

Important snaps  
by Team PIS  
Class- xi

SUBJECT:ECONOMICS

CHAPTER:

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# Highlights from chapter 1

- ▶ **Describe the five major sectors in an economy according to the macroeconomic point of view.**
- ▶ An economy may be' divided into different sectors depending on the nature of study.
- ▶ Producer sector engaged in the production of goods and services.
- ▶ Household sector engaged in the consumption of goods and services.  
**Note:** Households are taken as the owners of factors of production.
- ▶ The government sector engaged in activities like taxation and subsidies.
- ▶ Rest of the world sector engaged in exports and imports.
- ▶ Financial sector (or financial system) engaged in the activity of borrowing and lending.

# Highlights from chapter 1

- ▶ **What are the important features of a capitalist economy? [3-4 Marks]**
- ▶ Private ownership of land and capital.
- ▶ Profit is the only motive.
- ▶ Free play of the market forces of demand and supply.
- ▶ Government looks after growth, stability and social justice in the economy.

# Highlights from chapter 1

- ▶ **Describe the Great Depression of 1929. [3-4 Marks]**
- ▶ The Great Depression took place in 1929 which adversely affected the developed economies of Europe and North America. It continued for 10 years. There was extreme fall in aggregate demand due to fall in income, which led to a vicious circle of poverty.

# Highlights from chapter 2

- ▶ **Why should the aggregate final expenditure of an economy be equal to the aggregate factor payments? Explain. [3 Marks]**
- ▶ The sum of final expenditures in an economy must be equal to the income received by all the factors of production taken together (final spending on final goods, it does not include spending on intermediate goods). This follows from the simple idea that the revenues earned by all the firms put together must be distributed among the factors of production as salaries, wages, profits, interests earning and rents.
- ▶ **What is the difference between planned and unplanned inventory accumulation? Write down the relation between change in inventories and value added of a firm. [3 Marks]**
- ▶ **Planned Inventory.** It refers to changes in the stock inventories that have occurred in a planned way. In a situation of planned inventory accumulation, firm will plan to raise its inventories. **Unplanned Inventory.** It refers to changes in the stock of inventories that have occurred in an unexpected way. In a situation of unplanned inventory accumulation, due to unexpected fall in sales, the firm will have unsold stock of goods.  
Value added of a firm (GVA) = Gross value of output produced by the firm – Value of intermediate goods used by the firm.

# Highlights from chapter 2

- ▶ **Write down the three identities of calculating the GDP of a country by the three methods. Also, briefly explain why each of these should give us the same value of GDP. [3 Marks]**

**Ans:** National Income = National Product = National Expenditure. Each one will give the same result. The only difference is that with product methods, NI is calculated at production or creation level with income Method NI is measured at distribution level, and with expenditure method NI is measured at disposal level.

- ▶ **Suppose the GDP at market price of a country in a particular year was Rs 1,100 crores. Net Factor Income from Abroad was Rs 100 crores. The value of Indirect taxes – Subsidies was Rs 150 crores and National Income was Rs 850 crores. Calculate the aggregate value of depreciation. [3 Marks]**

**Ans:** National Income (or NNPF) = GDPmp- Depreciation + Net factor income from abroad – [Indirect Taxes-Subsidies]  
 $850 = 1100 - \text{Depreciation} + 100 - 150$   
 $\text{Depreciation} = 1100 + 100 - 150 - 850$  Depreciation = Rs 200 Crore

# Highlights from chapter 3

▶ **What is Barter system? What are its drawbacks? [3 Marks]**

**Ans:** Barter system of exchange is a system in which goods are exchanged for goods.

It's Drawbacks are:

- ▶ Lack of double coincidence of wants.
- ▶ Lack of divisibility.
- ▶ Difficulty in storing wealth.
- ▶ Absence of common measure of value.
- ▶ Lack of standard of deferred payment.

