DEPARTMENT OF ECONOMIS

MICRO ECONOMICS – I (BEC 11) (I SEMESTER)

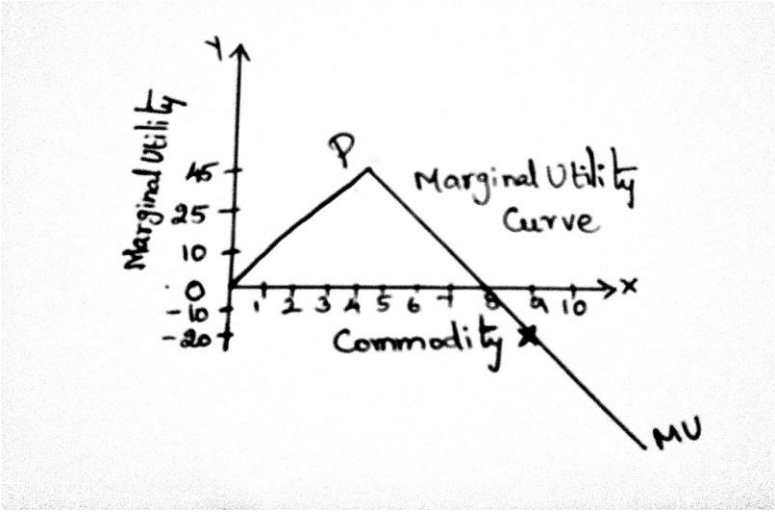
LAW OF DIMINISHING MARGINAL UTILITY

OVERVIEW:

The term 'utility' was employed by the classical economists of the late 18th and 19th centuries. The utility approach was developed in the 1870s with the simultaneous publication of major works by three economists working independently like William Stanley Jevons (1835-1882) of England, Karl Menger (1880-1921) of Austria and Leon Walras (1840-1921) of France. Later on, in 1890, Alfred Marshall made a pioneering effort by bringing the concept of price in line with marginal utility. Utility means the power to satisfy a want. Any commodity or service which can satisfy a human want is said to have utility. The amount of satisfaction actually obtained from the consumption of a thing is a psychological entity which is incapable of measurement, because it varies according to time, place, and the mental makeup of the individual concerned. The intensity of a person's desire for a commodity depends upon his habits, tastes and various other circumstances. *According to Wicksteed, "Utility as an economic concept means only desireless".*

Utility is classified into two, *Cardinal* and *Ordinal Utility*. The concept of **cardinal utility** assumes that the measurement of utility of different commodities is possible. Cardinal utility are measured in numbers like 1,2,3,4, etc. The concept of **ordinal utility** tells us that the consumer prefers an apple to an orange, or prefers a cup of coffee to a glass of milk. It means that ordinal utility analysis is unable to compare the quantities of the two commodities. The neo-classical (Marshallian Utility) utility approach assumes that utility can be measured. The units of measurement are arbitrary; they are called "utils".

The law of diminishing marginal utility is a generalization deducted from observations of human nature. As we get more and more of a commodity, the want for that commodity diminishes. The want of a thirsty man for water is very strong, but after he takes one glass of water, his intensity of desire for another glass of water becomes less. "As a consumer increases the consumption of any one commodity, keeping constant the consumption of all other commodities, the marginal utility of the variable commodity must eventually decline". According to Marshall, "the additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in the stock he already has". Translating the law of diminishing marginal utility in terms of price, Marshall argued that the price a person is willing to pay rather than go without a thing, would also diminishing with every increase in its stock. According to William J.Baumol, when we have only a little of a particular commodity, we put it to the most urgent use. As we get more and more of it, we begin to putting it to less urgent uses. It happens so because we give priority to more highly valued uses. Thus marginal utility of a commodity diminishes as its quantity increases. But it is possible that, in the first stage of consumption, intensity of our desire may increase. In such a situation marginal utility will increase and as a result, total utility will increase at an increasing rate.



The consumer gets higher marginal utility from the second unit of the commodity than the first one. The third unit still yields more utility, but thereafter from the fourth unit of the commodity the marginal utility starts declining. Also, the marginal utility of the eighth unit is zero and no rational consumer would like to consume the commodity after this level, even if the commodity is available free of cost. As we observe that the 9th and the 10th units of the commodity yield negative marginal utilities, i.e., the total utility will decline from the successive consumption of the commodity. In practical no consumer will reach the saturation point (where total utility is maximum and marginal utility is equal to zero) for any good that commands a price, except by accident. Thus, the negative slope of the marginal utility curve explains the law of diminishing marginal utility. This law is applicable only under certain assumptions.

ASSUMPTIONS OF THE LAW:

- ✓ The units of the commodity must be relevantly defined;
- ✓ The tastes are given and unchanged;
- ✓ The units of the commodity are homogeneous;
- ✓ There is no time-lag between the consumption of the two units of a commodity; and
- ✓ The income and prices of the commodity and its substitutes are given.

EXCEPTIONS TO THE LAW OF DIMINISHING MARGINAL UTILITY:

- ✓ There are certain groups of commodities, the marginal utility of which does not diminish with every increase in the stock of them. In the collection of curios and antiques, stamps, old paintings, coins, etc, the law of diminishing marginal utility does not hold. A person may desire the additional units of the curios articles, or stamps with increasing intensity. But according to Prof. Vinner, a person will not pay higher prices in acquiring the same type of stamps or coins.

- ✓ The additional doses of liquor will yield increasing marginal utility to a drinker. But this argument is not correct because a drinker is not a rational consumer and we do not study his irrational behavior in economics.
- ✓ It is said that the law fails when there is a large number of consumers to consume a commodity. The marginal utility of one set of telephone, for example, rises with increasing use of telephones. But the law still remains true with regard to those commodities that at any given period of time, given the extent of the use of the commodity, the marginal utility of additional units diminishes.
- ✓ It is also said that the law does not apply to money. A person gets increasing marginal utilities from additional amounts of money. But in the long-run, the law will also apply to the miser.

CRITICISMS OF THE LAW OF DIMINISHING MARGINAL UTILITY:

- ✓ The law of diminishing marginal utility holds only if "other things remain the same";
- ✓ The law may not operate in the initial stages of consumption;
- ✓ This law assumes no time-gap in the consumption of various units of a commodity; and
- ✓ This law assumes utility measurable in terms of money.

IMPORTANCE OF THE LAW OF DIMINISHING MARGINAL UTILITY:

(1) **Basis of the law of demand**: The law of demand states that more amounts of a commodity will be purchased at a relatively lower price. The reason for this is that as more and more units of a commodity are purchased and consumed, its marginal utility to the consumers becomes less and less. The additional units of a commodity will be purchased only at a lower price. The law of demand, thus, has been directly based on the law of diminishing marginal utility.

(2) **Basis of the progressive tax-policy**: Adam Smith emphasized the canon of "ability to pay tax" which was later presented in terms of marginal utility of money by Prof. Pigou. They argued that the marginal utility of money or wealth is more for the poor than for the rich. This is the reason why the rich have to pay tax at a progressive rate and the poor at a lower rate.

(3) **Basis of the policy of redistribution of wealth**: The government's public expenditure policy is also based on the law of diminishing marginal utility. The government's tax-cum-expenditure policy helps in transferring the purchasing power from richer to the poorer classes. It leads to an equal-distribution of wealth in the society.

(4) **Determination of optimum level of consumption**: This law helps in the determination of the optimum level of consumption. It is attained at a point where the marginal utility of the commodity equals its price.

ELEMENTARY STATISTICS FOR ECONOMICS – I (BEC 12)

AGRICULTURAL ECONOMICS – I (BAEC 13B)

AGRICULTURAL FINANCE -AN OVERVIEW

INTRODUCTION:

Finance in agriculture is as important as development of technologies. Technical inputs can be purchased and used by farmers only if sufficient money (funds) is available with farmers. Most of the times farmers suffer from the problem of inadequate financial state. This situation leads to borrowing from an easy and comfortable.

MEANING OF AGRICULTURAL ECONOMICS:

"Agricultural finance is the study of financing and liquidity services credit provides to farm borrowers. It is also considered as the study of those financial intermediaries who provide loan funds to agriculture and the financial markets in which these intermediaries obtain their loanable funds.

DEFINITION:

Murray (1953) defined agricultural finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society ‟ interest in credit for agriculture."

Tandon and Dhondyal (1962) defined agricultural finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units".

ROLE OF AGRICULTURE FINANCE:

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 per cent of GDP and about two thirds of the population is dependent on this sector. Agricultural finance is a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. Financial service providers face distinct challenges when dealing with this sector. For example, the seasonal nature of production and the dependence on biological processes and natural resources leave producers subject to events beyond their control such as droughts, floods or diseases. The modern agriculture has increased the use of inputs specially for seed, fertilizers, irrigational water, machineries and implements, which has increased demand for agricultural credit.

The adoption of modern technology, which is capital intensive, has commercialized agricultural production in India. Besides, the farmers‟ income is seasonal while his working expenses are spread over time. In addition, farmer's inadequate savings require the uses of more credit to meet the increasing capital requirements. Furthermore, credit is a unique resource, since it provides the opportunity to use additional inputs and capital items now and to pay for them from future earnings.

The rural population in India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of

households are small, rural households typically tend to rely on credit. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money-lender and thereby help them avoid debt-traps that are common in rural India.

Timely and adequate agricultural credit is important for the increase in fixed and working capital for farmers. In order to provide sufficient credit to the farmers, many institutional and non-institutional agencies are working. Under institutional agencies cooperative, commercial, regional rural banks and different Government organizations are supplying credit to the needy farmers on priority basis.

CLASSIFICATION OF FINANCE:

On the basis of time:

- **Short-Term:** The "short-term loans" are generally advanced for meeting annual recurring purchases such as, seed, feed, fertilizers, hired labour , expenses, pesticides, weedicides and hired machinery charges which are termed as seasonal loans/crop loans/production loans. These are expected to be repaid after the harvest. It is expected that the loan plus interest would be repaid from the income received through the enterprise in which it was invested. The time limit to repay such loans is a year.

- **Medium-Term (from 15 months up to 5 years):** "Medium-term loans" are advanced for comparatively longer lived assets such as machinery, diesel engine, wells, irrigation structure, threshers, shelters, crushers, draught and milch animals, dairy/poultry sheds, etc., where the returns accruing from increase in farm assets is spread over more than one production period. The usual repayment period for such type of loan is from fifteen months to five years.
- **Long-Term (above 5 Years):** Loans repayable over a longer period (i.e. above 5 years) are classified as long-term loans. "Long-term loans" are related to the long life assets such as heavy machinery, land and its reclamation, errection of farm buildings, construction of permanent-drainage or irrigation system, etc. which require large sums of money for initial investment. The benefits generated through such assets are spread over the entire life of the asset. The normal repayment period for such loans ranges from five to fifteen or even upto 20 years.

Purpose of classification:

Credit is also classified based on purpose of loans e.g. crop loan poultry/dairy/piggery loan, irrigation loan, machinery and equipment loan, forestry loan, fishery loan etc. These loans signify the close relationship between time and use as well as rate of return or profitability. Sometimes loans are also classified as production and consumption loans due to the fact that production loans are diverted for consumption purposes by the weaker sections. So, the banks have also started financing for consumption purposes (exclusively for home consumption expenditures) besides financing for the production purposes. The consumption loans are also to be repaid from the sale proceeds of the crop.

Lender classification: Credit is also classified on the basis of lender such as;

- ✓ Institutional Credit -e.g. cooperative loans, commercial bank loans and government loans;

- ✓ Non-Institutional Credit- e.g. professional and agricultural money lenders, traders and commission agents, relatives and friends etc

Borrower classification: The credit is also classified on the basis of the type of borrowers (i.e., production or business activity as well as size of business) such as crop farmers, dairy farmers, poultry farmers, fisherman, rural artisans etc. or agricultural labourers, marginal/small/ medium/large farmers, hill farmers or tribal farmers etc. Such classification has equity considerations.

SOURCE OF AGRICULTURAL FINANCE:

Non-institutional Credit Agencies:

- **Traders and Commission Agents:** Traders and commission agents advance loans to agriculturists for productive purposes against their crop without completing legal formalities. It often becomes obligatory for farmers to buy inputs and sell outputs through them. They charge a hefty rate of interest on the loan and a commission on all the sales and purchases, making it exploitative in nature.
- **Landlords:** Mostly small farmers and tenants depend on landlords for meeting their production and day to day financial requirements.
- **Money lenders:** Despite rapid development happening in rural branches of different institutional credit agencies, village money lenders still dominate the scene. Money lenders are of two types, agriculturist money lenders who combine their money lending jobs with farming and professional money lenders whose sole job is money lending.

Institutional Credit Agencies:

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases - 1904-1969 (predominance of cooperatives and setting up of RBI), 1969-1975 (Nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)), 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms). Institutional funding of the farm sector is mainly done by commercial banks, regional rural banks and cooperative banks. Share of commercial banks in total institutional credit to agriculture is almost 48 per cent followed by cooperative banks with a share of 46 per cent. Regional Rural Banks account for just about 6 per cent of total credit disbursement.

- **Government:** The government sector banks extend both short term as well as long-term loans. These loans are popularly known as "Taccavi loans" which are generally advanced in times of natural calamities. The rate of interest is low and it is not a major source of agricultural finance.
- **Cooperative Credit Societies:** The history of cooperative movement in India dates back to 1904 when first Cooperative Credit Societies Act was passed by the Government. The scope of the Act was restricted to establishment of primary credit societies and non-credit societies. The shortcomings of the Act were rectified through passing another Act called Cooperative Societies Act 1912. The Act gave provision for registration of all types of Cooperative Societies.

This made the emergence of rural cooperatives both in the credit and non-credit areas, though with uneven spatial growth. Soon after the independence, the Government of India following the recommendations of All India Rural Credit Survey Committee (1951) felt that

cooperatives were the only alternative to promote agricultural credit and development of rural areas.

Accordingly, cooperatives received substantial help in the provision of credit from Reserve Bank of India as a part of loan policy and large scale assistance from Central and State Governments for their development and strengthening. Many schemes involving subsidies and concessions for the weaker sections were routed through cooperatives. As a result cooperative institutions registered a remarkable growth in the post-independent India.

- **Commercial Banks:** Previously commercial banks (CBs) were confined only to urban areas serving mainly the activities of trade, commerce and industry. Their role in rural credit was meager i.e., 0.9 per cent in 1951-52 and 0.7 per cent in 1961-62. The insignificant participation of CBs in rural lending was explained by the risky nature of agriculture due to its heavy dependence on monsoon, unorganized nature and subsistence approach. Through nationalisation of CBs in 1969 and CBs were made to play an active role in agricultural credit was accelerated and they are the largest source of institutional credit to agriculture.

- **Regional Rural Banks (RRBs):** RRBs were set up in those regions where availability of institutional credit was found to be inadequate but potential for agricultural development was very high. However, the main thrust of the RRBs is to provide loans to small and marginal farmers, landless labourers and village artisans. These loans are advanced for productive purposes. At present 196 RRBs are functioning in the country lending around Rs 9,000 crore to rural people, particularly to weaker sections.
- **Micro financing:** Micro financing through Self Help Groups (SHG) has assumed prominence in recent years. SHG is a group of rural poor who volunteer to organise themselves into a group for eradication of poverty of the members. They agree to save regularly and convert their savings into a common fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management.

As soon as the SHG is formed and a couple of group meetings are held, an SHG can open a Savings Bank account with the nearest Commercial or Regional Rural Bank or a Cooperative Bank. This is essential to keep the thrift and other earnings of the SHG safely and also to improve the transparency levels of SHG's transactions. Opening of SB account is the beginning of a relationship between the bank and the SHG. Once this process is over, banks liberally lend to the groups or to members and recover the loans conveniently. The banks even offer subsidy to the amount of loans borrowed based on their good response.

II SEMESTER

MICRO ECONOMICS – II (BEC 21)

MONOPOLISTIC COMPETITION

INTRODUCTION:

In real life, competition is rarely perfect. In the majority of cases, there is neither a single individual who controls the total supply, nor are there many sellers so that their individual shares are negligible in relation to the total supply of the market. Thus, the real situation is of imperfect competition where there is neither perfect competition nor absolute monopoly. This market situation is also known as monopolistic competition. According to Mrs. Joan Robinson, even in the presence of a large number of firms producing a particular product, a buyer may prefer to buy from a seller of his choice and may also be willing to pay s relatively higher price. It means price will not be the same in the market and it will never be a situation of perfect competition. She calls it the situation of imperfect competition. Prof Chamberlin introduces competitive forces in a monopoly market. He does not assume the presence of a large number of firms producing identical products but concentrates on the individual firm whose product is a close substitute of the other firms' products. According to him, in real world we do not find an absolute monopoly. Product differentiation exists in the market and that limits the monopoly power of the firm. Thus due to the availability of substitutes, a firm enjoys "limited monopoly". Prof. Chamberlin calls it the situation of monopolistic. Thus, the terms imperfect or monopolistic competition are used to describe the market situations found in modern capitalist states, the basic features being a large number of firms selling differential products.

