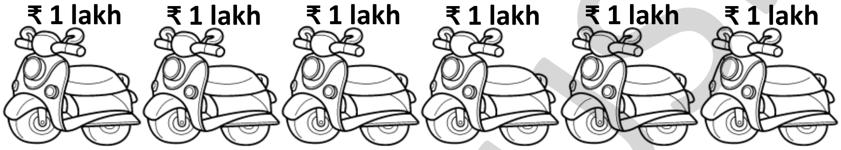
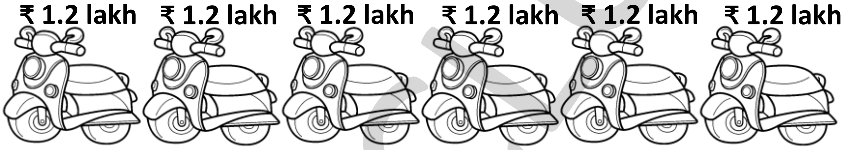
Nominal GDP vs Real GDP

GDP: market value of all finished goods & services produced within a country's borders in a specific time period

	Goods and Services produced	Nominal GDP GDP at Current Price	Real GDP GDP at Constant Price
Year 1	₹ 1 lakh ₹ 1 lakh ₹ 1 lakh ₹ 1 lakh ₹ 1 lakh 	₹ 5 lakh	₹ 5 lakh
Year 2	₹ 1.2 lakh ₹ 1.2 lakh ₹ 1.2 lakh ₹ 1.2 lakh ₹ 1.2 lakh 	₹ 6 lakh	₹ 5 lakh
	₹ 1 lakh ₹ 1 lakh ₹ 1 lakh ₹ 1 lakh ₹ 1 lakh ₹ 1 lakh 	₹ 6 lakh	₹ 6 lakh
	₹ 1.2 lakh ₹ 1.2 lakh ₹ 1.2 lakh ₹ 1.2 lakh ₹ 1.2 lakh ₹ 1.2 lakh 	₹ 7.2 lakh	₹ 6 lakh

GDP deflator	CPI
Considers all goods & services produced in India	Only few
Does not consider imported goods	Considers some imported goods
Weightages vary as per production volume	Weightages are fixed

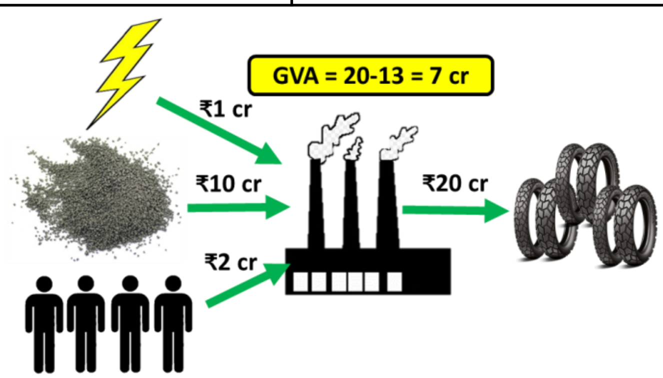
Inflation → Nominal > Real
Deflation → Nominal < Real

Inflation → GDP deflator > 1
Deflation → GDP deflator < 1

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}}$$

Prelims 1992

A deflator is a technique of
(a) Adjusting for changes in price level
(b) Adjusting for change in commodity
(c) Accounting for decline of-GNP
(d) Accounting for higher increase of GNP



Prelims 2000

The growth rate of per capita income at current prices is higher than that of per capita income at constant prices, because the latter takes into account the rate of