# Highlights from chapter 3

▶ **Define Barter system.**

**Ans:** Barter system of exchange is a system in which goods are exchanged for goods.

▶ **What is meant by double coincidence of wants?**

**Ans:** Double coincidence of wants means that goods in possession of two different persons must be useful and needed by each other.

▶ **Define demand deposits.[CBSE 2013, Set I, HOTS ]**

**Ans:** Demand deposits are those deposit which can be withdrawn by the depositor at any time by means of cheque. No interest is paid on such deposits.

▶ **What are time deposits in banks?[AI 2013, C Set I]**

**Ans:** Time deposits are the deposits which can not be withdrawn before the expiry of the stipulated time for which deposits are made. Fixed deposit is an example of time deposit.



# Highlights from chapter 5

- ▶ **What is Aggregate demand in Macroeconomics? [CBSE 2005C, 06, 09C, 10; AI 2015]**  
**Answer:** It is aggregate expenditure on ex-ante (planned) consumption and ex-ante (planned) investment that all sectors of the economy are willing to incur at each income level.
- ▶ **. What is Aggregate Supply in Macroeconomics?[CBSE 2015, 1995C, 2000; AI 1999]**  
**Answer:** Aggregate supply is the total amount of money value of goods and services, (which is paid to the factor of production against their factor services) that all the producers are willing to supply in an economy.
- ▶ **What is consumption function?[CBSE 2008]**  
**Answer:** Consumption function expresses functional relationship between aggregate consumption and national income.
- ▶ **Question 4. Can the value of APC be less than zero?**  
**Answer:** No, because even at the zero level of income, we will consume something i.e., autonomous consumption.
- ▶ **Question 5. Why can value of MPC be not greater than one? [AI 1998]**  
**Answer:** It is so because Keynes' psychological law of consumption states that when income increases, consumption also increases but at a lesser rate. So, increase in consumption is always less than increase in income, i.e.,  $MPC = \Delta C / \Delta Y$  is always less than one.

# Highlights from chapter 6

▶ **Question 1. Why must aggregate demand be equal to aggregate supply at the equilibrium level of income and output? Explain with the help of a diagram. Or [CBSE 2006] Explain how is equilibrium level of income and employment established through AD and AS**

▶ It refers to the point that has come to be established under the given condition of aggregate demand and aggregate supply, and has tendency to stick to that level under this given condition where Aggregate Demand = Aggregate Supply.

▶ If due to some disturbance, we divert from that position, the economic forces will work in such a manner so as to drive us back to the original position, i.e., aggregate demand is equal to aggregate supply.

# Highlights from chapter 6

- ▶ **If planned savings are greater than planned investments, what will be its effect on inventories?**  
**[CBSB Sample Paper 2008]**

**Answer:** The inventories will rise.

- ▶ **What is meant by effective demand?**

**Answer:** The level at which the economy is in equilibrium, i.e., where aggregate demand = aggregate supply, is called effective demand.

# Highlights from chapter 9

▶ **What is foreign exchange?[CBSE AI 2011, 04]**

**Answer:** Foreign exchange refers to all the currencies of the rest of the world other than the domestic currency of the country. For example, in India, US dollar is foreign exchange.

▶ **What is meant by foreign exchange rate? [CBSE 2004,05,06,09 2011, Sample Paper 2010]**

**Answer:** The rate at which one currency is exchanged for another is called foreign exchange rate.

▶ **Define flexible exchange rate system.[CBSE 2008]**

**Answer:** Flexible exchange rate system refers to a system in which the exchange rate of different currencies is determined by the forces of demand and supply in foreign exchange market

▶ **When one country manipulates exchange rate against the interest of other country, is known as**

.....