FEATURES OF MONOPOLISTIC COMPETITION:

- **Relatively Small Number of Firms**: In monopolistic competition, the number of firms is less than that under perfect competition.
- **Product Differentiation**: Product differentiation may take the form of brand names, trade-marks, etc. This means that the product of a firm may find close substitutes and its cross elasticity of demand is very high.
- **Freedom of Entry of New Firms**: Under this market condition, the individual firm has a monopoly of its own product, but it faces keen competition from firms making very similar products, and it does not have the power to restrict the entry of new firms.
- **Competitive Advertisement**: Product differentiation is also emphasized by the practice of competitive advertising. Two branded products may be almost identical in their technical features or chemical composition, but if advertising and other selling practices have created different images in the consumer's mind. Thus, advertisement or sales promotion technique is the important feature of monopolistic competition.
- **More Elastic Demand**: Under monopolistic competition, each producer is a monopolist and the demand curve for his product will slope downwards, but the availability of close substitutes will mean that the demand curve for his product will be more elastic.

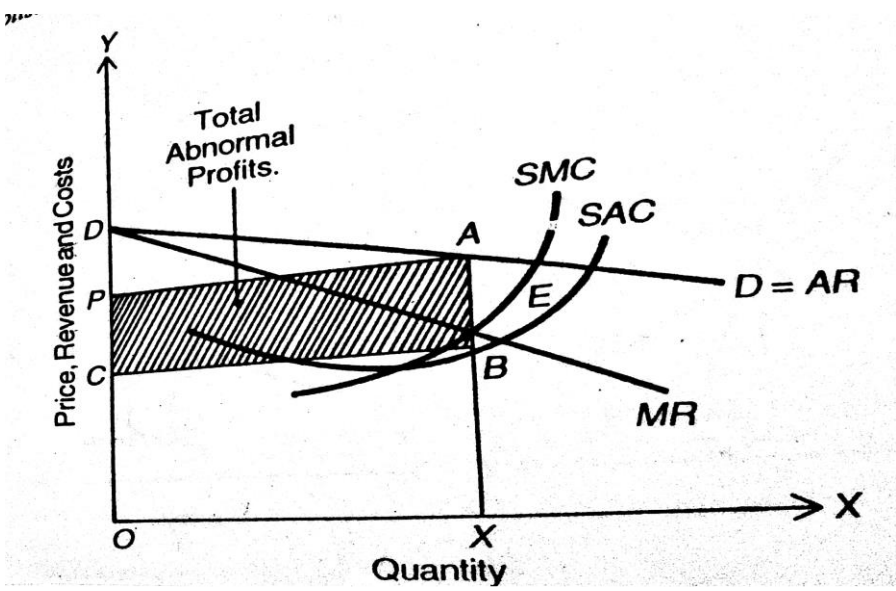
PRICE AND OUTPUT DETERMINATION UNDER MONOPOLISTIC COMPETITION

Under monopolistic competition, construction of industry curves is a rather unsatisfactory practice. Unless the differentiated products are converted in terms of a common denominator, it will be difficult to measure the quantity of the industry along the horizontal axis. Further, no single price prevails for differentiated products of the industry and that creates another difficulty of presenting the industry analysis in graphic terms.

Assumption: (1) Each firm in this market situation operates with an impression that its action would go unnoticed by its rivals in the market; (2) The firm will attempt to maximize their profits only by varying the price of their products; (3) The equilibrium of the firm under monopolistic competition involves the usual conditions as also explained under other market conditions.

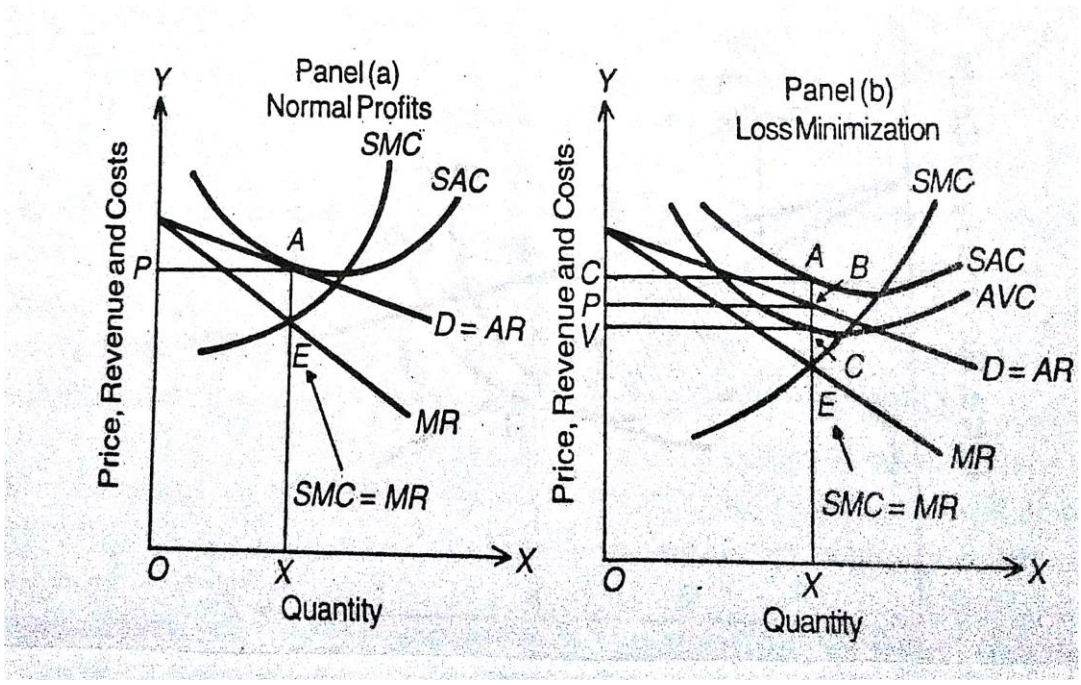
Short-Period Equilibrium of the Firm under Monopolistic Competition:

Here the firm produces a differentiated product and attains some degree of monopoly power. In short-period, the firm does not have time to change its scale of plant and new firms will enter the industry. Now, in order to maximize its profits, the monopolistically competitive firm will produce that level of output at which its marginal cost equals marginal revenue. The firm's demand curve is represented by AR, which is negatively sloped. The corresponding marginal revenue (MR) curve lies below it. The firm's short-run average cost and marginal cost curves are SAC and SMC respectively. The SMC curve cuts the MR curve at point E. Thus the equilibrium level of output is OX, price is OP and cost per unit is OC. At OX level of output, the firm enjoys PC abnormal profit per unit. The total maximum profit of the firm is represented by the shaded area CPAB.



The short-period equilibrium does not mean that all the firms charge the same price. In fact the firm changes different prices for their differentiated products. Each firm seeks its own profit maximizing position. The above diagram indicates the equilibrium of a representative firm

under monopolistic competition. The other firms also attempt to maximize their individual profits in the same manner. It should be noted that under monopolistic competition all the firms will attain abnormal profits in the short-period. It is possible that some firms may take abnormal profits while at the same time others may incur losses or make normal profits only. The firm under monopolistic competition has to incur certain fixed costs in the short-run which are not related to the volume of output. Thus, the minimum price acceptable by the firm in the short-run will be equal to its average variable cost. When the price of a firm's product is equal to its AVC, the firm's maximum loss will be equal to its entire fixed costs. If price is higher than the AVC, but less than the AC, the firm's short-run objective will be the minimization of its loss.



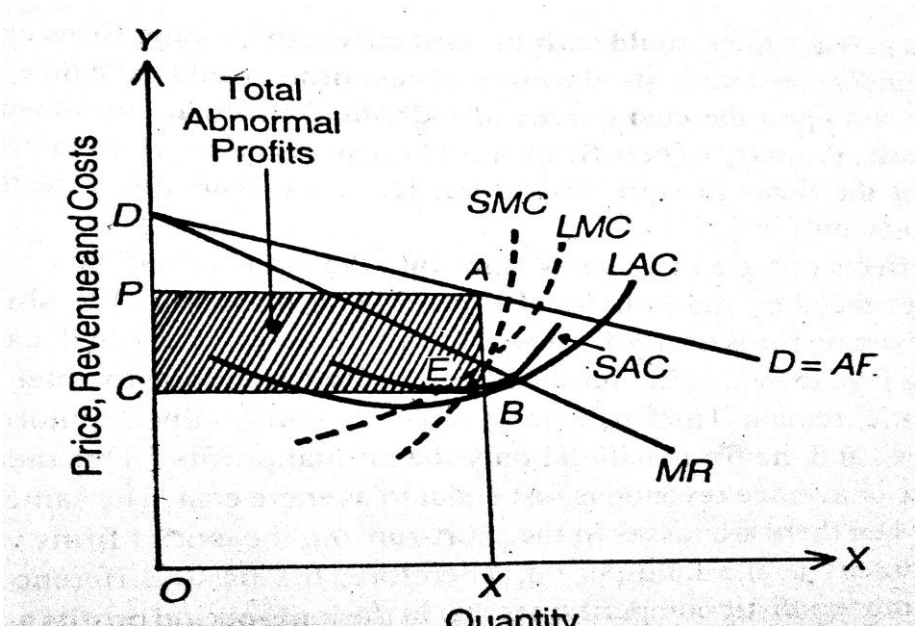
Panel (a) illustrates the situation when the firm gets only the normal profits which are included in the costs. The equilibrium level of output is OX. At OX output the price is OP which is also equal to its cost per un it. Thus the firm's abnormal profit is zero. In Panel (b) the firm is minimizing its losses. The equilibrium level of output is OX where the firm could bear VC amount of loss per unit (equal to fixed cost per unit). But since at OX output, price is OP and cost per unit is OC, the firm has to incur only PC amount of loss per unit (PC<VC). Therefore, the firm is minimizing its losses by producing OX quantity of output in short-run equilibrium.

Long-Period Equilibrium of the Firm under Monopolistic Competition:

In the long-period, all factors of production used by the firm are variable and therefore, the firm can change its scale of plant to any extent. The firm will always try to build the scale of plant which makes the per unit cost minimum. In the monopolistic competitive firm in the long-

period can increase its sales by introducing a policy of price-cut for his own product. Here the firm assumes that its actions will not be reacted by its rivals in the market. Thus it will be able to get the full benefits of its economies of scale. For some time the entry of the new firms will be blocked, but when the firms enjoy high level of short-run profits, it will induce the entry of new firms into the industry.

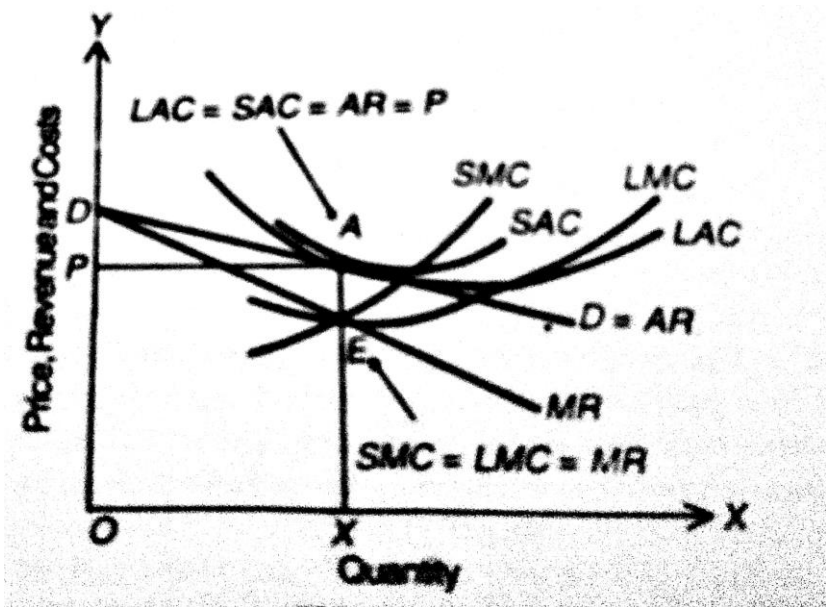
(i) **Long-Period Equilibrium of the Firms when Entry of New Firms is blocked**: Under monopolistic competition, the case of blocked entry into an industry will not be the usual case. But for some time it may happen. In such a situation, the industry has an optimal number of firms; each would attempt to adjust its scale of plant to the size required for long-period profit maximization. The firm under monopolistic competition adopts the policy of price-cut to increase its sales. Thus, it will go on reducing its price until it produces that level of output at which its cost per unit becomes minimum possible and the profit maximizing conditions are satisfied. The demand curve faced by the firm is DD and the marginal revenue curve is MR. The respective long-period average cost curve and marginal cost curve are LAC and LMC. Profits will be maximized at output OX, at which long-period marginal cost equals marginal revenue at point E. The equilibrium price is OP. Now to produce output OX, at the least possible cost per unit, the firm should build the scale of plant which has its short-period average cost curve tangent to the long period cost curve at that output.



SAC is tangent to LAC at output OX and at the same time SMC = LMC=MR. Thus, cost per unit is OC at output OX. The firm gets the maximum abnormal profits CP per unit. The total profits are exposed by the shaded area CPAB. Now, the firm has no incentive to cut its price below OP and to increase its sales beyond OX because the cost of producing an additional unit of

output will be more than the revenue it gets from it (MC>MR) so it profits would decline. Nor the firm would like to produce less than OX quantity of output, because in that case (MR>LMC) it would not be able to maximize its profits. The firm will produce that level of output at which two conditions are satisfied SMC=LMC=MR and SAC=LAC.

(ii) **Long-Period Equilibrium of the Firm when Entry of New Firm is Open**: The entry of new firms into the industry creates larger output without any significant increase in the total sales of all the firms. Thus the firms will reduce their prices to check the decline in their individual sales as a result of the wholesale entry of new firms into the market. The effects of the entry of new firms into the industry will be (i) to shift the demand curves faced by the individual firms downward, and (ii) to shift the cost curves of the existing firms upward. These two simultaneous effects will cause profits of the existing firm to decrease. Thus in the long-run when entry is open, abnormal profits will be squeezed and the firms will get only the normal profits. This means, in the long-run, price or average revenue is just equal to average cost.



The relevant demand and marginal revenue curves are AR and MR respectively; and the long-period average cost curves are AR and MR respectively; and the long-period average cost and marginal cost curves are LAC and LMC respectively. Now the firm will get normal profits only at the situation where LAC=AR at that point at which LMC=MR. Thus the firm's equilibrium output is OX at which SMC=LMC=MR and LAC=AR. Any deviation from OX level of output with scale of plant SAC will cause losses to be incurred. The industry as a whole will be in equilibrium since the firms are operating at no profit-no loss. In such a situation the number of firms in the industry is fixed because there is no incentive for the firms to enter into or exit from the industry. This is usual position that occurs in the long-period.

MATHEMATICS FOR ECONOMICS (BEC 22)

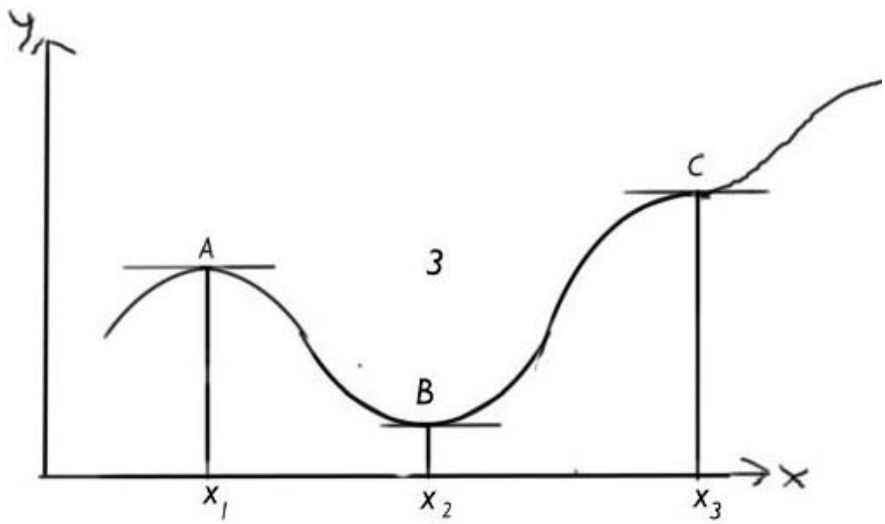
MAXIMUM AND MINIMUM VALUES OF A FUNCTION

Reference:

Basic Mathematics for Economists by Mike Rosser

Mathematics for Economists by Metha Madnani

A given function: y=f(x), when plotted takes a form as given below.



<u>Consider Point A.</u> This point is a maximum point because y has a maximum value when $x=OX_1$. Generally the terms Maxima and Minima refer to extreme value of a function. That is Maximum means upper bound or largest possible quantity. In the given example, we know that the value of y at this point A is lower than the value of y at point D of the same curve. But we can say the value of y at point A is higher than any value on either side of A.

This also means that value of y increases with the increase in x up to a point A, but it must fall after point A has been reached. Thus, if "A" is to be Maximum, then

f'(x) = 0 and also f"(x) < 0 at the point A.

