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The Change*

# INDIAN ECONOMY

POWER PRESENTATION

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# OVERVIEW OF INDIAN ECONOMY

Every economy in the world has its own characteristics or features by which it is known or identified. Economies are compared with each other on the basis of these features. India as a distinct nation came into existence on 15th August 1947, called the independence day of India which marked the end of British rule over India. After that, Independent India has completed 66 years of self rule on 15th August 2013. This period is long enough to evaluate the position and performance of the country to enable comparison with other countries in the world as well as evaluate its own progress over the years. With this view in mind the current lesson provides the features of Indian economy.

# FEATURES OF INDIAN ECONOMY

Let us now list the features of Indian economy as follows:

- ▶ (i) Low per capita income
- ▶ (ii) Heavy population pressure
- ▶ (iii) Dependence of population on agriculture
- ▶ (iv) Poverty and Inequality income distribution
- ▶ (v) Higher level of capital formation which is a positive feature
- ▶ (vi) Planned economy

# ROLE OF AGRICULTURE IN INDIA

- ▶ Agriculture is one of the most important sectors of Indian economy. It is the supplier of food and raw materials in the country. At the time of independence more than 70 per cent of India's population depended on agriculture to earn livelihood. Accordingly the share of agriculture in the national product/income was as high as 56.6 per cent in 1950-51. However with development of industries and service sector during the plan periods, the percentage of population depending on agriculture as well as the share of agriculture in the national product has come down. In 1960, the percentage of labour force engaged in agricultural activities was 74 which gradually came down over the years to 51 per cent in 2012. In 1960 the share of labour force in industry and service sectors stood at 11 and 15 percent

respectively. But in 2012 these shares increased to 22.4 and 26.5 percent respectively. It has been observed in most of the economies that along with economic development shift in labour force from agriculture to industry and service sector takes place.

# GROWTH OF INDUSTRY IN INDIA

Industry or the secondary sector of the economy is another important area of economic activity. After independence, the government of India emphasized the role of industrialization in the country's economic development in the long run. Accordingly, the blue print for industrial development was made through the Industrial Policy Resolution (IPR) in 1956. The 1956 policy emphasized on establishment of heavy industries with public sector taking the lead in this area. Adoption of heavy or basic industries strategy was justified on the ground that it will reduce the burden on agriculture, enable growth in the production of consumer goods industries as well as small industries that are helpful for employment generation and achieving self reliance.

After the adoption of the IPR, 1956 there was tremendous growth in industrialization during the second and third plan periods i.e. 1956-61 and 1961-66. Public sector contributed maximum to this growth. But towards the end of 1960s, investment in industries was reduced which adversely affected its growth rate. In the 1980s, this trend was reversed and investment in industries was increased by making the infrastructure base such as power, coal, rail much stronger.

# NATIONAL INCOME

National income is the measurement of flow of services and goods in economic system. The national wealth is the measurement of present assets available on a given time while the National income is the measurement of the production power of economic system in a given time period. The figures of National income are based on the financial year (i.e. from 1st April to 31st March). The base of one year is taken for calculating National income which is called base year, as all the seasons come in a year. The data of estimation of India's National income are issued by Central Statistical Organization (CSO).

National Income (NI) is a fundamental concept in economics, acting as a key metric for gauging a country's economic performance. As an important economic metric of a nation, it influences policy decisions, investment considerations, and socio-economic planning.

# METHODS OF COMPUTING NATIONAL INCOME (NI)

## Income Method

Under this method, NI is obtained by summing up the incomes of all individuals in an economy.

Individuals earn incomes by contributing their own services and the services of their property such as land and capital to the national production.

Thus,

***National Income (NI) = Employee compensation + Corporate profits + Proprietors' Income + Rental income + Net Interest***

## Product or Value Added Method

This is also called “**Output Method**”.

Under this method, NI is computed by adding the values of output produced or services rendered by the different sectors of the economy during the year.

It is to be noted that while computing the values of output figures, only the value added by each firm in the production process is taken into account. Thus, this method makes use of the **concept of Value-added**.

# Expenditure Method

It is also called '**Total Outlay Method**'.

This method assumes that the income earned by an individual is either spent on consumer goods/services or saved and invested.

Thus,

***National Income (NI) = Personal Consumption Expenditure (C) + Investments (I) + Government Expenditure (G) + Exports (X) – Imports (I)***



# MEASURES OF NATIONAL INCOME (NI)

## Measures of National Income (NI)

There are various metrics for measuring the NI, such as:

- Gross Domestic Product (GDP)
- Gross National Product (GNP), etc

These measures are discussed in detail in the sections that follow.

## Gross Domestic Product (GDP)

**Gross Domestic Product (GDP)** measures the aggregate production of **final goods and services** taking place **within the domestic economy** during a year.

**Two key phrases here are:**

- Final Goods and Services:** It means that only the final, and not the intermediate, goods and services are taken into account for the calculation of GDP.
- Within the Domestic Economy:** It means that the produce of resident citizens as well as foreign nationals who reside within that geographical boundary is considered.

# GROSS National Product (GNP)

## Gross National Product (GNP)

Gross national product (GNP) is an estimate of the total value of all the **final products and services** produced in a given period by the production **owned by a country's citizens**.

**Two key phrases here are:**

- Final Goods and Services:** It means that only the final, and not the intermediate, goods and services are taken into account for the calculation of GNP.
- Owned by a Country's Citizens:** It means that the produce of resident as well as non-resident citizens of the country is considered, whereas that of the foreign nationals who reside within that geographical boundary of the country is NOT considered.

# ECONOMIC PLANNING IN INDIA

India adopted a system of five yearly planning to address its various socioeconomic problems. You have already been told about the problems of Indian economy at the time of its independence. To remind, these problems include mass poverty and inequality, low productivity in agriculture and storage of food grains, lack of industrial and infrastructural development etc. Since these are to be solved over the long period, Indian government adopted five year plan starting from first year plan in 1951 development. The idea was to make a list of important problems to be solved keeping in view the given resources and the capacity to arrange the resources.

Some of the great architects of Indian planning include Jawaharlal Nehru, P.C Mahalonobis, V.R Gadgil, V.K.R.V Rao. After becoming the first prime minister of independent India, Nehru established the Planning Commission in 1950. The major function of the Planning Commission was to formulate plans keeping in view the resources of the country and suggesting the best methods to utilize them effectively and in a balanced manner.

# OBJECTIVES OF PLANNING IN INDIA

The various objectives of economic planning in India are drawn keeping in view its socio-economic problems. Accordingly the objectives as follows:

1. Economic growth
2. Increase in employment
3. Reduction in inequality of income
4. Reduction in poverty
5. Modernization of the economy
6. Ensuring social justice and equality.



THANK YOU