**(a) managed floating ( b) dirty floating**

**(c) wide band (d) crawling peg**

**Answer:** (b)

# Highlights from chapter 9

- ▶ **What are the functions of a foreign exchange market?**
- ▶ **Transfer Function:** Transfer function refers to transferring of purchasing power among countries.
- ▶ **Credit Function:** It implies provision of credit in terms of foreign exchange for the export and import of goods and services across different countries of the world.
- ▶ **Hedging Function:** Hedging function pertains to protecting against foreign exchange risks. Where Hedging is an activity which is designed to minimize the risk of loss.
- ▶ **State four sources of supply of foreign exchange.[CBSE 2004, 05, 05C, 07, 10; AI 05] Or What are the sources for supply of foreign exchange? Exports of goods and services:** Supply of foreign exchange comes through exports of goods and services.
- ▶ **Foreign investment:** The amount, which foreigners invest in their home country, increases the supply of foreign exchange.
- ▶ **Remittances (unilateral transfers) from abroad:** Supply of foreign exchange increases in the form of gifts and other remittances from abroad.
- ▶ **Speculation:** Supply of foreign exchange comes from those who want to speculate on the value of foreign exchange.
- ▶

# Highlights from chapter 1

► **What was the focus of the economic policies pursued by the colonial government in India? What were the impacts of these policies?**

► The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of their home country rather than with the development of the Indian economy.

Thus, at the time of independence in 1947, India was a poor and underdeveloped country. At that time, agriculture was in a poor condition and mineral resources were not fully used. There were only a few industries and many of the cottage and small-scale industries had declined under the British rule. Millions of people were unemployed, not because they were unwilling to work but because there were no jobs to be found. The per capita income of Indians was one of the lowest in the world, indicating that the average Indian was extremely poor and could not afford even the basic necessities of life. For instance, the staple food of average Indian consisted of rice, wheat and millets (like jowar and bajra). Most Indians could not afford to buy nutritious and balanced diet. The vast majority of people in India led a miserable life.

# Highlights from chapter 1

- ▶ **Name some modern industries which were in operation in our country at the time of independence.**
- ▶ The Tata Iron and Steel company (TISCO) was incorporated in August 1907 in India. It established its first plant in Jamshedpur (Bihar). Some other industries which had their modest beginning after Second World War were: sugar, cement, chemical and paper industries.
- ▶ **What was the two-fold motive behind the systematic de-industrialisation effected by the British in pre-independent India?**  
**Answer.** De-industrialisation-Divide and Rule Policy. Britishers followed the policy of systematically de-industrialising India. The primary motive behind the de-industrialisation by the British government was two-fold:
  - ▶ to get raw materials from India at cheap rates in order to reduce India to a mere exporter of raw materials to the British industries.
  - ▶ to sell British manufactured goods in Indian market at higher prices. In this way, they exploited India through the device of double exploitation.

# Highlights from chapter 1

► **he traditional handicraft industries were mined under the British mle. Do you agree with this view? Give reasons in support of your answer.**

**Answer.** The main cause of exploitation of traditional handicraft industries was de-industrialisation introduced by British rulers in India. They got raw materials from India at cheap rates and reduced India to a mere exporter of raw materials to the British industries. They sold British manufactured goods in Indian market at higher prices.

It resulted in decline of world famous traditional handicrafts. Britishers followed discriminatort tariff policy. It allowed free export of raw materials from India and free import of British final goods to India, but placed heavy duty on the export of Indian handicrafts. In this way, Indian . markets were full of manufactured goods from Britain which were low priced. Indian handicrafts 1 started losing both domestic market and export market. Ultimately, the handicraft industry declined.



# Highlights from chapter 2

▶ **Define a plan.**

**Answer.** Plan is a document showing detailed scheme, program and strategy worked out in advance for fulfilling an objective.

▶ **Question 2. Why did India opt for planning?**

**Answer.** India achieved independence in 1947. The colonial government left India in a poor, backward and stagnant situation. From that time efforts have been made to solve people's problems in a sovereign Indian republic through a system of federal parliamentary democracy. Political independence has no meaning without economic prosperity. Planning was undertaken to sustain political independence and generate economic prosperity.