<u>Consider Point B.</u> This is the point where y is minimum. This also means that value of y decreases as the value of x increases up to point B (Minimum). But it must increase after the point B (Minimum) has been attained. Therefore, if B is to be minimum point then

f'(x) =0 and also f"(x) > 0 at point B.

In both the cases f'(x) = 0, but we are able to decide about the maximum or minimum point with the help of second derivative.

<u>Consider Point C.</u> On both the sides of point C, the curve slopes upwards. Therefore, at all the points to the right or left of C, the value of first derivative must be positive (except at point C, when f(x) =0). This point is called point of Inflection because of the bend in the curve.

1. f'(x) = 0 but f'(x) = 0 there is a point of inflection.
2. f'(x) = 0 and f'(x_1) = 0 then, if f''(x) < 0 it is Maximum and if f''(x) > 0 it is Minimum.

It is not necessary that f''(x) = 0 at the point of inflection.

<u>Order Conditions for Maximum-Minimum (Extreme) Values.</u>

The given function should satisfy two conditions in order to decide about Maximum or Minimum value at a particular point. These conditions are known as Order Conditions.

A. <u>Conditions for Minimum Value</u>

1. First order condition(Necessary condition)
   f'(x) = 0 i.e., $\frac{dy}{dx} = 0$
2. Second order condition (sufficient condition)
   f''(x) > 0 i.e., $\frac{d^2y}{dx^2} > 0$

B. <u>Conditions for Maximum Value</u>

1. First order condition (necessary) f(x) = 0 i.e., $\frac{dy}{dx} = 0$
2. Second order condition (sufficient) f''(x) < 0 i.e., $\frac{d^2y}{dx^2} < 0$

If f''(x) = 0, it means there may be a point of inflection.

Example 1: Show the TR is maximum when q = 18 for the non-linear demand schedule.

$$\mathbf{P = 194.4 - 0.2q^2}$$

Solution:

$$TR = pq = [194.4 - 0.2q^2]\, q = 194.4q - 0.2q^3$$

For a stationary point on this cubic function the slope must be zero and so

$$\frac{dTR}{dq} = 194.4 - 0.6q^2 = 0 \qquad \text{- (first order)}$$

$$194.4 = 0.6q^2$$

$$0.6q^2 = 194.4$$

$$q^2 = \frac{194.4}{0.6}$$

$$q^2 = 324$$

$$q = 18$$

When q=18, the second order derivative is

$$\frac{d^2TR}{dq^2} = -1.2q = -1.2(18) = 21.6 < 0. \quad (Second\ order)$$

Therefore the second order condition for a maximum is satisfied and TR is Maximum when q = 18.

Example 2. Find the Minimum point of the average cost function

$AC = 25q^{-1} + 0.1q^2$

Solution:

The slope of the AC Function will be 0 when

$$\frac{dAC}{dq} = 25q^{-2} + 0.2q = 0$$

$0.2q = 25q^{-2}$

$q^3 = 125$

$q = 5$

$$\frac{d^2AC}{dq^2} = 50q^{-3} + 0.2$$

$$= \frac{50}{125} + 0.2 \quad (when\ q = 5)$$

$$\frac{d^2AC}{dq^2} = 0.4 + 0.2 = 0.6 > 0$$

Second ord3r for minimum value is satisfied

The actual value of AC at its minimum point is found by substituting this value for q into the original AC function. Thus

$AC = 25q^{-2} + 0.1q^2 = \frac{25}{5} + 0.1(5)^2$

$= 5 + 0.1 \times 25$

$= 5 + 2.5$

AC = 7.5

Example 3:

Find the maximum and minimum values of the following two functions

i) **$y = x^3 - 3x + 1$**
ii) **$y = 3x^4 – 10x^3 + 6x^2 + 5$**

Solutions:

i) $\frac{dy}{dx} = 3x^2 - 3 = 0$

$3x^2 = 3$

$x^2 = 1$

$x = \pm 1$

$\frac{d^2y}{dx^2} = 6x$

$= 6 \times 1 = 6 > 0$

$= 6 \times -1 = -6 < 0$ -2

ii) $\frac{dy}{dx} = 12x^3 - 3x^2 + 12x$ - 1

$\frac{d^2y}{dx^2} = 36x^2 - 60x + 12$ -2

FOC

$12x^3 - 30x^2 + 12x$

$3x(4x^2 - 10x + 4) = 0$

$(4x-2)(x-2) = 0$

It satisfies the minimum value either x = 0 or x= 2 or x= ½ and maximum value of 3.

Second order condition:

i. $x = f''(x) = 36(2)^2 - 60(2) + 12$

$= 36 \times 4 - 120 + 12$

$= 144 - 120 + 12$

$= 36$

$f''(x) = 36 > 0$

Hence the function has minimum value -3 at x = 2.

PROFIT MAXIMIZATION:

MC= MR Rule for Profit Maximization.

1. A monopoly faces the demand schedule P = 460-2q and the cost schedule TC = 20 + $0.5q^2$
   How much should it sell to maximize profit and what will this maximum profit be?

Solution:

Given TC = 20+ $0.5q^2$
then MC = 1q = **MC = q** -1
As TR = pq = (460 -2q)q = 460q – $2q^2$ = TR.
MR = 460 – 4q -2

To maximise profit MR = MC
460 – 4q = q
460 = q+4q
460 = 5q
q= 460/5
q= 92

The actual maximum profit when the output is 92 will be
TR-TC = (460q -$2q^2$) – (20 + $0.5q^2$)
= 460q + $2q^2$ – 20 – $0.5q^2$
= 460 + $2.5q^2$ -20
= 460(92)-2.5$(92)^2$-20.
= 42,320-21,160-20
Profit = Rs.21,140

2. A firm faces the demand schedule P = 184-4q and the TC function, TC = q^3-$21q^2$+160q + 40. What output will maximize profit?

Solution:
Given TR = pq
=(184-4q)q
TR = 184 – $4q^2$

$\frac{dTR}{dq}$ = 184 – 8q = 0

8q = 184
q = 184/8
q = 23

TC = q^3-$21q^2$ + 160q + 40
$\frac{dTC}{dq}$ = $3q^2$ – 42q + 160 = MC

To maximise profits MC = MR
$3q^2$ – 42q +160 = 184 -8q
$3q^2$ – 42q + 8q +160-184 = 0
$3q^2$ – 34q + 24 = 0
(q-12) (3q+2) =
q = or q= -2/3

Result

One cannot produce negative quantity and so the firm must produce 12 units of output to maximize profits.

MATHEMATICS FOR ECONOMICS (BEC 22)

Introduction to calculus and its Application in Economics

Introduction:

This chapter introduces some of the basic techniques of calculus and their application to economic problems. Here we shall concern ourselves with "Differential Calculus". Differentiation is a method used to find the slope of a function at any point. It also forms the basis for some very powerful techniques for solving optimization problems.

To derive an expression for the slope of the function $y=6x^2$ for any value of x, the basic rules of differentiation requires you to:

- Multiply the whole term by the value of the power of x, and
- Deduct one from the power of x

Using the above rule the expression for the slope of this function becomes:

$y=6x^2 \rightarrow 2 \times 6x^{2-1} \rightarrow 12x$.

This is known as the derivative of y with respect to x, i.e., $\frac{dy}{dx}$.

<u>Rules for Differentiation</u>

<u>Rule-1: Power Rule</u>

If $y=ax^n$

$$\frac{dy}{dx} = nx^{n-1}$$

Eg: 1

Find the slope , when y =$6x^2$-0.5x^3. when x=10

$$\frac{dy}{dx} = 12x - 1.5x^2$$

$= 12(10) - 1.5\ (10)^2$

$= 120 - 150$

<u>Slope = -30</u>

Eg:2

TR = 500q -2q^2 . Find MR given q =80

$$\frac{dTR}{dq} = 500 - 4q$$

= 500 – 4x80

= 500-320

= 180

<u>MR = 180</u>

<u>Rule-2</u>: <u>Differentiation of a constant</u>

y=c

$\frac{dy}{dx}$ = 0 because $cx^0 = 0 \times cx^{0-1} = 0$

If y=c then $\frac{dy}{dx} = 0$

<u>Rule-3: Sum and Difference</u>

$y=7x^3 + 5x^5 - 3x^6 + 8$

$\frac{dy}{dx} = 21x^2 + 25x^4 - 18x^5 + 0$

If y=u+v+w, then

$$\frac{dy}{dx} = \frac{du}{dx} + \frac{dv}{dx} + \frac{dw}{dx}$$

<u>Rule-4: Differentiation of a product</u>

$y = (4x^2+2x)(8x^3+2x^2)$

$u= 4x^2+2x$

$v=8x^3+2x^2$

$$\frac{dy}{dx} = v\frac{du}{dx} + u\frac{dv}{dx}$$

$$\frac{du}{dx} = 8x + 2$$

$$\frac{dv}{dx} = 24x^2 + 4x$$

$$\frac{dy}{dx} = (8x^3 + 2x^2)(8x + 2) + (4x^2 + 2x)(24x^2 + 4x)$$

Rule-5: Differentiation of the quotient

$$\mathbf{y} = \frac{u}{v} \textbf{ then } \frac{\mathbf{dy}}{\mathbf{dx}} = \frac{v\frac{du}{dx} - u\frac{dv}{dx}}{v^2}$$

$$y = \frac{8x^8 + 6x^2 - 2x}{3x^2 + 5x}$$

$$u = 8x^8 + 6x^2 - 2x$$

$$v = 3x^2 + 5x$$

$$\frac{du}{dx} = 64x^7 + 12x - 2$$

$$\frac{dv}{dx} = 6x + 5$$

$$\frac{\mathrm{dy}}{\mathrm{dx}} = \frac{(3x^2 + 5x)(64x^7 + 12\mathrm{x} - 2) - (8x^8 + 6x^2 - 2x)(6x + 5)}{(3x^2 + 5x)^2}$$

Rule-6: The Chain Rule

The chain rule is used to differentiate, "Functions within functions".

If y=f(z) -①

If z=g(x) -②

Then we can write y as a function of x in the form

y=f[g(x)]

If we differentiate y with respect to x using chain rule:

$$\frac{\mathbf{dy}}{\mathbf{dx}} = \frac{dy}{dz}\frac{dz}{dx}$$

One example from economics of a function within a function occurs in the Marginal Revenue Productivity Theory of the demand for labour where a firm's total revenue depends on output which in turn depends on amount of labour employed.

Assume, for example, that you wish to find an expression for the slope of the non-linear demand function.

$P=[150-0.2q]^{0.5}$ -①

$Z=150-0.2q$ -②

1 and 2 can be written as

$P=z^{0.5}$ -③

Assume that in both ① and ③ the functions are assumed to hold true for P≥0 only, i.e. negative roots are ignored.

Differentiating ② and ③ we get,

$$\frac{dz}{dq} = -0.2, \qquad \frac{dp}{dz} = 0.5z^{-0.5}$$

Using the chain rule and then substituting equation ② back in z we get:

$$\boldsymbol{\frac{dp}{dq} = \frac{dp}{dz}\frac{dz}{dq} = 0.5z^{-0.5}(0.2) = \frac{-0.1}{z^{0.5}} = \frac{-0.1}{(150-0.2q)^{0.5}}}$$

<u>Rule-7-Differentiation of Implicit Functions</u>

Ex:1

Let us consider an equation: $\boldsymbol{x^3y + y - 2x = 0}$

$$\Rightarrow \frac{d(x^3y)}{dx} + \frac{d}{dx}(y) - \frac{d}{dx}(2x) = 0$$

Applying rule 4 we get

$$x^3\frac{dy}{dx} + y(3x^2) + \frac{dy}{dx} - 2 = 0$$

(Or)

$$x^3\frac{dy}{dx} + (3x^2y) + \frac{dy}{dx} - 2 = 0$$

Now the equation can be solved for $\frac{dy}{dx}$

$$\frac{dy}{dx}(x^3+1) = 2 - 3x^2y$$

$$\therefore \frac{dy}{dx} = \frac{2-3x^2y}{(x^3+1)}$$

Implicit functions involve substitutes and require differentiation of each term.

Ex.2

Consider another equation $\mathbf{x^2 - y^2 + 3x = 5y}$

$\frac{d}{dx}(x^2) - \frac{d}{dx}(y^2) + \frac{d}{dx}(3x) = \frac{d}{dx}(5y)$

$2x - 2y\frac{dy}{dx} + 3 = 5\frac{dy}{dx}$

Keeping $\frac{dy}{dx}$ on one side of the equation, we get

$2y.\frac{dy}{dx} + 5\frac{dy}{dx} = 2x + 3$

$\therefore \frac{dy}{dx} = \frac{2x+3}{2y+5}$

On the basis of the seven rules one can find the derivative functional relationships of all economic problems.

AGRICULTURAL MARKETING – II (BAEC 23B)

MARKETING OF AGRICULTURAL PRODUCE

INTRODUCTION:

Marketing is a process whereby the producer and the buyers are bought together.

IMPORTANCE OF AGRICULTURAL MARKETING:

The marketing system renders valuable service to an economy on several counts, They are;

- Function of the Economy
- Economic Development
- It helps to maximising the rate of growth of the agricultural sector.
- Many people are getting employment opportunities
- Standard of living will improve
- To increase National Income
- Reasonable Price for their(farmers) products

MARKETING STRUCTURE:

By the term market structure "We refer to the size and design of the market. It also includes the manner of operation of the market. Market structure is the formal organization of the functional activity of a marketing institution.

IMPORTANT COMPONENTS OF MARKET STRUCTURE:

- Concentration of the Market power
- Product Differentiation
- Free entry of the firm
- Flow of Market Information

CONSEQUENCES OF THE DEFECTS IN AGRICULTURAL MARKETING:

The various defects in the agricultural marketing will have the following adverse consequences.

- High cost of transport
- He may not get the reasonable price for his product
- Marketable surplus also gets reduced
- The scope of innovations is also affected
- The economic development of the country itself is affected by the defective marketing system
- The supply and demand cannot be equalized. When we have the defective marketing system
- Proper planning cannot be visualized

REGULATED MARKETS:

To improve the market structure, for the fair market conduct and market performance, to increase bargaining power of the farmers.

OBJECTIVES OF REGULATED MARKETS:

- To develop the necessary infrastructure facilities
- To encourage healthy competition among buyers
- To reduce the marketing charges or costs

- To ensure fair prices for the farm products and
- To collect and disseminate market intelligence

CO-OPERATIVE MARKETING:

A cooperative is a business voluntarily owned and controlled by its members and operated for them. The cooperative markets help the small and medium farmers.

ADVANTAGES OF CO-OPERATIVE MARKETING:

- Cooperative markets increase the bargaining power of the farmers
- The credit facilities available through the cooperatives are easy and at cheaper rate.
- In certain cases, the cooperatives can altogether have direct dealing with the consumers.

  So the exploitation by the middlemen is completed eliminated.
- Transport facilities are available at cheaper rates.
- It provides storage facilities.

Grading and standardization can be done easily by the cooperative societies.

II B.A ECONOMICS – III SEMESTER

INDIAN ECONOMY (UEC 31)

LAND REFORMS

Introduction:

India depends upon the agriculture sector. To improve the agricultural productivity land reforms is important. Land reforms in India usually refer to redistribution of Land from the rich to the poor.

Scope of Land Reforms:

Land reforms aim at redistributing ownership holding from the viewpoint of social justice and reorganizing operational holdings from the viewpoint of optimum utilization of Land. The scope of land reforms therefore includes:

- ✓ Abolition of intermediaries;
- ✓ Tenancy reforms;
- ✓ Ceiling on Land holdings and distribution of surplus land to land less agricultural labourers and small farmers;

The abolition of Intermediaries:

It is customary to classify the various categories of land tenure system, before independence into three broad heads. Zamindari, Mahalwari, Ryotwari.

TendencyReforms:

The tenancy reforms in various states have three important features.though the provisions are not similar in all cases. There are

- ✓ Security of tenure for the tenants;
- ✓ Fixation of fair rent;
- ✓ Grant of ownership rights to certain types of tenants.

Security of Tenure:

To protect tenants from the Law and to grant them permanent rights on Lands, they have three essential features.

(a) Land can be resumed by the landlords;
(b) The landlord should leave some area to the tenant for his own cultivation;
(c) Tenants cannot be evicted without any reason.

Regulation of Rent:

The main objectives of such Acts were to make the rent fair and reasonable. The rates also vary within the state because of the difference in the fertility of Land.

Rights of ownership:

So far a right of ownership is concerned tenants have been declared as the owners of the land they cultivate.

Ceiling on land holdings:

Ceiling on land holdings implies the fixing of the maximum amount of Land that an individual or family can possess.

Consolidation of Holdings:

Consolidation of holdings means bringing together the various small plots of land of a farmer scattered all over the village as one compact block either through purchase or exchange of land with others.

Co-operative Farming:

To solve the problems of sub-division and fragmentation of holdings. In this system farmers pool their small holdings for the purpose of cultivation and real benefits of large scale farming.

Bhoodan Movement:

He collected land from the rich land from the rich landlords and distributed that to the landless.

