.9	0.1	10

TRAP Higher MPC $\rightarrow$ larger multiplier.

The range of k is 1 to infinity: when $MPC = 0$, $k = 1$; when $MPC = 1$, $k = \infty$. The multiplier can never be less than 1.

5. Excess Demand and Deficient Demand



The gap is the **vertical distance between AD and AS at full employment** — that is the whole definition.

Basis	EXCESS DEMAND	DEFICIENT DEMAND
Meaning	$AD > AS$ at full employment	$AD < AS$ at full employment
Gap	Inflationary gap	Deflationary gap
Effect on output	No rise — already at full capacity	Falls — unemployment rises
Effect on prices	Prices rise — inflation	Prices fall — deflation
Effect on employment	No change	Involuntary unemployment

CORRECTIVE MEASURES — the 6-marker

Policy	Excess demand (inflation)	Deficient demand (deflation)
MONETARY	Raise CRR, SLR, Repo, Bank rate · Sell securities · Raise margin requirement	Lower CRR, SLR, Repo, Bank rate · Buy securities · Lower margin requirement
FISCAL	Reduce government spending · Raise taxes · Raise public borrowing · Cut subsidies and transfers	Raise government spending · Cut taxes · Reduce borrowing · Raise subsidies and transfers

TRAP — the two unemployments *Voluntary*

unemployment: a person is not willing to work at the prevailing wage.

Involuntary unemployment: a person is willing and able to work at the prevailing wage but gets no work. Only this one is an economic problem, and it is what deficient demand causes.

6. Question Triggers

what the wording is really asking

If the question says...	Do this
" $C = 200 + 0.75Y$, $I = 500$, find equilibrium Y "	$Y = C + I$, solve for Y
" $MPC = 0.8$, investment rises by ₹100"	$k = 5$, so $\Delta Y = \text{₹}500$
"APC is 1"	Break-even point: $Y = C$, saving = 0

"saving is negative"	Income below break-even → dis-saving
"AD exceeds AS at full employment"	Excess demand → inflationary gap
"there is involuntary unemployment"	Deficient demand → deflationary gap
"suggest measures to correct"	Give both monetary and fiscal measures
"can APC be greater than 1?"	Yes , when consumption exceeds income
"can MPC be greater than 1?"	No , it lies between 0 and 1
"ex-ante vs ex-post"	Ex-ante = planned ; ex-post = actual/realised

MOST-ASKED BOARD QUESTIONS

1. [4-6M] Find equilibrium income given the consumption function and investment.
2. [6M] Explain excess demand / deficient demand and the measures to correct them.
3. [3-4M] Explain the working of the investment multiplier with an example.
4. [3M] Distinguish between APC and MPC / voluntary and involuntary unemployment.
5. [1M] Give the relation between MPC and MPS. → $MPC + MPS = 1$

6. [1M] What is the value of the multiplier when $MPS = 0.25$? $\rightarrow 4$

THE HABIT THAT SCORES — Solve every equilibrium numerical **twice** — once by $Y = C + I$, once by $S = I$. They must agree. It costs thirty seconds and catches the algebra slip that would otherwise cost the whole 6-marker.

Chapter 4 · Government Budget and the Economy

CBSE Class 12 Economics (030) · Part A

Macroeconomics · Unit 4 = 6 marks · Ultimate Revision Sheet

60-SECOND RECALL

Budget	Statement of estimated receipts and expenditure for a financial year (1 April – 31 March)
Revenue receipt test	Creates no liability AND causes no reduction in assets
Capital receipt test	Creates a liability OR reduces an asset
Revenue Deficit	Revenue Expenditure – Revenue Receipts
Fiscal Deficit	Total Expenditure – Total Receipts excluding borrowings
Primary Deficit	Fiscal Deficit – Interest Payments
Key insight	Fiscal Deficit = Total Borrowings of the government

1. Meaning and Objectives

DEFINITION A government budget is an annual statement of the **estimated receipts and estimated expenditure** of the government during a financial year (1 April to 31 March).

Objectives (5)

1. **Reallocation of resources** — through taxes and subsidies, the government steers resources towards socially desirable production and away from harmful goods.
2. **Redistribution of income** — taxing the rich and spending on the poor reduces inequality.
3. **Economic stability** — controlling inflation and deflation through fiscal policy.
4. **Management of public enterprises** — funding and running natural monopolies like railways.
5. **Economic growth** — raising savings and investment through budgetary provisions.

2. Budget Receipts

THE TWO TESTS — this is the whole chapter

REVENUE RECEIPT if it satisfies **BOTH**:

(a) creates **NO liability**, and (b) causes **NO reduction in assets**

CAPITAL RECEIPT if **EITHER**:

(a) it creates a liability, or (b) it reduces an asset

Type	Examples
Revenue — Tax	Income tax, corporate tax, GST, customs duty, excise duty
Revenue — Non-tax	Interest received, dividend and profits from PSUs, fees, fines, escheat, grants received
Capital — creates liability	Borrowings (domestic and foreign), small savings (PPF, NSC)
Capital — reduces asset	Disinvestment (sale of shares of PSUs), recovery of loans

THE FOUR THAT TRIP EVERYONE • Recovery of

loans → CAPITAL (asset reduces)

• Interest received on loans → REVENUE (no asset change)

• Disinvestment → CAPITAL (asset reduces)

• Dividend from PSU → REVENUE (no asset change)

The government selling something is capital; the government earning from something is revenue.

3. Budget Expenditure

THE MIRROR TESTS REVENUE

EXPENDITURE: creates no asset and reduces no liability.

Eg: salaries, pensions, interest payments, subsidies, grants, defence revenue expenditure.