(a) growth of population

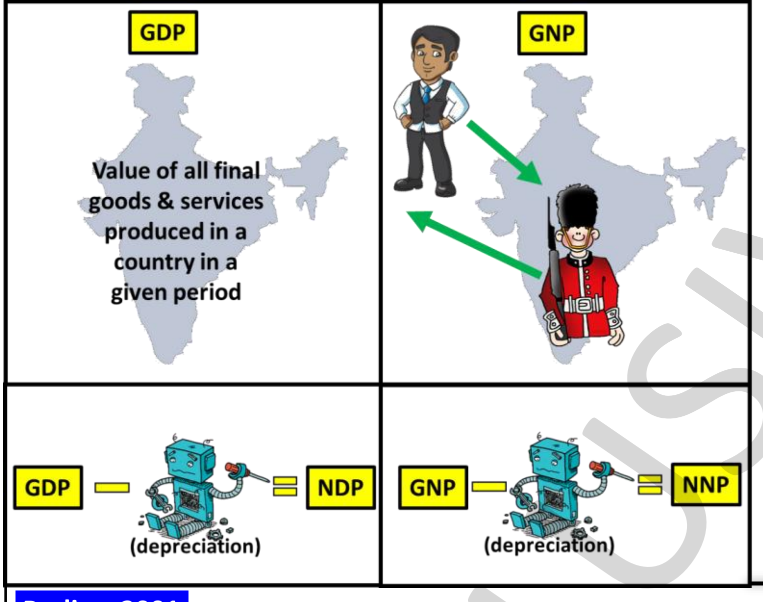
(b) increase in price level

(c) growth of money supply

(d) increase in the wage rate

GDP, GNP, NDP, NNP

Gross Domestic Product
Gross National Product
Net Domestic Product
Net National Product



Domestic + NFIFA = National

Gross − Depreciation = Net

Is it possible?

GDP > GNP	Yes	NFIFA can be +ve or -ve	
GDP < GNP	Yes		
GDP < NDP	No	Depreciation is always +ve	
GNP < NNP	No		

National Income = NNP at factor cost

Prelims 2001

The term National Income represents:

(a) gross national product at market prices minus depreciation

(b) gross national product at market prices minus depreciation plus net factor income from abroad

(c) gross national product at market prices minus depreciation and indirect taxes plus subsidies

(d) gross national product at market prices minus net factor income from abroad

GVA at factor cost

↓ + (Production taxes - Production subsidies) *(Registration fees — PM-Kisan)*

GVA at basic price

↓ + (Product taxes - Product subsidies) *(GST — Electric car)*

GDP at market price

- ❑ Production tax/subsidy is independent of volume
- ❑ Product tax/subsidy is dependent on volume (per unit)

Prelims 2013

The national income of a country for a given period is equal to the

(a) total value of goods and services produced by the nationals

(b) sum of total consumption and investment expenditure

(c) sum of personal income of all individuals

(d) money value of final goods and services produced

Prelims 2001

The most appropriate measure of economic growth is its:

(a) Gross Domestic Product
(b) Net Domestic Product
(c) Net National Product
(d) Per Capita Real Income

Prelims 2018

GDP → Per capita GDP → Poverty & jobs

Increase in absolute and per capita real GNP do not connote a higher level of economic development, if

(a) industrial output fails to keep pace with agricultural output.
(b) agricultural output fails to keep pace with industrial output.
(c) poverty and unemployment increase.
(d) imports grow faster than exports.

Prelims 2011

Economic growth is usually coupled with

(a) Deflation
(b) Inflation
(c) Stagflation
(d) Hyperinflation

Economic growth → More jobs, Less poverty → More money in hands of people → Increase in Aggregate Demand

Prelims 2013

Economic growth in country X will necessarily have to occur if

(a) there is technical progress in world economy
(b) there is population growth in X
(c) there is capital formation of X
(d) volume of trade grows in world economy

Prelims 2014

If interest rate is decreased in an economy, it will

(a) decrease consumption expenditure in economy
(b) increase tax collection of Government
(c) increase investment expenditure in economy
(d) increase total savings in economy

Prelims 1995

The main reason for low growth rate in India, inspite of high rate of savings and capital formation is:

(a) high birth rate
(b) low level of foreign aid
(c) low capital output ratio
(d) high capital-output ratio

Prelims 2018

Despite being a high saving economy, capital formation may not result in significant increase in output due to