Causes of failure of land reforms:

1. Undue advance publicity and delay in enacting land laws;
2. Optional nature of the Law;
3. Lack of social consciousness among the tenants;
4. Bureaucratic corruption;
5. Lack of uniformity in Land reforms Laws.

Remedial measure to remove the difficulties:

1. Land legislation should be changes;
2. The residential qualification should be made compulsory for holding land;
3. Special attention should be paid to tribals; and
4. The rural peasants should be conscious about their rights,

Evaluation:

The poor should be motivated through education and persuasion and the rich should be compelled to cooperate.

MONETARY ECONOMICS – I (UEC 32)

The Quantity Theory of Money

This theory explains the causes for changes in the value of Money. **Irving Fisher-**The American Economist, was the one who popularised this theory in the year 1911, in terms of a famous equation of Exchange: MU=PT. There are two approaches to the Quantity Theory of Money.

1. Cash Transaction Approach – Fisher's Quantity Theory of Money.
2. Cash Balance Approach – Cambridge Theory of Money.

1. **Cash Transaction Approach:**
   - In the words of Fisher, "Other things remaining unchanged, the quantity of money in circulation increases, the price level also increases in direct proportion and the value of money decreases and vice-versa."
   - Fisher's Theory in the form of an equation of exchange.

     MV=PT

$$P=\frac{MV}{T}$$

- **MV** = Supply side/supply of money
  M = Quantity of money in circulation
  V = Velocity of circulation of money
- **PT** = Demand Side
  P = Prices of the commodities.
  T = Goods and Services transacted.
- Fisher's extended equation of exchange includes credit money.
  MV + M'V' = PT

(or)

$$P=\frac{MV+M'V'}{T}$$

Factors determining M and M'

- **M** or volume of money supply is determined by the central bank(RBI) of a country.
- **M'** or the volume of bank credit is determined by the commercial banks subject to the control of the central bank.

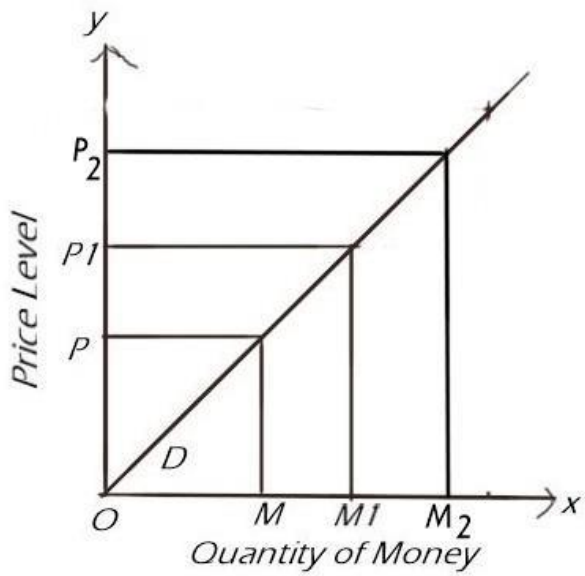
<u>Factors determining velocity of circulation of money.</u>

- The ease of lending or borrowing – If credit institutions are well developed, then the velocity will be high.
- Frequency of receipts and disbursements
- Stable and regular income.
- Facilities for transferring money.

<u>Factors determining 'T'.</u>

The volume of transactions is determined by availability and efficient use of productive resources, the degree of integration of the economy and so on.

<u>Quantity of Money and Price level</u>

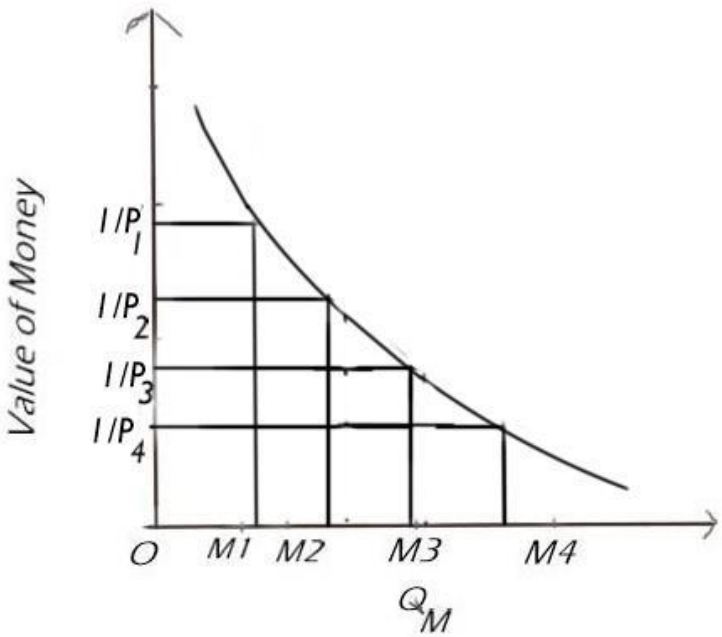


P= f (M).

The diagram shows the direct and proportional relationship between Q_M and P_C.
When Q_M = OM, P= OP.

Q_M ↑ to OM, P also ↑ to OP, and OM_2 and OP_2 so on.
This is shown by 45° line: P= f (M).

<u>Quantity of Money and the value of Money</u>



There is inverse relationship between Q_M and V_M. In the given diagram when

$Q_M \uparrow V_M \downarrow$,

$Q_M \downarrow V_M \uparrow$.

Due to inverse relation, the curve $\frac{1}{P}$ = f(M) is sloping downward.

Professor Fisher establishes in his equation of exchange that " The price level or the value of money is a function of money supply, provided other things remain constant."

2. The Cash Balance Approach (CAMBRIDGE VERSION)

Cambridge economists like Marshall, Pigou, Gannon, Robertson and Keynes discussed the value of money from the point of view of store of value function of money. This approach considers the demand for and supply of money at a particular point of time rather than over a period of time. The supply of Money is exogenously determined at a point of time by the banking institution/authorities. Therefore the concept of velocity of circulation of money is discarded in the cash balance approach. Here, the demand for money plays a major role.

- Dr. Marshall's Equation:

  M= KPY (or) $P = \frac{KY}{M}$

  K= Fraction of the real income, which people wish to old as ready purchasing power.

  P= Price level

  Y= Aggregate real income of the community.

  In Marshall's view, a sudden change in the desire of the people to hold ready cash will affect the price level even though the supply of money is kept cons tant.

- Pigou's equation

  $P=\frac{KR}{M}$

  P= Purchasing power of money or the value of money.

  R= Total real income

  M= Number of units of real income.

  K= Proportion of the real income held by the people in the form of legal tender.

  According to Pigou, the demand for money consists not only legal tender or cash but also bank deposits. Hence, Pigou's modified version of equation is:

  $P=\frac{KR}{M}[c+h(1-c)]$

[c+h(1-c)] → shows total money supply
C – Ready cash with the public
h- Percentage of cash against deposits.
1-c - Amount of cash deposits in the bank.

- <u>Robertson equation</u>

$$P = \frac{M}{KT}$$

P = Price level
M = The supply of money
T = Total amount of goods and services purchased during a year.
K = Fractional part of T

He stresses the holding of money, while Fisher's equation considers the spending of money.

Evaluation:

Both the versions of the quantity theory of money do not consider all the determinants of price level. They considered only M, V, T, K and R. But there are many institutional, psychological, technical and economic factors which influence the value of money. We can conclude that inflation can always be brought to an end if the supply of money is limited.

ECONOMICS OF ENTREPRENEURSHIP (UAEC 33A)

WOMEN ENTREPRENEUR

- ✓ **Introduction**
- ✓ **Concept of Women Entrepreneur**
- ✓ **Functions of Women Entrepreneurs**
- ✓ **Growth of Women Entrepreneurship in India**
- ✓ **Problems of Women Entrepreneurs**
- ✓ **Limitations of Women Entrepreneurship**
- ✓ **Conclusion**

INTRODUCTION:

Women constitute around half of the total world population. So is in India also. They are therefore, regarded as the better half of the society. In traditional societies, they were confined to the four walls of houses performing household activities. In modern societies, they have come out of the four walls to participate in all sorts of activities. Now, they have started plunging into industry also and running their enterprises successfully. Therefore, while discussing entrepreneurial development, it seems in the fitness of the context to study about the development of women entrepreneurs also in the country.

Concept of Women Entrepreneur:

In terms of Schumpeterian concept of innovative entrepreneurs, Women who innovate, imitate or adopt a business activity are called "Women entrepreneurs". Accordingly, the Government of India (GOI2006) has defined women entrepreneur as "as enterprise owned and controlled by a women having a minimum financial interest of 51 percent of the capital and giving at least 51 percent of the employment generated in the enterprise to women.

Functions of Women Entrepreneurs:

As an entrepreneur, a women entrepreneur has also to perform all the functions involved in establishing an enterprise. All these entrepreneurial functions can be classified broadly into three categories;

- Risk-bearing
- Organization
- Innovations

Growth of Women Entrepreneurship in India:

In India, women entry into business is a new phenomenon. Women entry into business, or say, entrepreneurship is traced out as an extension of their kitchen activities mainly to 3 Ps, viz., Pickles, Powder and Pappad. With growing awareness about business and Spread of education among women over the period, women have started shifting from 3Ps to 3 modern Es, Viz., Engineering, Electronics and Energy and other industries under Integrated Rural Development Programmes.

They have excelled in these activities. Women entrepreneurs manufacturing solar cookers in Gujarat, small foundries in Maharashtra and T.V. capacitors in Odissa have proved beyond doubt that given the opportunities, they can excel their male counterparts.

- **Smt. Sumati Morarji _ Shipping Corporation**
- **Smt. Ymutai Kirloskar _ Mahila Udyog Limited**
- **Smt. Neena Malhotra _ Exports**
- **Kiren Majumdar Shaw_ Bio-technology**
- **Naina Lal Kidwai _ Banking**
- **Jaswantiben Jamnadas Popat _ Food** and
- **Smt .Shahnaz Hussain _ Beauty Clinic**

are exemplary names of successful and accomplished women entrepreneurs in our country.

Problems of Women Entrepreneurs:

When entrepreneurs encounter two sets of problems viz., general problems of entrepreneurs and problems specific to women entrepreneurs. These are discussed as follows;

- Problem of Finance
- Scarcity of Raw Material
- Stiff Competition
- Limited Mobility
- Family Ties
- Lack of Education
- Male-Dominated Society
- Low Risk-Bearing Ability

Limitations of Women Entrepreneurship:

The prodigious volume of entrepreneurial research on gender differences has highlighted several limitations of development of women entrepreneurship. The most important ones are discussed hereunder;

i. Risk-taking
ii. Social structures
iii. Low literacy rate of women
iv. Lack in collateral

Conclusion:

Now they are participating and performing well in all spheres of activities such as academic, politics, administration, space and industry. Efforts are on at the Government and voluntary agencies levels to tap the hitherto unrecognized and unaccounted for strength of women to integrate them in the process industrial development, more specially small-scale industry development in the country.

MARKETING COMMUNICATIONS AND ADVERTISEMENT I (USEC 34)

PERSONAL SELLING

INTRODUCTION:

Personal selling is a promotional activity by which the consumers are personally induced and persuaded to buy the goods and services of a manufacturer. Personal selling is also known as face-to-face selling in which one person who is the salesman tries to convince the customer in buying a product. It is a promotional method by which the salesperson uses his or her skills and abilities in an attempt to make a sale. Personal selling is where businesses use people to sell the product after meeting face-to-face with the customer. The sellers promote the product through

their attitude, appearance and specialist product knowledge. They aim to inform and encourage the customer to buy, or at least trial the product.

DEFINITION:

The American Marketing Association has defined the term 'Personal Selling' as 'the personal process of assisting and or persuading a prospective customer to buy a commodity or service and to act favourably upon an idea that has commercial significance to the seller'

CHARACTERISTICS OF PERSONAL SELLING:

- It lays emphasis on personal contact between the prospective buyer and the seller or his representative;
- It requires the buyer to be induced and persuaded to buy;
- It is an art. Creative skill is necessary;
- Impart product knowledge to the buyers; and
- It provides an opportunity to develop bondage between the buyers and the business.

IMPORTANCE OF PERSONAL SELLING:

- It is useful to introduce a new product;
- Required to sell high-priced consumer durables like television, refrigerator, etc;
- It is absolutely necessary to sell products like computers that requires technical knowledge, in which the seller trained;
- It is essential to sell anything that requires persuasion of the buyers;
- Personal selling becomes necessary to achieve quick sales; and
- It also helps to obtain necessary information about the market.

MERITS AND DEMERITS:

Merits:

- High customer attention;
- Here Message is customized;
- Interactivity;
- Potential for development of relationship;
- It is adaptable and
- Opportunity to close the sale.

Demerits:

- It is Highly expensive;
- It is Labour intensive;
- It reach only a limited number of customers;
- Forces buyers to buy goods;
- Salesman earns the ill-will rather than the goodwill of the buyer;
- Most people feel that the salesman hardly speak the truth, their aim is to sell the goods.

SALESMEN:

Selling is a narrow term that denotes only the transfer of title or ownership of goods. Salesmanship is an elaborate process of meeting a potential buyer, convincing him about the company's product and persuading him to buy it. Thus, salesmanship is a creative job. Creative salesmanship is required to create new markets for old products or a market for a new product. Competitive salesmanship is required to overcome competitive pressures. The market for almost all consumer products is a highly competitive one. In such a situation, the salesman requires tactfulness more than skill. He has to push the sale of his brand in the midst of several other brands. Competitive salesmanship is considered to be much more difficult than creative salesmanship.

KINDS OF SALESMEN:

- Manufacturer's Salesman;
- Wholesaler's Salesman;
- Retailer's Salesman;
- Creative Salesman;
- Detail Salesman;
- Service Salesman;
- Specialty Salesman;
- Staple Salesman; and
- Exporter's Salesman.

STEPS INVOLVED IN PERSONAL SELLING:

1. **Identifying the buyers:** The first and foremost step in personal selling is to identify the potential buyer; the salesman cannot call on any buyer at random for different types of goods. Products like toothpaste, soap or hair-oil can be offered to anybody. But there are certain products like television, fridge, computer, air-conditioner, etc., which can be offered to certain buyers only.
2. **Approaching the buyers:** The salesman has to adopt a planned approach in contacting the buyers. He has to fix appointment with the buyer according to their convenience. This is necessary if the salesman is selling intangibles like insurance or expensive goods like vacuum cleaner, personal computer, etc.
3. **Overcoming objections:** The buyer may have his own ideas and may not accept all the claims of the salesman. The salesman shall not speak in a manner to provoke the buyer. Suppose the buyer gets provoked, in such a situation the salesman has to keep his cool and diplomatically overcome the objections raised by the buyer.
4. **Closing the sale:** The success of personal selling lies in the ability of the salesman to get the buyer's consent. Not every salesman has the ability to complete the deal successfully. Only those who have the skill, knowledge and courage will be able to do the work fruitfully.

QUALITIES OF GOOD SALESMAN:

- he must have pleasing appearance;

- he must be physically fit for lot of travelling;
- he should be decent and clean;
- he must have soft and sweet voice i.e., he must have tonal control;
- he must have very good personality;
- mental ingredients;
- he must have courtesy;
- he must have patience and perseverance;
- he should have complete knowledge about the self, product, company and the customer;
- he must be tactful;
- he must be honest and straightforward in his dealings; and
- he must be loyal and ambitious.

NON-MAJOR – FUNDAMENTALS OF ECONOMICS – I (UNEC 35)

CAPITALISTIC SYSTEM

Capitalism stands for an economic order in which the instruments of production are owned and controlled privately and production takes place for profit. Free enterprise is supposed to be of capitalistic system of pure type. Pure Capitalism is called as laissez faire economy. The government is not supposed to interfere (or) control such as economy and profit is the driving force behind all economic activities.

Features of Capitalistic Economy:

- System of Private Property
- Profit Motive
- Economic Freedom
- Perfect Competition
- Consumer Sovereignty
- Role of Price Mechanism
- Role of the Government

MERITS OF CAPITALISM:

- Higher Standard of Living
- Liberty and Equal Right
- Best utilization of Resource
- Flexibility
- Wastage of resource
- Disregard for Human Welfare
- Economic in Stability and Unemployment
- Insecurity and Unrest of Labour

Socialistic Economy:

Socialism is an economic system in which means of production are owned by the state and operated by the government or community and in which production is based on the welfare of the community and not for the profit of a few individuals.

Dickinson defines "socialism as an economic organisation of society in which the material measure of production are owned by the whole community according to a general economic plan, all members being entitled to benefit from the results of such socialised planned production on the basis of equal rights".

Aims of socialism are;

- ✓ Replacement of capitalism by socialism.
- ✓ Means of production should be owned by the state.
- ✓ Production should be for the welfare of the community.
- ✓ There should be equitable distribution.

Features of Socialism:

- ✓ Collective ownerships.
- ✓ Central economic planning.
- ✓ Well defined social and economic objectives.
- ✓ Economic equality.
- ✓ Equal opportunity.