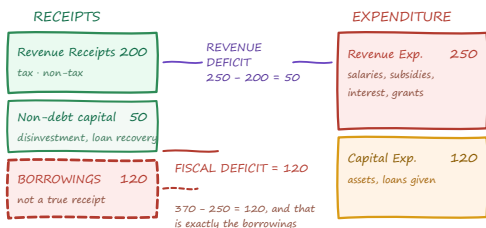
CAPITAL EXPENDITURE: creates an asset or reduces a liability.

Eg: construction of roads/schools/hospitals, purchase of

machinery, loans given to states,
repayment of loans.

TRAP Interest **PAYMENT** is revenue expenditure, but repayment of the loan itself is capital expenditure. The interest is a cost; the principal repayment reduces a liability.

4. Budget Deficits



PRIMARY DEFICIT = Fiscal Deficit - Interest Payments = $120 - 30 = 90$
Interest is the part of the borrowing that past governments already committed you to.

Cover the dashed **BORROWINGS** box with your thumb: the hole that is left is the fiscal deficit.

THE THREE FORMULAS

Revenue Deficit = Revenue Expenditure - Revenue Receipts

Fiscal Deficit = Total Expenditure - Total Receipts other than Borrowings

or = Revenue Deficit + Capital Expenditure - (non-debt capital receipts)

Primary Deficit = Fiscal Deficit – Interest Payments

Deficit	What it indicates
Revenue Deficit	The government's consumption exceeds its revenue . It must borrow or sell assets to meet routine spending — a sign of dis-saving .
Fiscal Deficit	Total borrowing requirement of the government. High fiscal deficit means a debt trap , inflation and a burden on future generations.
Primary Deficit	Borrowing needed for reasons other than past interest . Zero primary deficit means the government is borrowing only to pay interest on past loans.

WORKED EXAMPLE Revenue Receipts 200 · Revenue Expenditure 250 · Capital Receipts 170 (of which **borrowings 120**) · Capital Expenditure 120 · Interest Payments 30.

$$\text{Revenue Deficit} = 250 - 200 = 50$$

$$\text{Total Expenditure} = 250 + 120 = 370$$

$$\text{Total Receipts excluding borrowings} = 200 + (170 - 120) = 200 + 50 = 250$$

$$\text{Fiscal Deficit} = 370 - 250 = 120$$

$$\text{Primary Deficit} = 120 - 30 = 90$$

USE THIS AS YOUR CHECK Fiscal Deficit must

come out exactly equal to borrowings.

Here both are 120 — that is not a coincidence, it is the definition: the deficit is what the government has to borrow.

So after computing FD, look back at the borrowings figure in the question. If they differ, you have made an arithmetic slip (or the question has given you inconsistent data). It is the fastest self-check in the whole chapter.

TRAP When computing fiscal deficit,

borrowings are excluded from receipts.

Students routinely include them, which makes the deficit come out as zero. If your fiscal deficit is zero, you almost certainly made this mistake.

5. Implications of Deficits

High Fiscal Deficit → problems

- **Debt trap** — borrowing to pay interest on old borrowing
- **Inflation** — deficit financing raises money supply

- **Foreign dependence** — external borrowing
- **Burden on future generations**
- **Crowding out** of private investment

Measures to reduce deficit

- **Raise revenue** — widen the tax base, improve collection
- **Reduce expenditure** — cut non-development and wasteful spending
- **Disinvestment** of loss-making PSUs
- **Cut subsidies** that are not well targeted

6. Question Triggers revenue or capital?

Item	Classification
Tax collected (income tax, GST)	Revenue receipt
Borrowing from the World Bank	Capital receipt — creates liability
Disinvestment of a PSU	Capital receipt — reduces asset
Recovery of a loan given to a state	Capital receipt
Interest received on that loan	Revenue receipt
Dividend from a PSU	Revenue receipt
Salaries and pensions paid	Revenue expenditure
Interest paid on public debt	Revenue expenditure
Repayment of loan principal	Capital expenditure
Construction of a highway / metro	Capital expenditure

Subsidy on fertiliser	Revenue expenditure
Loan given to a state government	Capital expenditure
"primary deficit is zero"	Borrowing is only to pay past interest

MOST-ASKED BOARD QUESTIONS

1. [3-4M] Calculate revenue / fiscal / primary deficit from the given data.
2. [3-4M] Classify the following as revenue or capital receipts/expenditure, with reasons.
3. [4-6M] Explain the objectives of a government budget.
4. [3M] Explain the implications of a high fiscal deficit.
5. [1M] Fiscal deficit equals what? → **Total borrowings of the government**
6. [1M] What does zero primary deficit mean? → **Borrowing only to pay interest on past loans**

THE HABIT THAT SCORES — For every classification, write the **test you applied**: "Capital receipt, because it **reduces an asset** of the government." The two tests in

Section 2 answer every classification question in this chapter — and the reason is where the mark sits.

Chapter 5 · Balance of Payments

CBSE Class 12 Economics (030) · Part A

Macroeconomics · Unit 5 = 6 marks · Ultimate Revision Sheet

60-SECOND RECALL

BoP	Record of all economic transactions between residents of a country and the rest of the world in a year
Two accounts	Current Account (goods, services, income, transfers) · Capital Account (assets, loans, investment)
Balance of Trade	Exports of GOODS – Imports of GOODS — visible items only
BoT vs Current A/c	BoT is a part of the current account
Accounting sense	BoP always balances (autonomous + accommodating)
Currency terms	Depreciation = market forces · Devaluation = government decision

1. Meaning and Structure

DEFINITION The *Balance of Payments* is a systematic record of all economic transactions between the residents of a country and the rest of the world during a given period, usually one year.

THE TWO ACCOUNTS

Account	Contains
CURRENT ACCOUNT	1. Export and import of goods (visible items) → Balance of Trade 2. Export and import of services (invisible: shipping, banking, insurance, tourism, software) 3. Income — interest, profit, dividend received and paid 4. Unilateral transfers — gifts, remittances, donations, grants
CAPITAL ACCOUNT	1. Borrowings and lendings to and from abroad 2. Investment — FDI and FII/portfolio investment 3. Change in foreign exchange reserves

Rule of thumb: current account items do not create a claim or liability; capital account items do.