# Highlights from chapter 2

▶ **Why should plans have goals?**

**Answer.** Plans should have goals or objectives which the country wants to achieve in a specific time period. Without goals, the planners would not know which sector of the economy should be developed on a priority' basis.

▶ **What are miracle seeds?**

**Answer.** Miracle seeds are the high yielding variety of seeds which combined with assured water supply, fertilizer, insecticides, etc. would result in high production levels.

▶ **What is marketable surplus?**

**Answer.** It is that part of the agricultural produce which is sold in the market by the farmer.

# Highlights from chapter 3

▶ **What is the most important function of RBI?**

**Answer.** There was a substantial shift in role of the RBI from 'a regulator' to 'a facilitator' of the financial sector. Earlier as a regulator, the RBI would itself fix interest rate structure for the commercial banks. After liberalisation in 1991, RBI as a facilitator would only facilitate free play of the market forces and leave it to the commercial banks to decide their interest rate structure. Thus, with liberalisation competition prevails rather than controls.

▶ **What do you understand by devaluation of rupee?**

**Answer.** Devaluation refers to lowering in the official value of a currency with respect to gold or foreign currency. It results in costlier imports and cheaper exports.

▶ **Why are tariffs imposed?**

**Answer.** Tariffs are imposed on imports to make them relatively expensive. This will protect domestically produced goods.

# Highlights from chapter 3

- ▶ **India has certain advantages which makes it a favourite outsourcing destination. What are these advantages?**

**Answer.** India is a favourite outsourcing destination. The advantages that India has are:

- (a) India can provide a ready supply of skilled people at relatively lower price.
- (b) India has the advantage of time difference as it is located on the other side of the developed countries.

- ▶ **What are the major factors responsible for the high growth of the service sector?**

**Answer.** There has been high growth of the service sector in India. There is too much demand for services because :

- (a) It is more profitable to contract services from developing countries.
- (b) There is easy availability of skilled manpower at lower wage rate.

# Highlights from chapter 4

▶ **Define poverty.**

**Answer.** Poverty in India has been defined as that situation in which an individual fails to earn income sufficient to buy him minimum means of subsistence.

▶ **What is meant by 'Food for Work' programme?**

**Answer.** National Food for Work Programme (NFWP). This programme was initially launched w.e.f. February 2001 for five months and was further extended. This programme aims at augmenting food security through wage employment in the drought affected rural areas in eight States, i.e., Gujarat, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttaranchal. The centre makes available appropriate quantity of foodgrains free of cost to each of the drought affected States as an additionality under the programme. Wages by the State government can be paid partly in kind and partly in cash. The workers are paid the balance of wages in cash, such that they are assured of the notified minimum wages.

# Highlights from chapter 4

- ▶ **State an example each of self-employment in rural and urban areas,**

**Answer.** PMRY is a self-employment programme in rural areas.

SJSRY is a self-employment programme in urban areas.

- ▶ **. How can creation of income earning assets address the problem of poverty?**

**Answer.** With the creation of income earning assets, people will have a way to earn their livelihood. It will help in removal of poverty.

- ▶ **Is there any relationship between unemployment and poverty? Explain.**

**Answer.** Unemployment means lack of living. It leads to hunger, gloom, pessimism, indebtedness, etc. They all are signs of poverty.

# Highlights from chapter 5

- ▶ **What are the two major sources of human capital in a country?**

**Answer.**Two main sources of human capital are investment in education and health.

- ▶ **Question 2. What are the indicators of educational achievement in a country?**

**Answer.**Educational attainment is measured by primary education, youth literacy and adult literacy.

- ▶ **Mention two government organisations each that regulate the health and education sectors.**

**Answer.**In India, the ministries of education at the Centre and State level, departments of education and various organisations such as National Council of Educational Research and Training (NCERT), University Grants Commission (UGC) and All India Council of Technical Education (AICTE) regulate the education sector. Similarly, the ministries of health at the Union and State level, departments of health and various organisations like Indian Council for Medical Research (ICMR) regulate the health sector.