Merits of socialism:

- ✓ Best utilisation of resources.
- ✓ Elimination of unemployment.
- ✓ Economic equality.
- ✓ Maximum social welfare.

Defects of socialism:

- ✓ Absence of price mechanism.
- ✓ Loss of efficiency and productivity.
- ✓ Complexities of administration.
- ✓ Loss of liberty.

Communism:

Communism is one form of socialism. It is also called Marxian socialism. It was karl marx through his celebrated book "Das Capital" published in the year 1867.

The communist and socialists, believe in the collective ownership. Control of means of production and equitable distribution.

IV SEMESTER

INDIAN ECONOMY – II (UEC 41)

ROLE OF INDUSTRIES IN ECONOMIC DEVELOPMENT OF INDIA

In developing countries, industries and industrialisation play a major role in their economic development. Industrialisation is a must for a developing country like India.

Meaning of Industry and Industrialisation:

The term 'industry' mainly refers to manufacturing activities. It does not include agriculture and allied activities. The term 'industrialisation' refers to a process in which series of changes are taking place in the production function of manufacturing industries. It includes some basic changes like mechanisation of an industry, building up of a new industry, opening up of a new market, introduction of a new type of a commodity etc.,

In short, industrialisation refers to the growth of manufacturing industries.

Role of Industries or the Need for Industrialisation in India:

- ✓ There is a positive relationship between the degree of industrialisation and the level of per capita income.
- ✓ Need for rapid development of an economy.
- ✓ The problem of unemployment and disguised unemployment can be reduced only by the process of industrialisation.
- ✓ Rapid industrialisation helps to break the vicious circle.
- ✓ For diversification of our market, industrialisation is a necessity.
- ✓ India's foreign trade can be improved and enhanced by rapid industrialisation.
- ✓ Rapid industrialisation can push up the productivity, income and the savings capacity of labour in India.
- ✓ The industrial sector has enormous capacity to create a surplus and this will push up the rate of savings and investment.
- ✓ The consumption rate and standard of living of the people can be increased by rapid industrialisation.
- ✓ Regional disparities are greater in India. This can be reduced by a well-planned industrial development. More industries can be started in backward regions and thus balanced regional development can be achieved.
- ✓ Due to industrialisation, a large number of agro-industries can be started in India.
- ✓ Industrialisation creates the virtues of discipline, hard work, adaptability, flexibility, progressive outlook and skill. Therefore industrialisation is essential in India because without it the peasant society cannot be modernised.

Conclusion:

Industrialisation is the only effective answer to achieve self-reliance which is the goal of our fifth and sixth plans.

MONETARY ECONOMICS – II (UEC 42)

TECHNIQUE OF CREDIT CREATION BY COMMERCIAL BANKS

The technique of credit creation requires a clear understanding of the two types of deposits a bank can create viz., primary or passive deposits and derivative or active deposits.

Primary Deposits: When a person deposits cash or cheques to be credited to his account in the bank, the bank opens a deposit account in the name of the customer. Such deposits are primary deposits. They are passive deposits because they do not make any net addition to the stock of money in the economy. These deposits form the resources which the bank can use for its financial operations. The banker knows that depositors do not withdraw all the amount from the primary deposit at the same time. Only a small portion may be drawn. Hence the bank can keep a reasonable amount to meet such claims for cash and use the remaining amount for giving loans. Thus primary deposits enable loans. The proportion of primary deposits which the bank must keep for meeting sudden claims of depositors is known as cash reserve ratio.

Derivative deposits: Derivative deposits are on account of commercial bank loan operations. When a bank gives loans, it does not pay immediate cash but opens a deposit account in the name of the borrower. The borrower gets the right to withdraw the amount by issue of cheques. The initiative for creating these deposits comes from the banking system. Hence they are known as active deposits. Banks cannot create such deposits without primary deposits. Hence they are derivative deposits. Primary deposits enable the bank to create derivative deposits. But there is a difference, primary deposits do not result in a net addition to the stock of money but granting of a loan results in the creation of money.

Process of Credit Creation

The process of credit creation by commercial bank is a controversial issue in banking theory. Economists like Hartley Withers, J.M.Keynes, Halm and Sayers hold the view that modern banks do create credit. Sayers says, “Banks are not merely purveyors but also, in an important sense, manufacturers of money”. However, economists like Walter Leaf and Edwin Cannon feel that banks do not create credits money. This requires a perusal of the process of credit creation.

The process of creating new deposits on the process of lending by a bank is called the process of credit creation. This they usually do after keeping a certain cash reserve out of the primary deposit. Hence for simplicity sake it is assumed that the banks maintain a 10 percent cash reserve.

Now it is assumed that an individual deposits Rs.1000 in Bank A. It results in a primary deposit of Rs.1000 with Bank A. If the bank does not lend to anyone its balance its balance sheet will be simple as follows:

Balance sheet of Bank A (No lending)

Liabilities		Assets	
Primary deposit	Rs.1000	Cash	Rs.1000

However no bank will keep cash idle. It lends to others to make profits. In this example the assumption of 10 percent cash reserve ratio, makes this bank keep Rs.100/- as cash reserve and lend the remainder to any party through cheques. The revised balance sheet after loan will be as follows:

Liabilities		Assets	
Primary deposit	Rs.1000	Cash	Rs.100
	---	Loans to Mr.X	Rs.900
	Rs.1000		---
			Rs.1000

Mr. X who has borrowed from Bank A may be paying it to his creditor who has an account in Bank B. When the cheque for Rs.900 is presented to Bank B the balance sheet of Bank has a primary deposit of Rs.900/-. Bank B keeps cash reserve of 10 percent out of this amount, which Rs.90/- with itself and uses the remaining Rs.810/- for giving loans to its borrower Y. The balance sheet of Bank B reads as follows:

Liabilities		Assets	
Primary Deposits	Rs.900	Cash	Rs.90
	---	Loan to Mr. Y	Rs.810
	Rs.900		---
			Rs.900

Mr .Y who has borrowed from Bank B uses the cheque to pay his creditor Mr.Z. who presents it to his bank C. The bank C has primary deposit of Rs.810/- out of which it maintains a cash reserve of Rs.81 and lends the remaining Rs.729/- to its customer. The balance sheet of Bank C reads as follows:

Liabilities		Assets	
Primary Deposits	Rs.810	Cash	Rs.81
	---	Loan to Mr. D	Rs.729
	Rs.810		---
			Rs.810

Thus if each bank maintains a 10 percent cash reserve , the original deposit of Rs.1000/- would have resulted in additional deposits of Rs.900+810+729……etc , till the amount becomes so negligible that loans cannot be created further. Thus with a 10 percent cash reserve there would be a ten times increase in the derivative deposits with the banking system. This is credit created by the banks. This ability to cause multiple expansion in deposits through credit creation can be explained with the help of credit multiplies.

Credit Multiplier ($\bar{k}$) = $\frac{1}{r}$

Where $\bar{k}$ credit multiplier

r = cash reserve ratio

Thus if cash ratio is 10 percent or 0.1, the credit multiplier is

$\bar{k} = \frac{1}{r} = \frac{1}{0.1} = 10$

The higher the cash reserve ratio, lower will be the credit multiplier. For example a cash ratio of 20 percent would result in a credit multiplier of 5 = ($\frac{1}{0.2}$ = 5).

Credit multiplier helps to understand the impact of an increase in the money supply of bank credit. For instance, if the government spending is financed by deficit financing by Rs.2000, this initial increase in money supply would ultimately result in a multiple increase in bank money through credit creation to the tune of Rs.20,000 (2000x10) with a cash reserve ratio of 10 percent.

LIMITATIONS OF CREDIT CREATION

1. **Limitations of cash reserve:** Credit creation is the reciprocal of cash reserve ratio. Higher the cash reserve ratio, smaller will be the volume of credit banks can create. This has proved to be a significant factor in monetary policy of the central banks. This if the central bank finds that prices are rising in the economy due to high volume of bank credit, it can estimate the exact excess and use the credit multiplier to reduce the volume. Thus if excess credit created is Rs.100 crores and if the credit multiplier is 10, the central bank should increase the cash reserve ratio sufficiently.
2. **Volume of currency in circulation:** Derivative deposits or credit creation depends upon primary deposits or cash which depends upon the money in circulation. If the volume of currency in the economy increases primary deposits will increase and so will credit creation. If volume of currency declines, primary deposits decline and there will be contraction of credit.
3. **Banking habits and desire to hold cash:** When people have banking habits, cash handling is less and banks get more funds to create credit. On the other hand, if people prefer cash transactions, there will be constant withdrawals of cash. This will reduce banks' cash reserves and their ability to create credit.

4. **Availability of good securities:** Banks can give loans only against good securities given by the borrower. Usually borrowers offer some form of wealth or property as security. Banks therefore, convert immobile wealth into mobile wealth. That is why Geoffrey Crowther comments that "the bank does not create money out of thin air; it transmutes other forms of wealth into money".
5. **Maintenance of statutory liquidity ratio:** In several countries commercial banks are expected to maintain a certain proportion of their primary deposits in the form of liquid assets like government bonds or bills of exchange or any other approved security. Commercial banks in India have been asked to maintain liquid assets as high as 38 percent of their deposits. This limits their capacity to create credit.
6. **Monetary policy:** The quantum of credit creation depends upon the volume of currency. The Central Bank can reduce or increase the same through its monetary policy of open market operation, bank rate policy etc.

General conditions in the economy: General conditions of trade and business in the economy can influence credit creation. When conditions are good and there is prosperity everywhere, people prefer to invest and so borrow from commercial banks. Hence banks will also increase credit. During recessionary conditions, business and traders do not find scope for sales and hence reduce their volume of production or sales. So they will not borrow from commercial banks. Thus during the Great Depression of 1930s', when banks in the U.S.A reduced the loan rate of interest to even ½ percent to attract borrowers they could not succeed as the desire to borrow was dampened by recession.

ECONOMICS OF ENTREPRENEURSHIP – II (UAEC 43A)

ENTREPRENEURSHIP AND ENVIRONMENT

Business environment refers to the factors external to a business enterprise. Which influence its operations and determine its effectiveness. Healthy business environment means the conditions are favorable to the growth of business, whereas unhealthy environment implies conditions hostile or unfavorable to business operations.

Business and its environment interact with each other. Economic system and other conditions in the environment determine the success of business enterprises.The firm and its management have to adjust to the conditions prevalent around it.

A study of business environment offers the following benefits;

- It provides information about environment which is essential for successful operation of business firm.
- It opens up fresh avenues for the expansion of new entrepreneurial operations.
- To maintain harmony of business operations with the environment.

Thus the entrepreneur should continuously study the nature of environment and its influence on business.

The most successful entrepreneur is one who not only adjust to the environment but also modifies the environment.

PHASES OF BUSINESS ENVIRONMENT

Business environment may be classified into four broad categories namely;

I. Economic Environment

II. Legal Environment

III. Political Environment

IV. Socio-cultural Environment

Economic Environment:

- Structure of the economy
- Trade and transport policies of the country
- The growth pattern of national income and its distribution
- Balance of Payments

There is close relationship between a business firm and economic environment around it.

Legal Environment:

Business must function within the framework of legal structure. An adequate knowledge of laws and rules is necessary for efficient managerial performance. When new laws are made, business community is to oppose them and disobey them. Management should try to understand what should be the right laws and strictly obey them when so made.

In addition, it can influence the government to change and improve the law and make it useful to the business community. A working knowledge of these laws is very helpful for the entrepreneur and the business community. Therefore entrepreneur must always keep in touch with those who know latest position in law.

Political Environment:

In a democratic country like India politics cannot be ignored. Managers and entrepreneurs should understand the working of the political system. Businessman should take public opinion into account in the decision-making process. Government should also take the

business community into confidence while preparing and implementing plans for the country's development.

Socio-Cultural Environment:

Traditional culture should be protected. People believe their success or failure depends upon the God's mercy. Project or building are postponed for auspicious days recommended by Pandits. All these considerable wasted labour.

Environmental Factors Affecting Entrepreneurship:

A multitude of environmental factors determine the entrepreneurial spirit among people. The interaction between the entrepreneur and his environment is an ongoing process. Some of the environmental factors which hinder entrepreneurial growth are given below;

- Sudden changes in govt. Policy.
- Sudden political upsurge.
- Political instability.
- Ideological and Social conflicts.
- Unreliable supply of Power, Materials ,Finance, Labour and other inputs.
- Rise in the cost of inputs.
- Unfavourable market fluctuations.
- Non-cooperative attitude of banks and financial institutions.

Business Environment In Underdeveloped countries:

Development of a healthy business environment is an essential condition for the growth of entrepreneurs. But Economic and Social conditions are unfavourable in UDCs. There is lack of adequate infrastructure and capital. It is very difficult to create and maintain the required quantity and quality in UDCs. Most are can imitate but few can innovate. Government takes various measures to stimulate the growth of entrepreneurship.

Entrepreneurship is environmentally determined. A healthy business environment requires active Social and Cultural behaviour of the people, efficient economic conditions helpful and motivating government policies etc.,

MARKETING COMMUNICATION AND ADVERTISEMENT II (USEC 44)
AN OVERVIEW OF ADVERTISING MEDIA

Meaning of Advertisement:

It is the process of spreading product information among the potential buyers through a public medium in order to maximize sales. Public medium includes newspapers, magazines, television and radio. *The American Marketing Association defines advertising as 'any paid form of non-personal presentation and promotion of goods, services or ideas by an identified sponsor'*.

Objectives of Advertising:

- To inform about new products and services;
- To motivate the buyers to buy;
- To create demand for the product;
- To build up image for the business;
- To announce certain concessions to buyers like discount, price cut, gift etc.;
- To stimulate Sales;
- To increase profits;
- Brand building
- Help to attain company goals;
- To achieve a high market share;
- To develop attitudes;
- To promote sale during off-season; and
- To maximize sale during festival season.

Advertisement Copy: The reading matter or the theme of advertisement is what is known as advertisement copy. For example: The complete planned food – COMPLAN; Horlicks is proved as a supplementary food and good for Brain development - HORLICKS; Boost is the secret of my energy – BOOST. This example clearly says that easy and simple to read and understand by all the buyers and very short and clear, it motivates the buyers to buy the product. In other words, an advertisement copy is text and layout of a print, radio or television media that aims at catching attention and holding interest of the prospective buyer, and eventually persuading them to make a purchase, all within few seconds.

Advertisement Media:

In advertising the term media refers to communications like newspapers, magazines, radio, television, billboards, direct mail and the internet. Advertisers use media to convey commercial messages to their targeted audiences and the media depend to different degrees on advertising revenue to cover the cost of their operations. The advertisement media are devices that carry the advertisement messages. Once the advertisement copy has been prepared, the next step is to bring out the same through a proper medium.

Kinds of Advertising Media:

- Press – Newspapers and magazines;
- Radio;
- Television;
- Advertisement films and slides;
- Outdoor advertising;

- Point of purchase advertising; and
- Direct mail.

Factors to be considered in the selection of Media:

(i) **Cost:** The amount payable to the medium for bringing out the advertisement is an important consideration. Newspaper, radio and television advertising require more funds. It is highly expensive; the marketer who can afford to spend more can go for this medium to advertise their products.

(ii) **Geographical Coverage of the Medium:** Some media of advertisement are restricted in some places, example certain newspapers and magazines are restricted to a particular City or State. The advertisement should reach all the nook and corner of the area. So the selection of the media should cover the geographical area. Some cities are not connected with electricity, in such a situation the radio and television advertisements will become failure. Thus, a marketer has to select the particular medium upon his requirements.

(iii) **Nature of Goods:** According to the goods the selection of media should be selected. Newspapers, radio and television are more suitable for advertising consumer products. In the case of industrial goods, press advertising or direct mail can help.

(iv) **Demographic Characteristics:** Demographic character is also necessary for selecting a suitable media for communicating. Demographic factors like literacy level of the people, level of income, purchasing power, etc., For example Newspaper advertising is suitable only for the literate, in the case of illiterate radio and television advertising will be suitable and also it can reach them in a simple way.

(v) **Form of Advertisement**: The advertiser has to choose the suitable form of advertisement media to the suitable place and for the prospective buyer. If the advertiser wants to communicate in written form together with pictures, he/she will choose newspapers or magazines. If he wants it to be orally conveyed to the public, they will select radio as a media. In case he wants it in audio cum video form he will prefer television as a media of advertising.

Conclusion:

Thus advertising plays a vital role in the communication process. It helps buyers to know about and select the product as wells it helps to create market for the product. But the selection of media is very important to compete the market. Appropriate mode of media for suitable place and for suitable buyers, media plays a crucial role if the wrong media is chosen for advertising; it will not reach the buyers as well as it creates bad market situation. So while choosing a media the advertiser has to consider about the place/location where to be market/advertise, the targeted buyers for their product, life style of the buyer, income of the buyer and demographical factors. Former is the buyer side and in the case of advertiser he/she has to consider the nature of the product and demand for it, the financial allocation for advertising, the nature of the competition and the extent of coverage, cost of media, co-operation and promotional aids offered by media and media circulation.