THE CLASSIFICATION TRAP • Software exports

→ Current account (a service)

• Remittances from an NRI relative → Current account (unilateral transfer)

• FDI by a foreign company → Capital account

• Interest paid on foreign loan → Current account (income)

• Repayment of the loan itself → Capital account

Ask: does this create or settle a claim? If yes, capital. If it is a payment for something, current.

2. Balance of Trade vs Balance on Current Account

Basis	BALANCE OF TRADE	CURRENT ACCOUNT BALANCE
Covers	Only visible items (goods)	Visible + invisible + income + transfers
Formula	Export of goods – Import of goods	BoT + net services + net income + net transfers
Scope	Narrow — a part of the current account	Wider
Deficit meaning	Imports of goods exceed exports	Country is a net borrower from the world

3. Autonomous vs Accommodating Transactions

THE DISTINCTION THAT EXPLAINS "BoP ALWAYS BALANCES"

Basis	AUTONOMOUS	ACCOMMODATING
Motive	Undertaken for profit or economic motive, independent of the BoP position	Undertaken to cover the gap in the BoP
Also called	Above the line items	Below the line items
Who does it	Any economic agent	Government / monetary authority

A BoP deficit or surplus is measured on **AUTONOMOUS** transactions only. The accommodating items then fill the gap, which is why the BoP always balances in the accounting sense but may be in disequilibrium in the economic sense.

4. Foreign Exchange Rate

DEFINITION The foreign exchange rate is the price of one currency in terms of another. It is determined in the foreign exchange market by the demand for and supply of foreign exchange.

DEMAND AND SUPPLY OF FOREIGN EXCHANGE

DEMAND for foreign exchange rises when...

Imports of goods and services increase
Indians travel or study abroad
Indians invest abroad
Sending gifts/remittances abroad
Repaying foreign loans

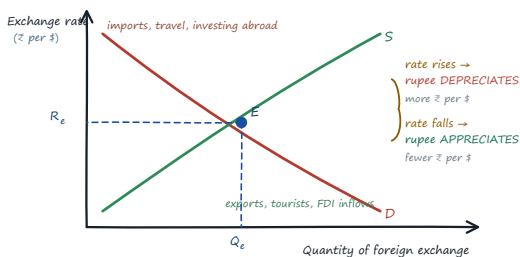
SUPPLY of foreign exchange rises when...

Exports of goods and services increase
Foreign tourists visit India
FDI and FII inflows
Remittances received from abroad
Foreign loans received

Demand curve slopes DOWNWARD (a cheaper foreign currency makes imports cheaper, so more is demanded).

Supply curve slopes UPWARD (a costlier foreign currency makes exports more attractive, so more is supplied).

Equilibrium is where the two curves intersect.



*D slopes down, S slopes up, and the rate settles where they cross. A **higher** number on the vertical axis means a **weaker** rupee.*

5. The Four Currency Terms

Term	Meaning	Caused by
------	---------	-----------

Depreciation	Domestic currency loses value against a foreign currency ₹70 → ₹75 per \$	Market forces
Appreciation	Domestic currency gains value ₹75 → ₹70 per \$	Market forces
Devaluation	Domestic currency's value reduced officially	Government decision (fixed regime)
Revaluation	Domestic currency's value raised officially	Government decision (fixed regime)

THE MOST-ASKED 1-MARKER *Depreciation vs*

Devaluation: both mean the currency falls in value. The difference is who causes it — depreciation happens through market forces in a flexible exchange rate system; devaluation is a deliberate government decision in a fixed exchange rate system.

Effect of depreciation: exports become cheaper for foreigners → exports rise. Imports become costlier → imports fall.

6. Exchange Rate Systems

System	How the rate is set
--------	---------------------

Fixed	Officially fixed by the government or central bank; changed only by devaluation or revaluation
Flexible / Floating	Determined entirely by demand and supply in the foreign exchange market
Managed floating	Basically market-determined, but the central bank intervenes to reduce volatility. India follows this.

7. Question Triggers

current or capital account?

Transaction	Account
Export of tea / import of crude oil	Current (visible)
Software services exported to the USA	Current (invisible)
Money sent home by an Indian working abroad	Current (unilateral transfer)
Interest paid on a foreign loan	Current (income)
Foreign tourist spending in India	Current (invisible)
FDI by a foreign firm in India	Capital
Purchase of shares of a foreign company	Capital
Loan taken from the IMF	Capital
Repayment of a foreign loan	Capital
Change in foreign exchange reserves	Capital (accommodating)
"₹ moved from 74 to 78 per \$"	Depreciation of the rupee
"government lowered the official value of the ₹"	Devaluation

"imports exceeded exports of goods"

Trade deficit (BoT)

MOST-ASKED BOARD QUESTIONS

1. [3-4M] Distinguish between the current account and the capital account of BoP.
2. [3-4M] Distinguish between devaluation and depreciation / BoT and current account balance.
3. [4-6M] Explain how the exchange rate is determined by demand and supply, with a diagram.
4. [3M] Explain the effect of a depreciation of the rupee on exports and imports.
5. [3M] Distinguish between autonomous and accommodating transactions.
6. [1M] Which account records FDI? → **Capital account**

THE HABIT THAT SCORES — For the exchange-rate question, **draw the diagram** — demand sloping down, supply sloping up, equilibrium at the intersection, axes labelled "Rate of exchange" and "Quantity of foreign exchange". A labelled diagram carries a mark on its own and takes twenty seconds.