(a) weak administrative machinery
(b) illiteracy
(c) high population density
(d) high capital-output ratio

Prelims 2013

In India, deficit financing is used for raising resources for

(a) economic development
(b) redemption of public debt
(c) adjusting the balance of payments
(d) reducing the foreign debt

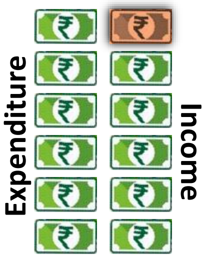
Problem? Deficit financing is inflationary

Prelims 2013

Which one of the following is likely to be the most inflationary in its effect?

a) Repayment of public debt
b) Borrowing from the public to finance a budget deficit
c) Borrowing from banks to finance a budget deficit
d) Creating new money to finance a budget deficit

Fiscal Deficit



Year 1: Expenses > Income → Take loan (Fiscal Deficit for Year 1)
Year 2: Expenses > Income → Take loan (Fiscal Deficit for Year 2)
Year 3: Expenses > Income → Take loan (Fiscal Deficit for Year 3)
Total Debt = [Loans taken] – [repayments done]

Assume:
- ❑ 140 lakh crore = Previous loans
- ❑ 036 lakh crore = Budget
- ❑ 016 lakh crore = New loan
- ❑ 200 lakh crore = GDP

Fiscal deficit (as %)

$$= \frac{\text{Fiscal Deficit}}{\text{GDP}} = \frac{16}{200} = 8\%$$

Debt to GDP ratio

$$= \frac{\text{Total Debt}}{\text{GDP}} = \frac{156}{200} = 78\%$$

Deficits important for Prelims
(since they are mentioned in Budget):
- ❑ Fiscal Deficit (FD)
- ❑ Revenue Deficit (RD)
- ❑ Effective Revenue Deficit (ERD)
- ❑ Primary Deficit (PD)

Gross Fiscal deficit?
Loan taken

Net Fiscal Deficit?
[Loan taken] – [Loan given]

Twin deficit?
Fiscal deficit and CAD at same time

NDCR:
Non-Debt Capital Receipts

Fiscal Deficit = (Revenue Receipts + NDCR) - (Total expenditure)
Primary Deficit = (Fiscal Deficit) - (interest payments)
Revenue Deficit = (Revenue expenditure) - (Revenue receipts)
Effective Revenue Deficit = (Revenue Deficit) - (Grants for Creation of Capital Assets)

Prelims 2001

List-I (Term)	List-II (Explanation)
A. Fiscal deficit B. Budget deficit C. Revenue deficit D. Primary deficit	1. Excess of Total Expenditure over Total Receipts 2. Excess of Revenue Expenditure over Revenue Receipts 3. Excess of Total Expenditure over Total Receipts less Borrowings 4. Excess of Total Expenditure over Total Receipts less Borrowings and Interest payments

Codes: (a) A-3; B-1; C-2; D-4 (b) A-4; B-3; C-2; D-1 (c) A-1; B-3; C-2; D-4 (d) A-3; B-1; C-4; D-2

Interest payment to Revenue receipts ?
Suppose:
- ➢ 18 lakh crore revenue receipts.
- ➢ 6 lakh crore paid as interest.
- ➢ So, IP-RR becomes 6/18 or 33.33%

It's like 1/3rd of you income is spent on interest of loans you have on you!

Roll-over risk ?
fresh loan costlier than existing loan

Prelims 2002
A country is said to be a debt trap if:
(a) it has to borrow to make interest payments on outstanding loans
(b) It has to abide by the conditionalities imposed by the International Monetary fund
(c) it has been refused loans or aid by creditors abroad
(d) the World Bank charges a very high rate of interest on outstanding as well as new loans

Prelims 2010
In the context of governance, consider the following:
1. Encouraging FDI inflows
2. Privatization of higher educational Institutions
3. Down-sizing of bureaucracy
4. Selling/offloading the shares of PSUs