NON-MAJOR – FUNDAMENTALS OF ECONOMICS – II (UNEC 45)

GLOBALIZATION

Globalization implies integration of the economy of the country with the rest of the world economy and opening up of the economy for foreign direct investment by liberalizing the rules and regulations and by creating favourable socio-economic and political climate for global business.

According to IMF, "The growing economic interdependence of countries volume and variety of cross border transaction in goods and services and of international capital cash flows, and through the more rapid and widespread diffusion of technology".

FEATURES OF GLOBALIZATION:

- Opening and planning to expand business throughout the world.
- Erasing the difference between domestic market and foreign market.
- Buying and selling goods and services from to any countries in the world.
- Locating the production and other physical facilities on a consideration of the global business dynamics, irrespective of national consideration.
- Basing product development and production planning on the global market consideration.
- Global sourcing of factor of production i.e., raw-material, components, machinery, technology, finance etc., are obtained from the best source anywhere in the world.
- Global orientation of organizational structure and management culture.

PROS AND CONS OF GLOBALIZATION: Globalization have several benefits, they are;

- Free flow of capital and increase in the total capital employed.
- Free flow of technology.
- Increase in industrialization.
- Spread of production facilities throughout the globe.
- Balanced development of world economies.
- Increase in production and consumption.
- Commodities at lower price with high quality.
- Increase in jobs and income.
- Higher standard of living.
- Balanced human development

NEGATIVE EFFECTS OF GLOBALIZATION:

- Loss of domestic industries
- Exploits Human resource
- Decline in income
- Unemployment
- Transfer of natural resource

- Lead to commercial and political colonism
- Widening gap between rich and poor
- Dominance of foreign institutions

CONCLUSION:

Economic liberalization has increased the responsibility and role of the private sector. At the same time, it has reduced the control of the government on economy affairs. It is expected that the reforms would liberalize the Indian economy enough to create a conducive environment for rapid economic development.

III B.A ECONOMICS – V SEMESTER

MACRO ECONOMICS – I (UEC 51)

SAY'S LAW OF MARKET

INTRODUCTION:

The Say's law of market is an economic rules that says that production is the source of demand. According to Say's law , when an individual product or service , he or she gets paid for that work , and is then able to use that pay to demand other goods and services.

SAY'S LAW OF MARKET:

This law means that "SUPPLY ALWAYS CREATES ITS OWN DEMAND". In other words, according to J.B.SAY there cannot be general over production or general unemployment on account of the excess of supply over demand because whatever is supplied or produced is automatically exchanged for money. In an exchange economy whatever is produced represents the demand for another product because whatever is produced is easily sold.

Whenever additional production takes place in the economy , necessary purchasing power is also generated at the same time to absorb the additional supply ,hence ,there is no scope of supply exceeding demand and causing unemployment. This law was the basis of their assumption of full employment in the economy which rested on the plea that income is spent automatically at a rate which will always keep the resources fully employed.

Savings - according to classical are just another form of spending; all income, they believed, is partly spent on consumption and partly on investment. There is no ground to fear a break in the flow of income stream in the economy. Hence there cannot be any general over production or unemployment.

Classical always held that there are no lapses from full employment equilibrium and even if there are any, there always a tendency to return to full employment .This belief of the classical economist was based on the views of French economist J.B.SAY.

ASSUMPTION OF SAY'S LAW OF MARKET:

- That the free enterprise system based on price mechanism provides a place for growing population and an increase in capital.
- In an expanding economy new firms and workers find their way into the productive process, not by displacing others but by offering their own in exchange.
- The extent of the market is not limited.
- No necessity on the part of the government to interference in business matters.
- Flexibility of interest rates and long period were considered essential for its successful working

IMPLICATIONS OF SAY'S LAW OF MARKET:

- According to say's law of market there is automatic adjustment in the economy as whatever is produced is consumed. Hence there, is no government intervene in business matters as that will come in conflict with automatic adjustment mechanism of say's law of market.
- Supply creates its own demand; hence general unemployment and over-production are impossible.
- When the unemployed resources are used, they lead to more production so as to cover their own costs.
- The mechanism of flexibility in the rate of interest, which brings about equality between savings and investment.
- Say's law of markets flows from the Pigovian formulation
- Goods are exchanged for good, money acts as a veil and have no independent role to play. Money is only a medium of exchange to facilitate transactions.

CRITICISMS OF SAY'S LAW OF MARKET:

J.M.KEYNES, in his General theory made a frontal attack on the classical postulates and say's law of market. He criticized say's law of market on the following ground.

- Supply does not create its Demand
- Self adjustment not impossible.
- Money is not neutral
- Over production is possible.
- Underemployment Situation.
- State Intervention
- Equality through income
- Wage cut no solution.
- Demand creates its own supply.

EVALUTION:

Keynes has criticized this proposition and propounded the opposite view that demand creates its own supply. Unemployment results from the deficiency of effective demand because people do not spent the whole of their income on consumption.

FISCAL ECONOMICS – II (UEC 52)

IMPACT, SHIFTING AND INCIDENCE OF TAXES

Introduction: In the process of taxing, three concepts are involved. Impact, Shifting and Incidence.

- The person who pays the tax to the government in first instance bears the **impact.**
- The process of shifting of a tax from one person to another is called **shifting.**
- The settlement of the burden on the ultimate tax payer is called the **incidence** of the tax
- In case of Direct taxes, Impact and Incidence will be with the same person. There will be not be the process of shifting.
- In case of Indirect Taxes, Impact will be with one person and the tax burden will be sifted, with respect to many facts and the incidence will be with another person.
  Eg: Sales tax can be shifted from producer (Impact) → wholesaler(Shifting) → Retailer(Shifting) → consumer(Impact).

Elasticity of Demand and Elasticity of Supply:

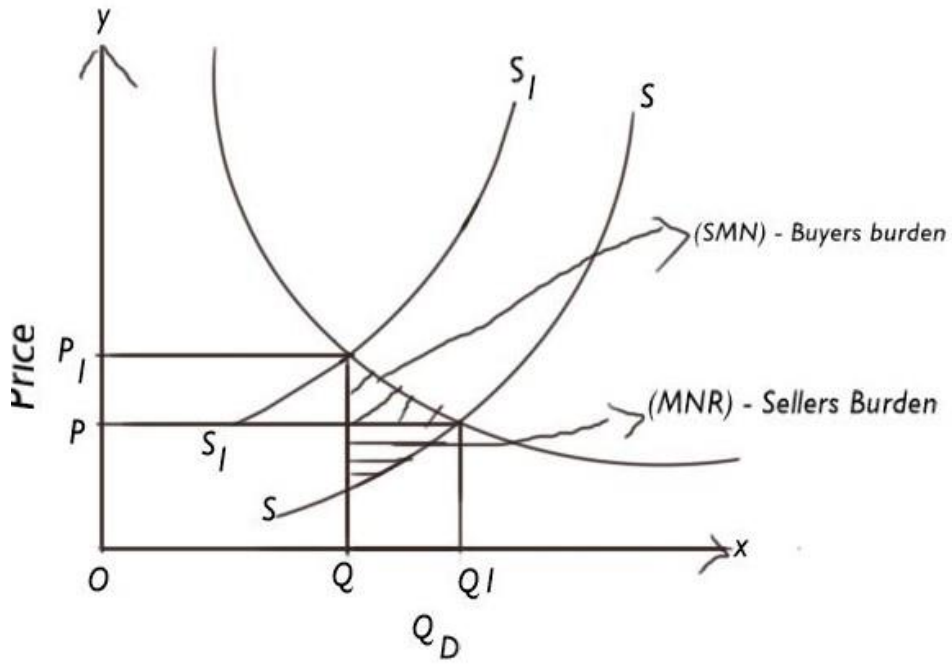
The incidence of tax burden is divided between buyers and sellers in the ratio of the elasticity of supply to the elasticity of Demand.

$$E_d = \frac{Proportionate\ change\ in\ Demand}{Proportionate\ change\ in\ price}$$

$$E_d = \frac{\Delta Q}{Q} \Big/ \frac{\Delta P}{P} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

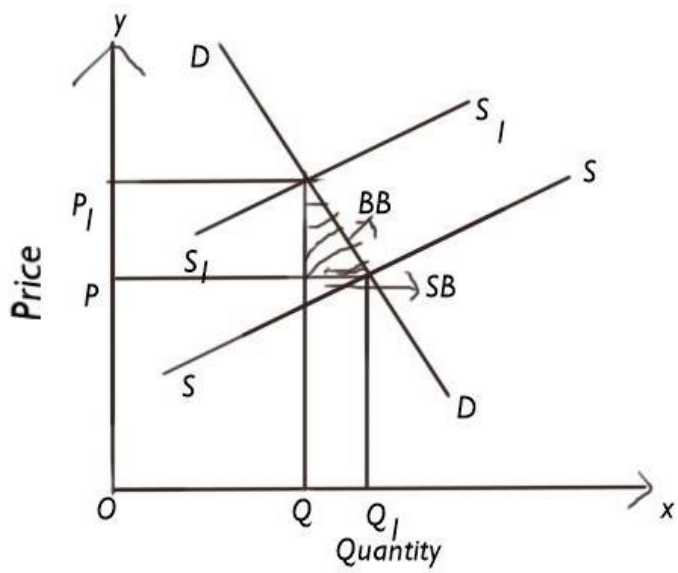
$$E_s/E_d = \frac{Burden\ of\ the\ tax\ upon\ the\ buyer}{Burden\ of\ the\ tax\ upon\ the\ seller}$$

1. If $E_s = E_P$: Buyers burden = Sellers burden
   (The price of the commodity will rise by half the amount of tax)



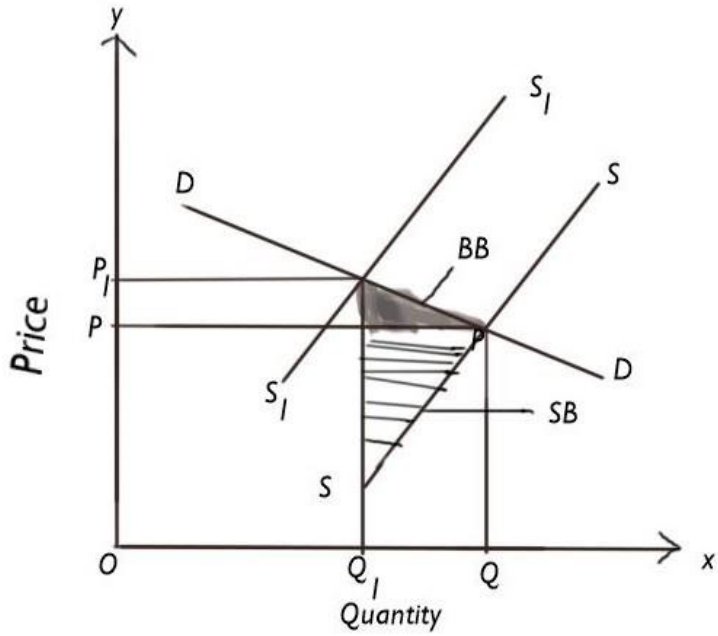
In the diagram both supply and Demand curves have equal slopes. Therefore the tax burden is equally divivded between buyer and seller.

2. <u>If $E_S > E_P$</u> : Buyers Burden > Sellers Burden
   (Rise in price of the commodity will be more than 50% of the amount of the tax)



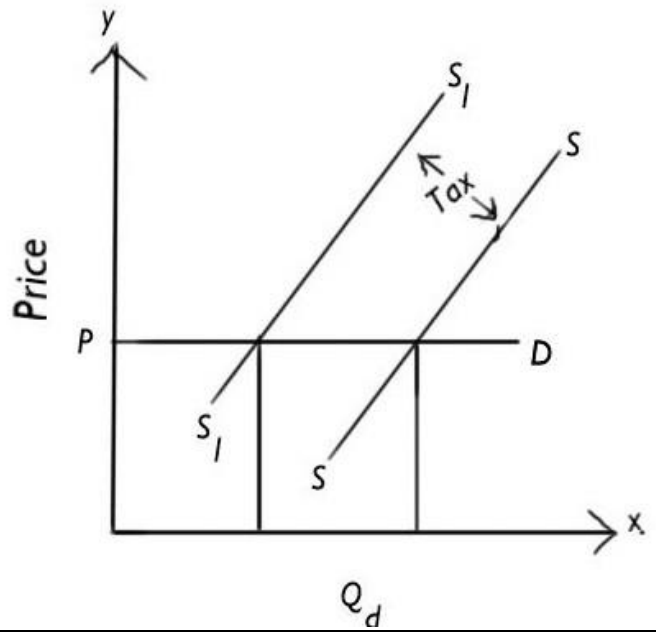
$PP_1 > QQ_1$. Hence BB > SB
Supply is relatively elastic and Demand is inelastic.

3. <u>If $E_S < E_D$:</u> Buyers burden < Sellers Burden.
(Rise in price will be less than 50% of the amount of the tax.)



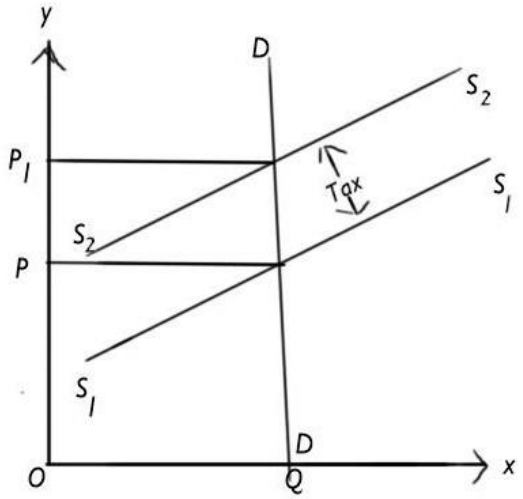
$PP_1 < QQ_1$. Hence BB < SB
Supply is relatively inelastic and demand is elastic.

4. <u>If the demand for the commodity is perfectly elastic and the supply is inelastic :</u> (The entire burden will be with the seller)



Here the demand will be perfectly elastic, and increase in price due to tax will make the demand zero and seller have to bear the entire burden.

5. <u>If the demand for the commodity is perfectly inelastic and its supply is elastic:</u> (The entire burden will be upon the buyer)



PP_1 = Price increases by the full amount of tax. The increase in the price will not affect the demand for the commodity because the demand is perfectly inelastic.

It is thus obvious, that the forces of demand and supply play a vital role in determining the incidence of tax.

Other factors affecting Incidence of a Tax

- ✓ Price acts as the medium of shifting.
- ✓ Nature of demand for commodities.
- ✓ Nature of supply of commodities
- ✓ Effects of Time on shifting.
- ✓ Tax Area.
- ✓ General business conditions.

Incidence of Various Individual Taxes

1. Incidence of Income Tax:

   A tax imposed upon individual's income is generally not shifted. Personal incomes are generally received through wages, rents etc. In general, the burden of these taxes will be upon the tax payers themselves.

2. Incidence of sales tax and Excise duty:

   The sales tax is imposed at the time of the sale of commodity and excise duty is imposed when they are produced. Such taxes are called commodity taxation. The incidence of such a tax will depend upon the elasticities of demand and supply. The burden of these taxes will be divided between buyers and sellers or will rest with the seller or with the buyer.

3. Incidence of Custom Duties

   Import and export duties are known as customs duties. If the demand for India's product to America is inelastic then the major part of the export duty will be upon the residents of America. On the other hand, if the demand for America's product in India is inelastic, then the major part of the export duty will be upon consumers in India and the same is true for import duties.

4. Incidence of Taxes on Property

   The taxes on property which is used for consumption or personal use, the burden will remain upon property owners, such taxes cannot be shifted. However when such property are sold the owner can shift the series of tax burden to its sellers.

HISTORY OF ECONOMIC THOUGHT – I (UEC 53) (V SEMESTER)

THE INSTITUTIONALIST SCHOOL

INTRODUCTION:

Institutional Economics is essentially an American Product. Thorstein Veblen (1857-1929) is the founder of the Institutionalist School and followed by his, J.R.Commons and Wesley Clair Mitchell were the important members of the School. In the 19th Century, monopolies became a powerful institution and economic and political power was concentrated in the hands of big business. Laissez-faire policy was used to the convenience of the influential sections of the society. And political corruption was not uncommon. Thus American society was characterized by big business and absentee of ownership. There was the growth of an American leisure class, built upon a foundation of capitalist industry. But some of the economists were not satisfied with the existing economic doctrines of the classical and marginal school. In this situation institutional school emerged, some thought in terms of reforming the society by having social control over institutions.

DEFINITION:

According to **J.R.Commons**, Institution as a "Collective action in control of individual action".

According to **Veblen**, institution as a widely prevalent habit of thought.