Chapter 6 · Development Experience 1947–90 and Reforms since 1991

CBSE Class 12 Economics (030) · Part B Indian Economic Development · Unit 6 = 12 marks · Ultimate Revision Sheet

60-SECOND RECALL

Colonial economy	Stagnant, semi-feudal, raw material supplier to Britain. Growth ~2%, per capita ~0.5%
First plan	1951 . Goals: growth, modernisation, self-reliance, equity
Green Revolution	HYV seeds + irrigation + fertiliser. Wheat and Punjab benefited most
1991 crisis	Forex reserves for 2 weeks of imports · fiscal deficit · inflation · PSU losses
NEP 1991	LPG — Liberalisation, Privatisation, Globalisation
Two policy sets	Stabilisation (short run, correct BoP) · Structural reform (long run, raise efficiency)

1. The Colonial Economy (before 1947)

- **Low growth** — national income grew under 2% a year, per capita under 0.5%.
- **Agriculture stagnated** — the zamindari system gave no incentive to invest;

commercialisation forced cash crops over food.

- **De-industrialisation** — India's handicrafts were destroyed, and it became a **supplier of raw materials** and a **market for British finished goods**.
- **Foreign trade** — large export surplus, but it did **not** benefit India; it financed British administrative expenses (the **drain of wealth**).
- **Demography** — high birth and death rates, **literacy under 16%**, life expectancy around **32 years**.
- **Infrastructure** — railways, ports and telegraph were built to serve **colonial** interests, not Indian development.

2. Planning and Its Goals (1951-1990)

THE FOUR GOALS — a guaranteed question 1.

Growth — increase in the country's capacity to produce goods and services; a rise in GDP.

2. Modernisation — adoption of new technology and a change in social outlook (e.g. women's participation).

3. Self-reliance — avoiding imports of what can be produced domestically; reducing dependence on foreign aid.

4. Equity — benefits of growth must reach all, so that inequality falls and basic needs are met.

India adopted a **mixed economy** — combining the public and private sectors — guided by **five year plans** under the Planning Commission (est. 1950).

3. Agriculture — the Green Revolution

WHAT IT WAS A large increase in food-grain production resulting from **High Yielding Variety (HYV) seeds**, used together with **assured irrigation**, **chemical fertilisers**, **pesticides** and **credit**.

Phase 1 (mid-1960s to mid-1970s):
confined to wheat, in Punjab, Haryana
and western UP.

Phase 2 (mid-1970s to mid-1980s):
spread to more crops and more states.

Benefits

- **Self-sufficiency in food grains** — no longer dependent on imports
- **Marketed surplus** rose sharply
- Buffer stock created for the **PDS**
- Farmers' incomes rose

Criticisms

- Benefited **large farmers** more → inequality
- Limited to **wheat and rice**, and to a few states
- **Environmental damage** — soil, water table, chemical overuse
- Risk of **pest attack** on HYV crops

Land reforms: abolition of intermediaries (zamindars), land ceiling, and consolidation of holdings. Abolition of intermediaries largely succeeded; the land ceiling largely

failed because of loopholes and benami transfers.

4. Industry and Trade Policy (1950-1990)

- **Industrial Policy Resolution 1956 (IPR 1956)** classified industries into **three schedules**: A (17 industries exclusively for the state), B (12, state to progressively enter), C (all the rest, left to the private sector).
- **Industrial licensing** — every firm needed a licence to open, expand or change its product. Intended to promote backward regions.
- **Small-scale industry** was reserved for certain products and given concessions, to promote employment and equity.
- **Trade policy: import substitution** — protecting domestic industry through high **tariffs** and **quotas**, and replacing imports with domestic production.

Achievements

- Industrial **diversification** beyond textiles
- Public sector built **infrastructure** and heavy industry

- Growth of the **small-scale** sector
- Protection let domestic industry **grow**

Failures

- PSUs became **inefficient** and loss-making
- Licensing created a **permit-licence raj** and corruption
- Protection removed the **incentive to improve quality**
- No competition → **no innovation**

5. The 1991 Crisis and the New Economic Policy

WHY REFORMS BECAME UNAVOIDABLE 1. Foreign

exchange crisis — reserves fell to about two weeks of imports.

2. Mounting fiscal deficit — government spending far exceeded revenue.

3. Rising prices — high inflation.

4. Poor PSU performance — heavy losses, drain on the exchequer.

5. India borrowed from the IMF and World Bank, which required structural adjustment.

THE TWO SETS OF MEASURES — know the distinction

Type	Purpose	Nature
Stabilisation measures	Correct the BoP deficit and control inflation	Short run
Structural reform measures	Improve efficiency and international competitiveness by removing rigidities	Long run

6. LPG — the three prongs

Reform	Meaning	Main measures
LIBERALISATION	Removing unnecessary controls, licences and restrictions — the end of the licence raj	Industrial licensing abolished except for a few industries · Reserved public-sector industries cut from 17 to a handful · Financial sector reforms — RBI as facilitator rather than regulator, private banks allowed, FII permitted · Tax reforms — rates reduced , procedures simplified, GST (2017) · Foreign exchange — rupee devalued 1991, then market-determined · Trade — tariffs cut, quotas removed, export duties removed
PRIVATISATION	Shifting ownership and management from the public to the private sector	Disinvestment — sale of PSU equity · Navratna status given to select PSUs to improve efficiency and autonomy

GLOBALISATION	Integration of the domestic economy with the world economy	Free flow of goods, services, capital and technology · Outsourcing — India benefits through IT/BPO because of cheap, skilled, English-speaking labour · WTO membership (1995)
----------------------	---	---

7. Demonetisation and GST

both named in the official Unit 6

DEMONETISATION — 8 NOVEMBER 2016 *Concept:*

demonetisation means withdrawing the legal tender status of currency notes of a particular denomination. On 8 November 2016 the Government of India demonetised the ₹500 and ₹1000 notes, which together made up about 86% of the currency in circulation by value.

Stated aims: curb black money · check counterfeit currency · cut off funding for terrorism · reduce corruption · move towards a cashless / less-cash economy.