Which of the above can be used as measures to control the fiscal deficit in India?
(a) 1, 2 and 3 (b) 2, 3 and 4
(b) (c) 1, 2 and 4 (d) 3 and 4 only

Prelims 2016
There has been a persistent deficit budget year after year. Which action/actions of the following can be taken by the Government to reduce the deficit?
1. Reducing revenue expenditure
2. Introducing new welfare schemes
3. Rationalizing subsidies
4. Reducing import duty

Select the correct answer
(a) 1 only (b) 2 & 3 only
(c) 1 & 3 only (d) 1, 2, 3 & 4

Five Year Plans

1928 → USSR
1951 → India
1953 → China

1951: 1st	1961: 3rd	1971	1981	1991 X	2001	2011
1952	1962	1972	1982	1992: 8th	2002: 10th	2012: 12th
1953	1963	1973	1983	1993	2003	2013
1954	1964	1974: 5th	1984	1994	2004	2014
1955	1965	1975	1985: 7th	1995	2005	2015
1956: 2nd	1966 X	1976	1986	1996	2006	2016
1957	1967 X	1977	1987	1997: 9th	2007: 11th	2017
1958	1968 X	1978 R	1988	1998	2008	2018
1959	1969: 4th	1979 R	1989	1999	2009	2019
1960	1970	1980 6th	1990 X	2000	2010	2020

Five year plans in India:

Idea borrowed from USSR

Four main goals:

1) **Growth**: GDP
2) **Modernisation**: new technology, social outlook
3) **Self-reliance**: policy of import substitution in first seven 5-years plans
4) **Equity**: prosperity must reach the poor also

Prelims 2019

With reference to India's Five-Year Plans, which of the following statements is/are correct?

1. From the Second Five-Year Plan, there was a determined thrust towards substitution of basic and capital good industries.
2. The Fourth Five-Year Plan adopted the objective of correcting the earlier trend of increased concentration of wealth and economic power.
3. In the Fifth Five-Year Plan, for the first time, the financial sector was included as an integral part of the Plan.

Select the correct answer:

(a) 1 and 2 only (b) 2 only
(c) 3 only (d) 1, 2 and 3

1st Plan (1951–1956):
- based on the Harrod–Domar model
- Motto was 'Development of agriculture'
- Focussed on primary sector
- Laid down the foundation for industry
- IIT Kharagpur established in 1951

2nd Plan (1956–1961)
- Based on Mahalanobis model
- Focus on self-reliant economy by import substitution in basic and capital goods industries
- Steel plants setup with foreign help: Bhilai (USSR), Durgapur (UK), Rourkela (West Germany)

3rd Plan (1961–1966)
- Sino-India war 1962 → focus on defence
- First major financial crisis
- India borrowed from IMF
- Rupee devalued for second time (by 36%)

Plan Holidays (1966–1969)
Mains reasons:
Wars (1962, 1965), inflation, low growth

4th Plan (1969–1974)
- Green revolution advanced
- Focussed on reducing concentration of economic power
- 1969: Nationalisation of 14 major banks
- 1971: war diverted resources meant for industrialisation
- 1973: First international oil crisis (price became 3 times)
- 1974: Smiling Buddha (Pokhran-1) nuclear test conducted

5th Plan (1974–1978)
- Introduced Minimum Needs Programme
- To provide certain basic minimum needs and improve the living standards of people

Rolling Plan (1978–1980)
- In 1978, Morarji Desai government rejected the fifth plan
- Introduced Rolling plan based on Gunnar Myrdal model
- Each year new plan will be made based on last years performance

6th Plan (1980–1985)
- Focus on removing poverty
- NABARD founded in 1982 based on B. Sivaramman Committee
- Family planning programs were expanded

7th Plan (1985–1990)
- Focus on industrial productivity by technological upgradation
- Focus on anti-poverty, social justice, modern tech in industry, independent economy

8th Plan (1992–1997)
- LPG reforms, modernisation of industry
- Thrust on human development (health, education, employment)