ESSENTIAL IDEAS OF THE INSTITUTIONALIST SCHOOL:

- The term 'institution' includes customs, social habits, laws, modes of thinking and ways of living. Thus slavery is an institution. Belief in slavery is also an institution. According to the institutional school, economic life is regulated by economic institutions and not by economic laws;
- they believe in social behavior, which is more important to the analysis of economic problems than the individual behavior emphasized by the marginalist economists;
- they believe that the economy must be studied as a whole;
- they advocate the evolutionary approach in economic analysis;
- they reject the idea of 'normal equilibrium';
- they believe in the doctrine of relativity;
- they reject the classical assumption of harmony of interests;
- they advocate liberal democratic reforms to reduce inequalities of income and wealth;
- they support inductive method than deductive method; and
- They repudiated the pleasure-pain psychology of the marginalists.

THE INSTITUTIONAL SCHOOL AND THE HISTORICAL SCHOOL:

- Both emphasize the importance of institutions;
- Both schools stress the doctrine of relativity;
- They believe in change and evolution;

- They attack the ‘value economics’ of the classical school based on abstract reasoning and motive of self-interest; and
- Both schools aim at a realistic description of human behavior.

The Austrian school attacked the historical school. The institutionalists attack the Austrian.

LIFE AND CONTRIBUTIONS OF VEBLEN:

Veblen is regarded as the founder of “Institutional Economics”. His work is an outstanding American contribution to political economy. He was the son of Norwegian immigrants and he was born on a farm in *Wisconsin*. He received a doctorate in philosophy from the Yale University. Veblen did not get a suitable academic position in any of the American Universities. His marriage was a failure and he was more or less a lonely man. Veblen was a product of his time.

Vebles’s first and most popular book “The theory of the Leisure class” was published in 1899. Other works were: The Theory of Business Enterprise (1904), the Instinct of Workmanship and the State of the Industrial Arts (1919) and the Engineers and the price system (1921). Veblen used peculiar terminology in his books. He use “leisure class” and “conspicuous consumption” terms very often because he was the author of these terms. He was not satisfied with the methods and doctrines of the classical economists and marginalists as explanations of contemporary economic institutions and phenomena.

He has adopted the evolutionary approach. Limitations of the marginal utility principle were pointed out by him. He attacked classical economic theory based on hedonism and rejected the concept of economic man, as always balancing pleasure and pain. According to him, the main economic institutions are property and technological methods. In the beginning technological information was open to all classes. But as industrial arts develops, there is increase in the scale of production. Production exceeds our necessities and there is a surplus. Certain groups by making use of their property rights manage to take away this surplus and live in leisure. Thus the ‘leisure class’ comes into existence.

The leisure class becomes interested in money-making. Then self-interest begins to clash with common good. Moneyed class make profits in a number of ways by restricting production, by fixing high prices, and by financial manipulations in which credit plays an important role. Veblen notes that there is a fundamental conflict in the capitalist society between all those who work in a socially productive way and the members of the ‘leisure class’ who make money as ‘absentee owners’ by directing the technique of production.

Veblen attacked marginalists because he thought that their theory supported the present scheme of the distribution of wealth and income. He considered the standard economic theory as business economics which had been developed to defend the business community. Also he was interested in social economics.

CONCLUSION:

The economists who developed the statistical and descriptive branches were influenced by Veblen. But Veblen has been criticized on the ground that he over-emphasized the role of 'institutions' in economic life. Veblen is more admired by sociologists than economists.

INDUSTRIAL ECONOMICS (UEC 54)

MULTINATIONAL'S IN INDIA

- **Introduction**
- **Origin**
- **Definition**
- **Characteristics of mnc's**
- **Types of mnc's**
- **Factors responsible for their growth**
- **Importance of mnc's**
- **Demerits of mnc's**

Multinational Corporation may be defined as a company or an enterprise which undertakes the foreign direct investment. Multinational corporations are also known by such names as 'international corporation, transational corporation, global corporation or firm, company or enterprise etc.,

The MNC growing with rapidity accounted for a significant share in worlds investment, employment and trade .they extended their industrial and marketing operations through a network of their branches or their majority owned foreign affiliates (MOFAS).

ORIGIN:

The concept of MNC is not a new one .Its history can be traced back to the period of mercantilism period .Hudson's bay co, royal African which went out of their land in search of markets for their products.

In the per-second world war period a large number of colonies were dominated by the giant corporations. They thought of exporting to developing countries. USA emerged as a most dominant single country exporting capital in the form of direct investment. But in the post-interdependence period these MNC especially USA entered into foreign collaborations in different countries.

DEFINITION:

In its organizational definition "MNC is that which (1) acts as an organization maximizing one overall objective,(2)treats the whole world as its operational area, (3)is able to coordinate all its functions in any way necessary to achieve (1)and(2)"

CHARACTERISTICS OF MNC'S:

- Giant size

- Oligopolistic structure
- Collective transfer of Resources
- International operations
- spontaneous evolution

TYPES OF MNCs:

MNCs are of three types:

- Domination of MNCs
- Industry wise distribution of foreign capital
- Foreign collaborations

FACTORS RESPONSIBLE FOR THEIR GROWTH:

- Product innovations
- Market superiorities
- Technological superiorities
- Expansion of market
- Financial superiorities

IMPORTANCE OF MNCs:

MNC has a important role on the international economy .its main benefits are;

- ✓ **Transfer of superior technology:**

  The MNC serves as an agent to transfer the superior technology to the UDCs.

- ✓ **Transfer of capital:**

  MNC helps to transfer capital form countries where it is abundant to countries where it is scarce.

- ✓ **Linkage effect :**

  The UDCs back sufficient degree of linkage with other industries. Thus the MNCs produce linkage effect in the host countries.

- ✓ **Effect on balance of payment :**

  The operation of MNCs has a favorable effect on the balance of payments of a country. They possess a global marketing organization by which they can promote export form developing countries.

- ✓ **Employment opportunities:**

MNC creates large scale employment opportunity. Basically employment generation is a function of two variables viz,

(i) growth of investment

(ii) nature of technology MNC has encouraged investment in productive channels to raise employment.

- ✓ **Development of human resource capital :**

They provide sophisticated technology and improved skills and knowledge to under developed countries. And MNCs provides an efficient mean of integrating national economies.

DEMERITS OF MNCs:

- ❖ Profit Oriented
- ❖ Transfer of Technology
- ❖ Corrupt Practices
- ❖ Production of Non-essential Goods
- ❖ Promote Regional Disparities
- ❖ Capital Intensive Technology
- ❖ Exploitation of Labour
- ❖ The staff of MNC are Paid High

INTERNATIONAL TRADE I (UEEC 55B)

FOREIGN EXCHANGE MARKET

INTRODUCTION:

Foreign Exchange – In a wider sense, the term refers to the operation or the mechanism by which two countries clear off their indebtedness. In a narrower sense, the term refers to 'foreign currency' and the rate at which the local currency is exchanged for foreign currency. According to the Foreign Exchange Management Act 1999, Foreign Exchange means foreign currency which includes: (i) deposits, credits and balances payable in any foreign currency; (ii) drafts, travellers cheques, letter of credit or bills of exchange, expressed or drawn in Indian currency, but payable in any foreign currency; (iii) drafts, travellers cheques, letter of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency. This foreign exchange includes foreign currency, balances kept abroad, instruments payable in foreign currency and instruments drawn abroad, but payable in Indian currency.

FOREIGN EXCHANGE MARKET:

The foreign exchange market is the market where foreign exchange or foreign currencies are bought and sold. The foreign exchange market places at the disposal of buyers and sellers of foreign currencies and the specialized services intermediaries. In the words of Kindleberger, "The foreign exchange market is the market for a national currency anywhere in the world, as the financial centres of the world are united in a single market". With improvement in telecommunications, relaxation of controls and huge trade imbalances among the trading countries, the foreign exchange market has witnessed phenomenal expansion during the last two decades. The principal financial centres are New York, London, Bonn and Tokyo. London market is by far the largest where about 100 billion dollar foreign currency is transacted each day and followed by other countries like New York, Tokyo etc. Since Independence regarding India, there were in a regime of strict exchange control, the Indian importers were to secure necessary foreign exchange from the Reserve Bank of India and get equivalent amount of Rupees from it. After the adoption of Liberalisation scheme at the fag end of 20th century and making full convertibility of rupee, the foreign exchange market is likely to come into its own.

There are different categories of participants in the foreign exchange market. They are

- Traditional users – importers, exporters, investors, traders and speculators.
- Commercial banks – buy and sell currencies to the traditional users, traders and speculators.
- Bill brokers – act as the intermediaries between the buyers and sellers of foreign exchange. They insist the buyers and sellers to deal in the foreign bills.
- Acceptance houses and central banks – they at times intervene in the foreign exchange market to affect the value of their currencies.

FUNCTIONS OF THE FOREIGN EXCHANGE MARKET:

(i) **Transfer Functions**: Main function of the foreign exchange market is to effect transfer of funds or purchasing power from one country to another. This is effected through various instruments, such as foreign bills, bank drafts, telegraphic transfers and direct dialing telephone service.

(ii) **Credit Functions**: Financing of trade is called credit function. Credit required for transporting of goods and also to allow the buyer to resell the goods and make the payment. The foreign exchange market permits time to the importers in making payment on the one hand, and permit instant payment to exporters through discounting facility.

(iii) **Hedging functions**: It means covering an exchange risk which can be avoided or reduced through a forward contract.

GENESIS OF FOREIGN EXCHANGE: INTERNATIONAL TRADE AND BALANCE OF PAYMENTS:

Foreign exchange is the outcome of international trading and the consequent need for international payments in different currencies.

Balance of Trade: It is the difference between the values of goods and services exported and imported. It refers to the adjustment of visible exports to visible imports. When the value of imports coming to a country is greater than that of exports going out of the country, the balance of trade is said to be **unfavourable**. If the value of visible exports is greater than that of the value of visible imports, the balance of trade is said to **favourable**.

Visible and Invisible Items: In the goods and services exchanged between countries, in which some goods are *visible exports and imports and some are invisible items*. Visible items are Merchandise and treasure. Shipping, freight, port dues, banking services, insurance charges, interest on loans, profits on capital invested in foreign countries, expenses of tourists and students abroad, government expenditure on diplomatic services are some of the invisible items.

Balance of Payments: According to IMF, "the balance of payments for a given period is defined as a systematic record of all economic transactions during the period between residents of the reporting countries". Here the word residents refer to business firms, governments and international agencies located in a particular country. The balance of payments of a country is a record of its monetary transactions for a year with the rest of the world. (i) the value of export and import trade, and invisible exports and imports are the items enter into the balance of payments.

IMPORTANCE OF BOP:

- ✓ it reveals the various aspects of a country's international economic position;
- ✓ it informs the government about the international financial position of the country;
- ✓ it helps the government in taking decisions on monetary and fiscal policies on the one hand and on the external trade and payments issues on the other; and
- ✓ it is also used to determine the influence of foreign transactions on the level of national income.

CONCLUSION:

Balance of payments is more comprehensive in scope than balance of trade**.** A nation's international balance of payments is a quantitative summary of a country's international transactions over a given period of time. Devaluation and direct controls are the measures to correct the disequilibrium.

HUMAN RESOURCE MANAGEMENT (USEC 56)

TRAINING

- **Introduction**
- **Concept of Training**
- **Need for Training**
- **Importance of Training**
- **Setting Training Objectives**

- **Types of Training**
- **Methods of Training**

Introduction:

Every organization needs to have well-adjusted, trained and experienced people to perform the activities that must be done. Rapid job changes are occurring, requiring employee skills to be transformed and frequently updated. In organizations, this takes place through what we call employee training.

Concept of Training:

Training is the process of teaching the new and or present employees the basic skills they need to effectively perform their job. According to Edwin B. Flipp, "Training is the act of increasing the knowledge and skills of an employee for doing for a particular job".

Need for Training:

Training is job-oriented. It bridges the gap between what the employee has and what the job demands. The need for training has been recognized as an essential activity not only in the business organizations, but also in academic institutions, professional bodies and the govt. departments.

Several conditions have contributed to make the organizations realize the need for imparting training to their employees.

i. To meet challenges posed by the global competition.
ii. Need for both individuals and organizations to grow rapid pace.
iii. To enable employees to move from one job to another.
iv. Increase quality demand for managers and workmen.
v. Technological change necessitating acquisition of new knowledge, ability and skills.
vi. To harness the human potential and give expression to their creative urges.
vii. Sub-optimal performance organizations in govt. public and private sectors.

Importance of Training:

The importance of employee training can best be appreciated with the help of various advantages it offers to both employees and employers.

These are explained under the following heads;

i. Better Performance
ii. Improved Quality
iii. Less Supervision
iv. Less Learning Period
v. High Morale
vi. Personal Growth
vii. Favourable Organizational Climate

Setting Training Objectives:

- To impart induction to new employees the basic knowledge and skills required for efficient performance of the particular tasks.
- These help new employees settle down in the new environment.
- To help the employees function more effectively in their present positions, eg. Latest concepts, information, techniques.
- Mobilty is a fact of life.
- To develop competency among the employees in newer areas.
- Training to their employees on creativity, innovativeness.

Types of Training:

- Induction Training
- Job Training
- Craft Training
- Training for Promotion
- Refresher Training

Methods of Training (or) Designing Training Methods:

Training methods are means of attaining desired objectives set for a training programme. In practice, a variety of training methods are employed for achieving these objectives. But an organization cannot use all types of training methods for the reasons like cost involved and also their relevance to organizational needs.

The choice of training methods would depend on a variety of factors such as purpose of training, nature of contents, relevance to the participants, level of trainees, competence of trainers or instructors, cost, etc.,

Depending on the training results and the process employed to attain these, the various training methods can be broadly categorized into four groups as under;

- On-the-Job Oriented training Methods
- Simulation Methods
- Knowledge-based Methods
- Experimental Methods

VI SEMESTER

MACRO ECONOMICS – II (UEC 61)

THE MULTIPLIER

INTRODUCTION:

In macroeconomics, a multiplier is a factor of proportionality that measures how much an endogenous variable changes in response to a change in some exogenous variable. For example, suppose variable x change by 1 unit, which causes another variable y to change by M units. Then the multiplier is M.

The concept of multiplier:

The concept of multiplier was first developed by Richard F. Kahn in 1931. Kahn's multiplier was the employment multiplier. Keynes took the idea from Kahn and developed the INVESTMENT MULTIPLIER. The concept of Investment multiplier constitutes an important piller in the whole edifice of the Keynesian theory of income and employment. The concept of multiplier is closely connected with the MPS. According to keynes, the multiplier establishes, "a precise relationship between aggregate employment, income and the rate of investment given the propensity to consume. Whenever an investment is made in the economy, the effect is to increase aggregate income not only by the amount of original investment, but by something much more than that.

There is, thus a precise relationship between the initial investment and the ultimate increase in income. This relationship Keynes designates as K'.

Assumptions of Multiplier:

The Keynesian theory of multiplier requires specific conditions under which it operates. Some assumptions are necessary for its smooth movement. They are as follow;

- There is a change in investment
- Marginal propensity to consume is constant
- Consumption is a function of current income.
- There are no time lags in the multiplier process. An increase in investment instantaneously leads to a multiple increase in income.
- The new level of investment is maintained steadily for the completion of the multiplier process.
- There is net increase in investment.
- Consumer goods are available in response to effective demand for them
- There is an industrialized in which the multiplier process operates.
- There is no change in price.
- The accelerator effect of consumption on investment is ignored.
- There is less than full employment level in the economy

FEATURES OF MULTIPLIER:

- It is associated with change in investment.
- Size of multiplier depends upon size of MPC
- Multiplier works in both forward and backward direction.
- Value of multiplier varies from unit to infinity.

SIZE OF THE MULTIPLIER:

- Higher the MPC –larger the multiplier
- Largest possible MPC is unity.
- If MPC is zero multiplier is unity.
- K=1/1-MPC that is reciprocal of MARGINAL PROPENSITY TO SAVE.

USES OF MULTIPLIER:

- Tool of analysing growth, planning, projecting, investment requirement.
- Tool for achieving targeted growth rate, if MPC is give.
- Tool for analysing the fluctuations in the economy.
- Important tool for analyzing impact of Taxation, Foreign Trade on the economy.

LIMITATIONS OF MULTIPLIER:

- Multiplier depends on a large number of factors along with MPC.
- Efficiency of production.
- Regular investment.
- Multiplier period.
- Full employment ceiling.
- Assumption that goods and services are available in adequate supply.
- Goods and services cannot be produced in excess of their full employment level.

IMPORTANCE OF MULTIPLIER:

- Useful to analyze public investment.
- Removes depression through government investment.
- Achieving full employment.
- Marginal efficieny of capital employment rises.
- Private investment encourage

TYPES OF MULTIPLIER:

There are three types of multiplier. They are,

- Employment Multiplier
- Price multiplier
- Consumption Multiplier

Employment multiplier:

Employment multiplier is associated with the name of Prof. Kahn. He was discussing the favorable effects of public investment on aggregate Employment. An initial increase in employment leads to a very large increase in the total employment.

Price Multiplier:

Investment or income multiplier operates only so far as full employment is not When the full employment ceiling in an economy is reached , the scarcities of factors, good and services start appearing as such, after the full employment , the multiplier starts working in relation to prices only and is rightly described as the price multiplier.