Features as viewed by economists:

- *It was a tax administration measure — unaccounted cash had to be deposited and*

declared, with a penalty.

- It channelled savings into the formal financial system, so more money entered the banking system.
- It was expected to reduce the cash-to-GDP ratio and expand digital payments.
- It caused a temporary liquidity shock, hitting the informal sector, agriculture and daily-wage workers hardest.

GST — GOODS AND SERVICES TAX, 1 JULY 2017

Concept: GST is a single, comprehensive, destination-based indirect tax levied on the supply of goods and services. It replaced a long list of central and state indirect taxes — excise duty, service tax, VAT, octroi, entry tax and others — with one tax.

Structure: CGST (collected by the Centre) + SGST (collected by the State) on intra-state supply, and IGST on inter-state supply. Administered by the GST Council.

Merits: creates “one nation, one tax, one market” · removes the cascading effect

(tax on tax) through **input tax credit** · widens the tax base and improves compliance · reduces transport delays at state borders · makes Indian goods more **competitive**.

Concerns: multiple rate slabs make it complex · compliance burden on **small businesses** · states lost some fiscal autonomy · disruption during the transition.

TRAP Demonetisation is a **MONETARY measure** (it changed the currency in circulation). **GST is a FISCAL / TAX reform** (it changed how indirect tax is levied). Questions sometimes ask you to classify them — do not call GST a monetary measure.

8. Appraisal of the Reforms

In favour

- **GDP growth** rose from about 5.6% to over 6–7%
- **Foreign exchange reserves** rose sharply
- **FDI and FII inflows** increased

- **Inflation** came under control
- India became a global **IT and services** hub

Against

- Growth was driven by **services**, not agriculture or industry
- **Agriculture neglected** — public investment fell, subsidies cut
- **Jobless growth** — employment did not rise with GDP
- **Inequality widened**; small firms could not compete
- **Disinvestment proceeds** used to cover the **deficit**, not to build assets

9. Question Triggers

what the wording is really asking

If the question says...	Answer with
"why were reforms introduced in 1991?"	The five causes — lead with the forex crisis
"short-run measures to correct BoP"	Stabilisation measures
"long-run measures to raise efficiency"	Structural reform measures
"licences abolished, controls removed"	Liberalisation
"government sold its stake in a PSU"	Privatisation / disinvestment

"Indian firms competing worldwide, WTO"	Globalisation
"call centres set up in India by foreign firms"	Outsourcing
"HYV seeds, fertiliser, irrigation"	Green Revolution
"abolition of zamindari"	Land reform — largely successful
"land ceiling"	Land reform — largely failed (loopholes)
"protecting domestic industry from imports"	Import substitution via tariffs and quotas
"growth without employment"	Jobless growth — criticism of reforms

MOST-ASKED BOARD QUESTIONS

1. [4-6M] Explain the reasons for the economic reforms of 1991.
2. [4-6M] Explain liberalisation / privatisation / globalisation and their measures.
3. [4M] Explain the goals of five year plans / the four planning objectives.
4. [4M] Evaluate the Green Revolution — benefits and criticisms.
5. [3M] Distinguish between stabilisation and structural reform measures.

6. [1M] In which year did India become a WTO member? → 1995

THE HABIT THAT SCORES — This chapter is examined as “evaluate” questions. Always give **both sides** — achievements and failures — then a one-line verdict. An answer with only the positive side caps at half marks, however well written.

Chapter 7 · Current Challenges facing the Indian Economy

CBSE Class 12 Economics (030) · Part B · Unit 7 =

20 marks — the largest unit in the paper ·

Ultimate Revision Sheet

SYLLABUS — VERIFIED AGAINST THE OFFICIAL 2026-27 DOCUMENT

Unit 7 prescribes exactly four topics:

1. Human Capital Formation 2. Rural Development 3. Employment 4.

Sustainable Economic Development

Poverty and Infrastructure are NOT in this unit. They appear in older editions and in many note sets. They are kept at the end of this sheet, clearly marked, in case your school still teaches them — but do not spend board-exam revision time on them.

60-SECOND RECALL

Human Capital	Stock of skill and knowledge in people. Human development is the wider goal — people as an end , not a means.
Rural Development	Credit · Marketing · Diversification · Organic farming
Rural credit	NABARD is the apex body · SHGs give micro-credit
Employment	Worker-Population Ratio = (Workers ÷ Population) × 100
Informal sector	Over 90% of India's workforce — no job or social security
Sustainable development	Meet present needs without compromising future generations

1. Human Capital Formation

DEFINITION *Human capital is the stock of skill, ability, expertise and knowledge embodied in a population. Human capital formation is the process of adding to that stock through investment in education, health and training — it is how people become a resource.*

Source	How it builds human capital
Expenditure on education	Raises skill, productivity and earning capacity. The single most important source.

Expenditure on health	A healthy worker works longer and better — preventive, curative, social medicine, drinking water, sanitation.
On-the-job training	Raises skill directly; firms recover the cost through higher productivity.
Migration	People move for better jobs; transport cost and higher living costs are the investment.
Information	Cost of acquiring information about the labour and education market.

Role of human capital in economic development

- **Change in emotional and material environment** — educated people bring a more progressive outlook.
- **Higher productivity of physical capital** — skilled workers use machines better.
- **Innovation** — educated workers create and adopt new technology.
- **Faster adaptation to changing technology and markets.**
- **Better participation in democracy and in the economy.**

THE DISTINCTION EXAMINERS LOVE Human

Capital vs Human Development.

- Human capital treats education and health as a means to raise productivity — people are a means to an end.
- Human development treats education and health as basic rights — people are an end in themselves. Every person has a right to be educated and healthy whether or not it raises productivity.

Physical vs Human capital: physical capital is tangible and separable from its owner and can be sold; human capital is intangible and inseparable and cannot be sold — only its services can.

