



Ravindra's IAS

ECONOMY

(for prelims)



UPSC & STATE PSC'S

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BASIC CONCEPTS OF ECONOMICS

What is Economics?

Economics is the Social Science that analyzes the production, distribution and consumption of goods and services. Broadly, Economics is a social science that studies human activities aimed at satisfying needs and wants. It encompasses production, distribution, trade and consumption of goods and services.

Economics is usually divided into two main branches:

- **Microeconomics** – which examines the economic behavior of individual actors such as consumer, business, households etc. to understand how decisions are made in the face of scarcity and what effects they have on larger economy.
- **Macroeconomics** – which studies the economy and its features like National Income, Employment, Poverty, Balance of Payments and Inflation.

Differences between Microeconomics and Macroeconomics	
Microeconomics	Macroeconomics
Studies individual income	Studies national income
Analyzes demand and supply of labour	Analyzes total employment in the economy
Deals with households' and firms' decision	Deals with aggregate decisions
Studies individual prices	Studies overall price level
Analyzes demand and supply of goods	Analyzes aggregate demand and aggregate supply

What is Macroeconomics?

- Macroeconomics is a branch of economics which studies the economy as a whole. It deals with the performance, structure and behavior of economy at national or regional level.
- It studies about aggregated indicators such as GDP, Unemployment Rates and Price Indices to understand how the whole economy functions.
- It develops models that explain the relationship between such factors as National Income, Output, Consumption, Unemployment, Inflation, Savings, Investment, International Trade and International Finance.

Vital Process of an Economy

By Vital Process we mean process without which an economy cannot exist. There are three vital process of an economy:

- 1. Production**
- 2. Consumption**

A. Production

- In economy the word production includes not only the making of various goods but also the services. For all of us services are also as essential as the goods. In fact, some of the goods cannot be used unless the services are not provided such as Television or Radio cannot be used unless the services of artists or technicians are provided. Thus production includes the goods made and the services provided in an economy.
- There are some services which are provided by family members to themselves or to one another like cooking and washing clothes, cleaning the house, ironing clothes, polishing shoes and so on.