

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 = $(\text{Workers} \div \text{Population}) \times 100$
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
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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 gobar 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**

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, CNQ in Delhi for sustainability. An answer with a named Indian example scores a full band above one without.