Growth of the education sector in India

Education expenditure is measured as a percentage of GDP and as a percentage of total government expenditure. The Education Commission (1964-66) recommended spending 6% of GDP on education — a target India has still not consistently met. Problems: low government spending · high drop-out rates · poor quality and teacher

shortages · gender and regional gaps · a mismatch between education and employable skills (**educated unemployment**).

2. Rural Development

DEFINITION Rural development is a comprehensive term that refers to actions and initiatives taken for the **social and economic development of rural areas**. More than **two-thirds** of India's population depends on agriculture, so rural development is central to national development.

Key issues in rural development

- Development of **human resources** — literacy, education, skill development, health
- Land reforms and development of **productive resources**
- **Infrastructure** — electricity, irrigation, credit, marketing, transport, banking
- Special measures for **poverty alleviation** and improvement in living conditions of the weaker sections

(a) Rural Credit

Farming needs a long gap between sowing and earning, so farmers must borrow. Before independence the **moneylender** dominated and charged exploitative rates.

SOURCES OF RURAL CREDIT

Institution	Role
NABARD	National Bank for Agriculture and Rural Development , set up 1982 — the apex body that coordinates and refinances all rural financing.
Commercial banks	Expanded rapidly after bank nationalisation (1969) ; provide crop and term loans.
Regional Rural Banks (RRBs)	Serve rural and semi-urban areas specifically.
Cooperative credit societies	Pool members' resources; give credit at reasonable rates.
Self Help Groups (SHGs)	Small groups (usually women) pool savings and lend among themselves — micro-credit . Collateral-free, simple, and it has promoted women's empowerment .

Problems of rural credit: insufficient coverage · **defaults** and rising non-performing assets · small and marginal farmers still depend on informal lenders · loans often used for **consumption** rather than production.

(b) Agricultural Marketing

CONCEPT Agricultural marketing is the process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of agricultural products across the country.

THE FOUR MEASURES TAKEN BY GOVERNMENT 1.

Regulated markets — organised markets (mandis) to ensure fair and transparent dealing.

2. Infrastructure — roads, railways, warehouses, cold storage, processing units.

3. Cooperative marketing — societies that give farmers a fair share of the final price.

AMUL is the landmark success (milk cooperative, Gujarat).

4. Policy instruments — Minimum Support Price (MSP), buffer stock of food grains, and the Public Distribution System (PDS).

Problems: exploitation by middlemen · lack of storage leading to distress sale · inadequate transport · lack of market

information · malpractices in weighing and grading.

(c) Agricultural Diversification

TWO MEANINGS — know both

1. Diversification of crops — shifting from a single crop to a variety of crops.

2. Diversification of productive activities — shifting the workforce from farming to allied and non-farm activities. This is the more important sense.

Why it is needed: farming alone cannot absorb the whole rural workforce · it reduces the **risk** of depending on one crop · it provides income in the **lean season** · it raises rural incomes.

Allied activity	Significance
Animal husbandry	Provides stable income and employment, mainly to women. The Operation Flood / White Revolution made India a leading milk producer.
Fisheries	Inland and marine. Blue Revolution . Provides livelihood to coastal communities.
Horticulture	Fruits, vegetables, flowers, spices. The Golden Revolution (1991-2003) made India a world leader in mangoes, bananas, coconuts and spices. Highly employment-generating for women.

Non-farm areas

Agro-processing, IT, tourism, cottage industries, transport.

THE FOUR "REVOLUTIONS" — a favourite 1-marker

Green Revolution → food grains · **White** Revolution (Operation Flood) → milk · **Blue** Revolution → fisheries · **Golden** Revolution → horticulture.

(d) Organic Farming — alternative farming

DEFINITION Organic farming is a system of farming that restores, maintains and enhances ecological balance. It avoids chemical fertilisers and pesticides and relies on organic manure, crop rotation, bio-pest control and composting.

Benefits

- Substitutes costly chemical inputs with cheaper local resources
- Generates higher net income in the long run
- Produces chemical-free, more nutritious food
- Environmentally sustainable — protects soil and water

- **Labour intensive**, so it generates rural employment
- Growing **export demand** for organic produce

Challenges

- **Lower yields** in the initial years than modern farming
- Inadequate **infrastructure** and marketing support
- Organic produce has a **shorter shelf life**
- Limited **choice of off-season** crops
- Farmers need **awareness and training**

3. Employment — Growth, Informalisation and Other Issues

THE DEFINITIONS AND THE FORMULA

Worker — a person engaged in an economic activity that contributes to the **gross national product**.

Labour force — persons working **plus** those willing and able to work but not working.

Work force — persons actually working.

$$\text{Worker-Population Ratio} = (\text{Total Workers} \div \text{Total Population}) \times 100$$

$$\text{Unemployment} = \text{Labour Force} - \text{Work Force}$$

Categories of workers

Self-employed — the largest group in India ·

Regular salaried · **Casual wage labourers**.

Rural areas have more **self-employed** and **casual** workers; urban areas have more **regular salaried**. Men dominate regular salaried work; women are concentrated in casual and self-employment.

Formal and informal sectors

Basis	FORMAL (organised)	INFORMAL (unorganised)
Who	Government departments, public sector and private firms employing 10 or more workers	Everyone else — farmers, agricultural labourers, small shop owners, own-account workers
Share of workforce	Under 10%	Over 90%
Security	Job security, provident fund, pension, gratuity, paid leave, trade unions	None of these

THE TWO TERMS *Casualisation* = a shift from regular salaried to casual employment. *Informalisation* = a rising share of the informal sector in total employment. Both are signs of *deteriorating employment quality* even when the number of jobs grows.