# Highlights from chapter 5

► **Bring out the differences between human capital and human development.**

**Answer.** Difference between Human Capital and Human Development

► **Human Capital**

1. Human capital considers education and health as a means to increase labour productivity.
2. Human capital is a narrow concept which treats human beings as a means to achieve an end which is higher productivity, failing which the investment is not considered to be productive.

► **Human Development**

1. Human development is based on the idea that education and health are integral to human well-being since only when people have the ability to read and apply their knowledge to derive maximum benefit they will be able to lead a long and healthy life.
2. Human development is a broader concept which considers human beings as ends in themselves. Human welfare can be achieved through investments in education and health. It considers welfare — a right of every individual irrespective of their contribution to labour productivity. Every individual has right to be literate and lead a healthy life



# Highlights from chapter 6

- ▶ **What do you mean by rural development? Bring out the key issues in rural development.**
- ▶ **Answer.** Rural development is a comprehensive term which essentially focuses on action for the development of areas that are lagging behind in the overall development of the village economy. Some of the areas which are in need of fresh initiatives for rural development are:
  - ▶ Development of human resources like literacy, more specifically, female literacy, education and skill development.
  - ▶ Development of human resources like health, addressing both sanitation and public health.
  - ▶ Honest implementation of land reforms.
  - ▶ Development of the productive resources in each locality.
  - ▶ Infrastructure development like electricity, irrigation, credit, marketing, transport facilities including

# Highlights from chapter 6

▶ **Discuss the importance of credit in rural development.**

**Answer.** Farmers need money to buy additional land, implements and tools, fertilizers and seeds, paying off old debt, personal expenses like marriage, death, religious ceremonies, etc. Since the gestation period between crop sowing and realisation of income after sale of agricultural produce is very long, farmers need to take credit.

▶ **Explain the role of micro-credit in meeting credit requirements of the poor.**

**Answer.** SHGs (Self-Help Groups) and micro credit programmes promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit needs are fulfilled. The member have to repay the credit in small instalments at low rate of interest. The borrowings are mainly for consumption purposes.

▶ **What do you mean by agricultural marketing?**

**Answer.** Agricultural Marketing is defined as a process of marketing farm produce through wholesalers and stockists to ultimate consumers.

# Highlights from chapter 7

- ▶ **.Compared to urban women, more rural women are found working. Why?**

**Answer.** Participation rate for women is higher in rural areas compared with urban areas. It is because in rural areas, poverty forces women to seek employment. Without education, women in rural areas find only less productive jobs and get low wages.

In urban areas, men are able to earn high incomes. So they discourage female members from taking up jobs.

- ▶ **Meena is a housewife. Besides taking care of household chores, she works in the cloth shop which is owned and operated by her husband. Can she be considered as a worker? Why?**

**Answer.** Meena is a self-employed worker. She is working in her husband's cloth shop. She will not get salary.

- ▶ **Why are regular salaried employees more in urban areas than in rural areas?**

**Answer.** In urban areas, a considerable section is able to study in various educational institutions. Urban people have a variety of employment opportunities. They are able to look for an appropriate job to suit their qualifications and skills. But in rural areas, people cannot stay at home as they are economically poor.

# Highlights from chapter 7

▶ **Who is a casual wage labourer?**

**Answer.** Those people who are not hired by their employers on a regular/permanent basis and do not get social security benefits are said to be casual workers. Example: construction workers.

▶ **Compared to the 1970s, 'there has hardly been any change in the distribution of workforce across various industries. Comment.**

**Answer.** It is true that no much change is observed in the distribution of workforce across various industries. It is because the plans did not emphasise the need for development of:

- (a) non-agricultural rural employment industries.
- (b) small scale, village and cottage industries.