Types of unemployment

Type	Meaning & where it is found
Disguised	More people employed than needed; marginal productivity is zero . Removing some does not reduce output. Typical of agriculture / family farms .
Seasonal	Work available only in certain seasons — agriculture, tourism.
Structural	Mismatch between workers' skills and available jobs.
Cyclical	Caused by a downturn in the business cycle.
Educated	Qualified people unable to find suitable work — serious in urban India.

Government employment policies

Government generates employment **directly** (as an employer in administration and public enterprises) and **indirectly** (by supporting industries and infrastructure).

Key programme: MGNREGA — Mahatma Gandhi National Rural Employment

Guarantee Act, guaranteeing 100 days of wage employment in a financial year to every rural household whose adult members volunteer for unskilled manual work.

Earlier schemes: SGSY, PMRY, NRLM, Swarna Jayanti Shahari Rozgar Yojana.

4. Sustainable Economic Development

DEFINITION (Brundtland Commission)

Sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs.

Functions of the environment: supplies resources · assimilates waste · sustains life · provides aesthetic services.

An environmental crisis arises when demand on the environment exceeds its carrying capacity — when resource extraction exceeds regeneration and waste exceeds absorptive capacity.

Effects of economic development on resources and environment

- **Land degradation** — deforestation, soil erosion, overuse of chemical fertiliser, waterlogging.
- **Air pollution** — vehicular and industrial emissions; India is among the worst affected.
- **Water pollution** and a falling **water table** from over-extraction.
- **Loss of biodiversity.**
- **GLOBAL WARMING** — a gradual increase in the average temperature of the earth's near-surface air and oceans, caused by the accumulation of **greenhouse gases** (carbon dioxide, methane, CFCs).
Consequences: melting polar ice, **rising sea levels**, coastal flooding, extreme weather, disrupted agriculture and the spread of disease.
- **Ozone depletion** — caused mainly by CFCs; raises ultraviolet radiation reaching the earth.

Strategies for sustainable development

1. **Use of non-conventional energy** — India is rich in **solar and wind** potential; both are

clean and renewable.

2. **LPG and gohar gas in rural areas** — replaces firewood and dung cakes, reduces deforestation and indoor air pollution.
3. **CNG in urban transport** — Delhi's switch to CNG greatly reduced vehicular pollution.
4. **Wind power** — windmills in high-wind regions generate electricity with no running cost.
5. **Solar power through photovoltaic cells** — usable even in remote areas.
6. **Mini-hydel plants** — small hill streams generate local electricity without disturbing the ecology.
7. **Traditional knowledge and practices** — Indian systems of medicine and farming are environment-friendly.
8. **Bio-composting and bio-pest control** — replaces chemical fertiliser and pesticide; use of earthworms and neem-based pesticides.

5. Question Triggers

identify the concept

If the case says...

The answer is

"firm trained its own workers"	On-the-job training — human capital formation
"education is a basic right, not just productive"	Human development , not human capital
"moved to a city for a better job"	Migration — source of human capital
"apex bank for rural financing"	NABARD (1982)
"women pooled savings and lent among themselves"	SHG — micro-credit
"farmers sold through a milk cooperative"	Cooperative marketing — AMUL model
"sold immediately after harvest at a low price"	Distress sale — lack of storage
"price below which government will not let it fall"	Minimum Support Price
"shifted from wheat alone to fruit and poultry"	Agricultural diversification
"milk / fisheries / horticulture"	White / Blue / Golden Revolution
"farming without chemical fertiliser"	Organic farming
"five work where three are needed"	Disguised unemployment
"no work for four months after harvest"	Seasonal unemployment
"shift from regular jobs to casual work"	Casualisation
"100 days of guaranteed wage employment"	MGNREGA
"without compromising future generations"	Sustainable development
"waste exceeds absorptive capacity"	Carrying capacity exceeded

"rising average earth temperature, melting ice"

Global warming

"Delhi buses switched fuel"

CNG — sustainable strategy

MOST-ASKED BOARD QUESTIONS

1. **[4-6M]** Explain the sources of human capital formation.
2. **[4M]** Distinguish between human capital and human development / physical and human capital.
3. **[4-6M]** Explain the role of credit and marketing in rural development.
4. **[4M]** What is agricultural diversification? Why is it necessary?
5. **[4M]** Explain organic farming, its benefits and its limitations.
6. **[4-6M]** Explain the types of unemployment / distinguish formal and informal sector.
7. **[4-6M]** Explain sustainable development and the strategies to achieve it.
8. **[1M]** Which bank is the apex body for rural credit? → **NABARD**

6. Poverty and Infrastructure

NOT IN

THE 2026-27 UNIT 7

READ THIS BEFORE REVISING THIS SECTION

The official 2026-27 syllabus lists only Human Capital, Rural Development, Employment and Sustainable Development under Unit 7. Poverty and Infrastructure are **not** prescribed. They are summarised below only because many school note sets still include them. **Confirm with your teacher before spending time here.**

Poverty: measured by a **poverty line** based on a minimum consumption level. **Head Count Ratio** = $(\text{number of poor} \div \text{total population}) \times 100$. Categories: **chronic poor**, **transient poor**, **non-poor**. Three-pronged approach: **growth-oriented**, **poverty alleviation programmes** (MGNREGA and others), and **minimum needs / basic amenities** (PDS, mid-day meals, housing).

Infrastructure: **Economic** infrastructure (energy, transport, communication, banking) supports production directly; **social** infrastructure (education, health, housing, sanitation) supports human development.

Energy sources are **conventional** (coal, petroleum, natural gas, electricity) or **non-conventional** (solar, wind, biomass); **commercial** (bought and sold) or **non-commercial** (firewood, dung).

THE HABIT THAT SCORES — This unit is **20 marks**, the largest in the paper, and it is almost entirely definitions plus Indian examples. For every concept keep **one ready example** — NABARD for rural credit, AMUL for cooperative marketing, MGNREGA for wage employment, CNG in Delhi for sustainability. An answer with a named Indian example scores a full band above one without.

Chapter 8 · Comparison with Neighbours — India, China, Pakistan

CBSE Class 12 Economics (030) · Part B · Unit 8 =
8 marks · Ultimate Revision Sheet

60-SECOND RECALL

The three dates	India 1951 first plan · China 1953 first plan · Pakistan 1956 first plan
Reform years	China 1978 · Pakistan 1988 · India 1991
China's first move	Great Leap Forward 1958 , then Commune system , then 1978 reforms
China's sector shift	Agriculture → Manufacturing — became the world's factory
India's sector shift	Agriculture → Services — skipped the manufacturing stage
Pakistan	Green Revolution + remittances ; growth volatile , dependent on aid

1. Why compare these three?

All three began development planning at nearly the same time, had similar problems at the start — low income, dominant agriculture, high population growth — and adopted **different strategies**. Comparing them shows how strategy shapes outcomes.

2. Developmental Path — the three stories

CHINA 1949 People's Republic established; all critical sectors brought under government control.

1958 Great Leap Forward (GLF) — massive industrialisation; people urged to set up industry in their **backyards**. Failed badly due to a severe drought and the withdrawal of Russian support.

Commune system — collective farming; people cultivated land collectively.

1965 Cultural Revolution — students and professionals sent to work in the countryside.

1978 Reforms — introduced in **phases**, beginning with **agriculture**, then industry.

- Land divided among households under the **Household Responsibility System**; they could keep the surplus after paying taxes.
- **Special Economic Zones (SEZs)** set up to attract foreign investment.
- **Dual pricing** — fixed prices for a quota, market prices for the rest.

PAKISTAN Followed a **mixed economy** with a dominant private sector.

1950s-60s: import substitution, tariff protection for manufactured consumer goods.

1970s: nationalisation of capital goods industries.

1980s onwards: denationalisation and encouragement of the private sector; reforms from 1988.

Growth was supported by the **Green Revolution** (mechanisation, better infrastructure) and by **remittances** from workers in the Middle East, plus foreign aid.

INDIA Mixed economy with a large public sector, five year plans from **1951**, import substitution and licensing until **1991**, then **LPG** reforms.

3. Comparative Performance

THE COMPARISON TABLE — this is the 6-marker

Indicator	INDIA	CHINA	PAKISTAN
-----------	-------	-------	----------

Population	Very large; second largest	Largest (about 1.4 bn)	About 1/10th of India or China
Population growth	Moderate	Lowest — due to the one-child policy	Highest of the three
Density	High	Low (huge land area)	Low
Sex ratio	Low	Low	Low — all three show a preference for sons
Fertility rate	Moderate	Low	High
Urbanisation	Moderate	High	Highest of the three
GDP growth	Moderate, rising after 1991	Highest — sustained high growth	Moderate but volatile
Contribution to GDP	Services dominant (about 54%)	Manufacturing/industry dominant	Services dominant
Workforce in agriculture	Still high (about 43%)	Falling steadily	High

THE CENTRAL CONTRAST — write this in every comparison answer

China moved from agriculture to **MANUFACTURING**, which absorbed the surplus rural workforce and made it the world's factory.

India moved from agriculture straight to **SERVICES**, effectively *skipping* the manufacturing stage. Services are less labour-absorbing, which is why India still has a very large share of its workforce in agriculture and why its growth has been criticised as *jobless*.

4. Human Development Indicators

Indicator	Ranking among the three
HDI rank	China best, then India , then Pakistan — positions vary slightly by year
Life expectancy	China highest
Infant mortality rate	China lowest (best); Pakistan highest
Adult literacy	China highest
Population below poverty line	China lowest
Access to improved sanitation	Pakistan performs relatively well on this one

TRAP On most human-development indicators **China leads** — but note the exception: **Pakistan does better than India on some sanitation and poverty measures.** Boards like this nuance. Do not write “India is second on everything”.

5. Appraisal — the honest verdict

China — successes

- Reforms introduced in **phases**, starting with agriculture — built a base before opening industry
- Land reform gave **ownership incentive**
- **SEZs** attracted large-scale FDI
- Poverty reduced dramatically

China — concerns

- **Lack of political freedom** and civil liberties
- Rising **regional inequality** (coastal vs interior)
- **Environmental degradation**
- Ageing population from the one-child policy

India

- Strength: **democratic** framework, strong services and IT sector
- Weakness: agriculture still absorbs too many workers; **jobless growth**; weak manufacturing

Pakistan

- Growth reversed in the 1990s; heavy dependence on **remittances and foreign aid**
- **Political instability** and volatile agricultural performance
- Failure to raise sufficient **foreign exchange** from exports

6. Question Triggers which country?

If the question mentions...	It is
"Great Leap Forward" / "backyard industry"	China , 1958
"Commune system" / collective farming	China
"Household Responsibility System"	China , 1978 reforms
"Special Economic Zones" / dual pricing	China
"one-child policy"	China — lowest population growth
"remittances from the Middle East"	Pakistan

"denationalisation in the 1980s"	Pakistan
"growth driven by services, not manufacturing"	India
"reforms in 1991"	India
"highest population growth of the three"	Pakistan
"world's factory / manufacturing dominant"	China

MOST-ASKED BOARD QUESTIONS

1. [4-6M] Compare India, China and Pakistan on growth, sectoral contribution and human development.
2. [4M] Explain China's reforms of 1978 and why they succeeded.
3. [3-4M] Why has India's growth been called "jobless" compared with China's?
4. [3M] Explain the Great Leap Forward / the Commune system.
5. [3M] Why did Pakistan's growth become volatile after the 1990s?
6. [1M] Which country has the lowest population growth? → **China** (one-child policy)

THE HABIT THAT SCORES — Comparison questions are marked on **structure**. Use a table with a **Basis** column and

one row per indicator, then close with a one-line verdict. A prose paragraph covering the same facts scores lower than the same facts in a table.