▶ **Do you think that in the last 50 years, employment generated in the country is commensurate with the growth of GDP in India? How?**

**Answer.** Jobless growth is defined as a situation in which there is an overall acceleration in the growth rate of GDP in the economy which is not accompanied by a commensurate expansion in employment opportunities. This means that in an economy, without generating additional employment we have been able to produce more goods and services. Since the starting of economic reforms in 1991, our economy is experiencing a gap between GDP growth rate and employment growth rate that is, jobless growth.

# Highlights from chapter 9

- ▶ **What is meant by environment?**

**Answer.** Environment is defined as the total planetary inheritance and the totality of all resources. It includes all the biotic and abiotic factors that influence each other. Biotic elements are all living elements — the birds, animals and plants, forests, fisheries, etc. Abiotic elements are like air, water, land, rocks, sunlight, etc.

- ▶ **Question 2. What happens when the rate of resource extraction exceeds that of their regeneration?**

**Answer.** Environment includes sun, soil, water and air which are essential ingredients for the sustenance of human life. The carrying capacity of the environment implies that the resource extraction is not above the rate of regeneration of the resources and the waste generated are within the assimilating capacity of the environment. Carrying capacity of the environment helps to sustain life. Absence of carrying capacity of environment means absence of life.

- ▶ .

# Highlights from chapter 9

► **Explain how the opportunity costs of negative environmental impact are high.**

**Answer.** Opportunity cost is the cost of alternative opportunity given up. The country has to pay huge amount for damages done to human health. The health cost due to degraded environmental quality have resulted in diseases like asthma, cholera, etc. Huge expenditure is incurred in treating the diseases.

► **Explain the relevance of intergenerational equity in the definition of sustainable development.**

**Answer.** The Brundtland Commission emphasises on protecting the future generations. This is in line with the argument of the environmentalists who emphasise that we have a moral obligation to hand over the planet earth in good order to the future generations, i.e., the present generation should give better environment to the future generations, no less than what we have inherited. According to the United Nations Conference on Environment and Development (UNCED) sustained development is, "Development that meets the needs of the present generation without compromising the ability of the future generation to meet their own needs."

# Highlights from chapter 10

► **Explain the Great Leap Forward campaign of China as initiated in 1958.**

**Answer.** Communist China or the People's Republic of China, as it is formally known, came into being in 1949. There is only one party, i.e., the Communist Party of China that holds the power there. All the sectors of economy including various enterprises and all land owned by individuals was brought under governmental control. A programme called 'The Great Leap Forward' was launched in 1958. Its aim was to industrialise the country on a large scale and in as short a time as possible. For this, people were encouraged to set up industries in their backyards. In villages, village Communes or cooperatives were set up. Communes means collective cultivation of land. Around 26000 communes covered almost all the farm population in 1958.

► **What is the important implication of 'one child norm' in China?**

**Answer.** One-child norm introduced in China in the late 1970s is the major reason for low population growth. It is stated that this measure led to a decline in the sex ratio, that is, the proportion of females per 1000 males.

# Highlights from chapter 10

- ▶ **Compare and contrast the development of India, China and Pakistan with respect to some salient human development indicators.**

**Answer.** It is clear that:

- ▶ China is moving ahead of India .and Pakistan. This is true for many indicators—income indicator such as GDP per capita, or proportion of population below poverty line or health indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourishment.
- ▶ Pakistan is ahead of India in reducing proportion of people below the poverty line and also its performance in education, sanitation and access to water is better than that of India. Both China and Pakistan are in similar position with respect to the proportion of people below the international poverty rate of \$1 a day, whereas the proportion is almost two times higher for India.
- ▶ In China, for one lakh births, only 38 women die whereas in India it is 230 and in Pakistan it is 260.
- ▶ India and Pakistan are ahead of China in providing improved water sources.



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