Consumption Multiplier:

It is the ratio of the ultimate increase in the aggregate investment to an initial Increase in the supply of consumption good from this. But in simple words, it implies that if we are able to manage some marketable surplus for the initial batch of workers, then the investment and employment can be increased manifold.

LEAKAGES OF MULTIPLIER:

Leakages are the potential diversions from the income stream which tend to weaken the multiplier effect of new investment. The following are the important Leakages;

- Saving
- Strong Liquidity preference
- Purchase of old stocks and securities.
- Debt cancellation
- Price inflation
- Net Imports
- Taxation
- Excess stocks of Consumption Goods

Evaluvation:

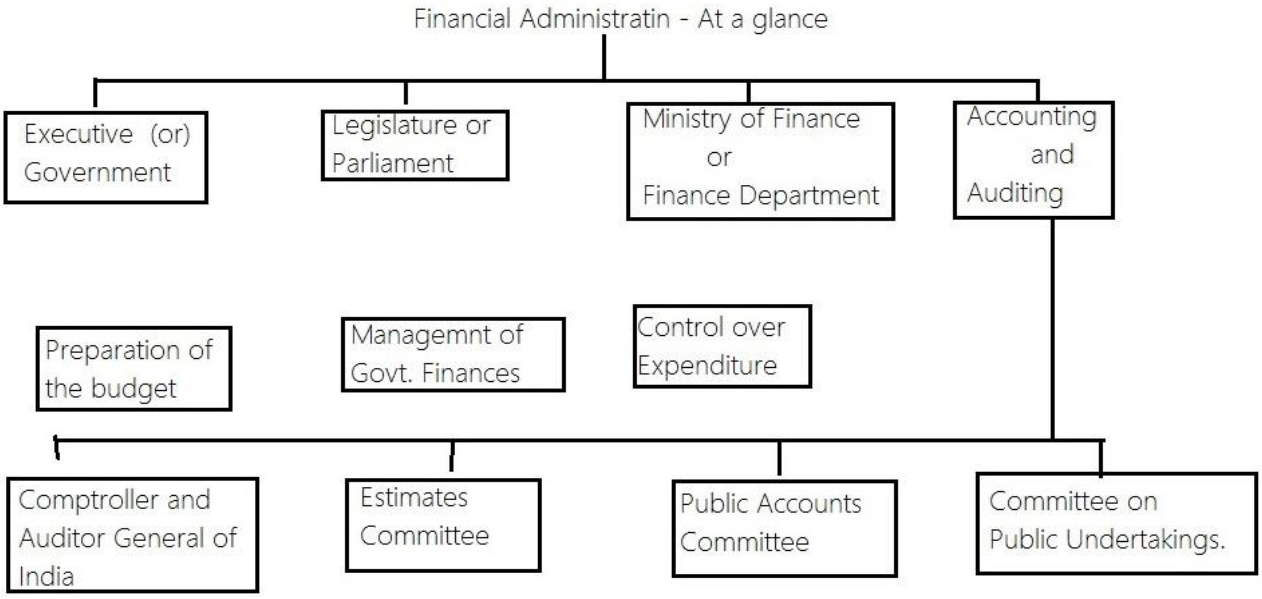
It is important to remember that the multiplier effect will take time to come in Full effect.

FISCAL ECONOMICS – II (UEC 62)

BUDGETARY PROCEDURE-FINANCIAL ADMINISTRATION

Introduction:- Budgeting and Budgetary procedure is the most important constituent of the Financial Administration. It involves four different operations.

- Preparation of the budget
- Enhancement of the budget
- Execution of the budget
- Parliamentary control over the Finance.



I. Preparation of the budget

In India, budget is the annual financial statement of accounts for the preceding and current year and the estimates of the revenue and expenditure of the coming year. The Indian budget year begins from 1st April of current year and 31st March of coming year. Budget comprises Revenue budget and Capital Budget.

Revenue Budget

This budget consists of revenue receipts of Government. i.e. tax revenues and other revenues. And the revenue expenditure is for the normal running of the government departments and various services, interest charges on debt incurred by the government.

Capital Budget

Consists of capital receipts and payments. Capital receipts are loans raised by the government, borrowings from RBI, loans received from foreign governments. Capital payments are acquisition of assets like land, buildings, machinery, equipment and instruments of shares etc. Most of the capital expenditure is developmental in nature.

II. Enactment of Budget

The budget has to be passed by Vidhan Sabha. No taxation can be levied or no expenditure can be incurred without the prior approval of Parliament.

Budget in Parliament undergoes the following stages:

a. Presentation of the budget in the Parliament:

The Finance ministry presents the budget in the Parliament usually on the last day of February. The day of the presentation of the budget is called as "Budget day". The budget speech gives review of the economic conditions of the country. This speech is classified into two parts. The first part is the review. The second part deals with money required for the next financial year and tax proposals for raising the money.

b. General Discussion

After the budget day of the house, a general discussion takes place in both the houses. The discussion is confined to the motions relating to fiscal policy including a review and criticism of the administration of the government and its departments.

c. Consolidated Fund

There is a consolidated fund at the centre and similarly in each state. All revenues received by the government, loans received by it and also its receipts from recoveries of loans granted by it are credited to the consolidated fund. No amount can be withdrawn from the fund without authorisation from the Parliament.

d. Contingency Fund

Occasions may arise when the government may have to meet urgent unforeseen expenditure pending authorisation from the Parliament. Contingency fund is placed at the disposal of the President to incur such expenditure.

e. Votable and Non-Votable expenditure:

Votable expenditure refers to the demands of various ministries for grants. A demand becomes a grant when it is voted. After the general discussion of the budget, lok-Sabha examines the demands thoroughly and the speaker allots two or three days for discussion and voting of the demand for a ministry.

NON VOTABLE ITEMS ARE AS FOLLOWS

- The salary and the allowances of the President and other expenditure relating to his office.
- Salaries and allowances of the chairman of Rajya-Sabha, Speaker and Deputy Speaker of the Lok-Sabha.
- The debt charges of the Government of India.
- Salaries and pensions of the Judges of the Supreme Court.
- Salary, allowances and pensions of the Comptroller and Auditor General of India.
- Any other expenditure declared by the constitution.

f. Passing the Appropriation Bill

Appropriation Bill has to be passed, otherwise, the Government is not legally authorised to utilize any amount out of the consolidated fund. The Appropriation bill includes all the items whether votable or non-votable. It is the way in which the Parliament controls the Public expenditure.

g. The Passage of the Financial Bill

After the appropriation bill, when finance bill is passed by the parliament, it authorises the government to collect the required money through taxation or through the provisions that have been made in the budget.

When the budget has been passed in both the houses, it goes to the president for his assent.

h. Execution of the budget

The responsibility to exec ute the budget lies upon the government, with a high degree of integrity and efficiency.

Execution has three aspects.

- Distribution of grants to different administrative ministries.
- The collection of revenue.
- Proper custody of the collected funds.

i. Parliamentary Control on Public Expenditure:

In India, this control will be through the following institutions.

- Direct control by the Parliament or the Legislature.
- Control by the Legislative Committee.
  a. The Estimate Committee
  b. The Public Accounts Committee

Evaluation:

Budgetary procedure involves not only these nine steps but also some more follow up actions from the Auditor General of India for better execution.

HISTORY OF ECONOMIC THOUGHT – II (UEC 63)

KEYNESIAN REVOLUTION

INTRODUCTION:

John Maynard Keynes has been one of the greatest and the most controversial economists of the twentieth century. His book, "The General Theory of Employment, Interest and Money" marks a turning point in the history of economic thought. His book brought about many fundamental changes in economic theory and policy. Hence the term "Keynesian Revolution" is often applied to describe the economic ideas of Keynes.

LIFE AND WORKS:

J.M.Keynes was born in 1883 in a family of Intellectual eminence. He was the son of John Neville Keynes, a noted economist. His mother was a Mayor of Cambridge as lately as 1932. He was brought up in the most intellectual society of Cambridge. He studied economics at Cambridge under Marshall and Pigou. He went to Cambridge University to teach economics. He lectured on money. He was a member of the Royal Commission on Indian Currency and Finance (1913-1914).

He wrote "The Economic Consequences of Peace" (1919). In 1940, he rejoined the Treasury and guided his country in war finance. After the war, he played an important role in organizing International Monetary Fund and the International Bank for Reconstruction and Development. In 1942 he became Lord Keynes. He was a great lover of arts and books. In 1925, Keynes married Lydia Lopokova, a great star of the Russian Imperial Ballet. Keynes, the great economist, died in 1946 from a heart attack.

IMPORTANT WORKS:

- Indian currency and Finance (1913)
- The Economic Consequences of the Peace (1919)
- A Treatise on Probability (1921)
- A Tract on Monetary Reforms
- The Economic Consequences of Mr.Churchill (1925)
- The End of Laissez-Faire (1926)
- A Treatise of Money (two volumes) (1930)
- Essays in persuasion (1931)
- Essays in Biography (1933)
- The General Theory of Employment, Interest and Money (1936) and
- How to pay for the War (1940)

BACKGROUND OF KEYNESIAN ECONOMICS:

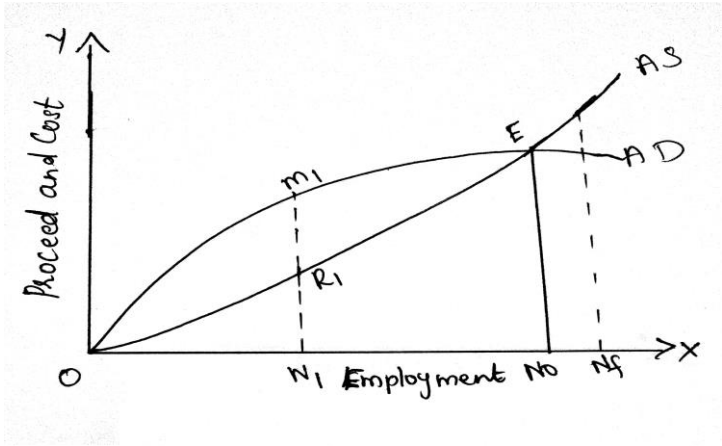
In fact, his ideas developed when Keynes was trying to analyse the problem of trade cycles, one of the greatest maladies of the capitalist economics. Unemployment became a severe problem during the period. Keynes tried to unite the monetary theory with the general economic theory. While Keynes was trying to find out an explanation of the factors that caused sudden changes in the level of economic activity, his theories took shape. On account of the pre-occupation of Keynes with the problems of depression, Keynesian economics has been called as 'depression economics'. This, however, is not a correct description of Keynesian economics. Instead of describing Keynes as a 'depression' economist, it may be appropriate to describe him as an 'anti-deflation' and 'anti-inflation' economist.

The mature free-enterprise, capitalist economics of the Western world seemed to be less vigorous after World War I than before. In fact, Karl Marx, predicted the doom of capitalism and fears about the gradual decline and fall of capitalism were increased after 1929; the year of great depression. So Keynes tried to demonstrate that there was nothing fundamentally wrong with the basic structure of capitalism as such. But he pointed out the need for putting an end to the policy of laissez-faire in order to make capitalism strong. Keynes argued that government should intervene actively in economic matters to promote full employment. Most of the economists in the capitalist economies regard Marx as 'the prophet of doom' and Keynes as 'the prophet of boom'.

KEYNESIAN THEORY OF EMPLOYMENT:

The starting point of Keynesian Theory of Employment is the principle of effective demand. Effective demand is that point where aggregate demand is equal to aggregate supply. Total employment depends on total demand (aggregate effective demand) and unemployment results from a deficiency of total demand. In the short-run employment is determined by aggregate demand, which in turn depends on the propensity to consume and the amount of investment at a given time. The term 'aggregate demand' refers to the total volume of purchases which consumes, investors and government are willing to undertake. So the various components of aggregate demand are consumption demand, investment demand and government demand.

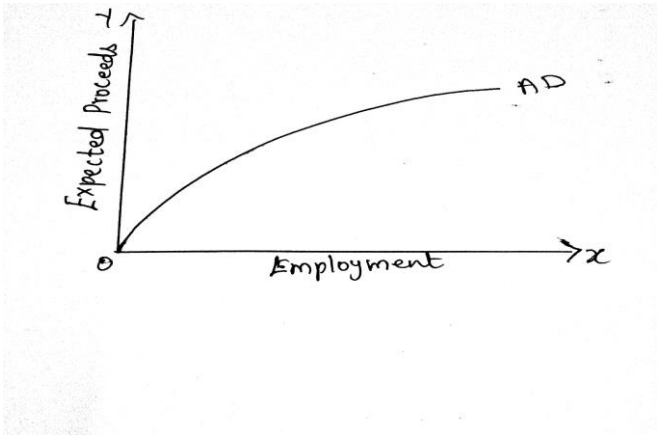
The aggregate demand is equal to aggregate supply at E giving rise to ONo employment. The aggregate demand at point E alone is effective demand. At this point entrepreneurs are fully satisfied to clear their entire output. The economy is in equilibrium at ONo employment. At ON1 employment, the minimum proceeds which entrepreneurs must get is equal to N1 R1. But they are able to get M1N1, thus making M1R1 more than what they expected to get. This profit of M1N1 will make them employ more labourers to get the maximum profits. The tendency to



employ more labour will stop once they reach point E. At all levels of employment beyond, ONo, the aggregate demand curve is below the aggregate supply curve indicating losses to the producers. Hence they will never employ more than ONo labour. It is however important to note that the equilibrium level of employment need not be the full employment level.

AGGREGATE DEMAND, AGGREGATE INCOME AND AGGREGATE OUTPUT:

Employment depends on demand and aggregate demand is equal to aggregate income, because of this cause we call the general theory of employment as theory of aggregate demand or aggregate income. Since the value of the total output is equal to total income, Keynesian theory of employment may also be called as 'theory of aggregate output'. Employment results in the production of output on the one hand and creation of income on the other.



Keynes concept of aggregate demand was the expected proceeds by selling the output produced at each level of employment. Therefore, aggregate demand would be equal to the amount people would spend on that output. In a closed economy, without foreign trade, the three broad categories of expenditure are consumption expenditure (C), Investment expenditure (I) and government expenditure (G). Hence aggregate demand Y = C+I+G.

The Propensity to Consume: The level of consumption at any time depends upon the level of income. Keynes has introduced a "fundamental psychological law" in relation to income and

consumption. According to this law, when there is an increase in a person's income, they will generally divide the consumption between added consumption and added saving. For the society as a whole, an increase in national income will result in increase in total consumption and total saving.

The Inducement to Invest: Rate of Interest and Marginal efficiency of capital are the two factors which determine the investment. Marginal efficiency of capital refers to the expected rate of profit from new investment. The rate of interest is one of the most important factor, which determine the volume of investment, depends upon the state of liquidity preference and the quantity of money.

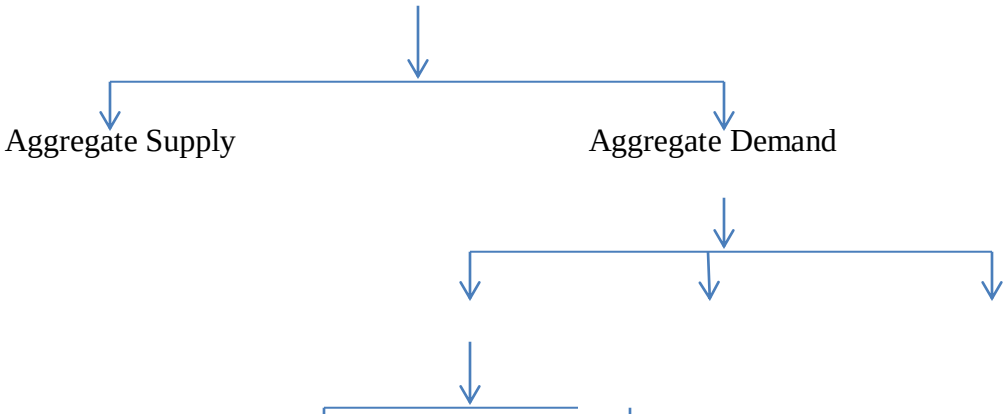
Liquidity Preference refers to the desire of people to hold some of their assets in the form of money. It depends upon three important motives (i) Transaction motive; (ii) Precautionary motive and (iii) Speculative motive. Of the three motives, speculative motive is very important in relation to the rate of interest.

Quantity of Money refers to the amount of funds in the form of coins, paper currency and bank deposits outstanding in the hands of the public.

The money that is spent on final goods and services whether for consumption or investment generates income. If consumption, investment and income are designated as C,I and Y respectively, then Y = C+I. Saving is the difference between income and consumption S = Y-C. By solving the two equations, we get S = I. It means that aggregate savings and investment are equal. But they may not be always in equilibrium. Keynes thought that the gap between savings and investment could be filled by government interventions, either directly by taxes and government expenditure or indirectly by actions influencing the supply of money. In short Keynesian theory of employment is:

- ✓ Total Income depends on the volume of total employment. Y=Employment;
- ✓ Employment depends on effective demand. Y=Empt=Eff dd;
- ✓ Effective demand is determined by the propensity to consume and the volume of investment. Eff dd=PC,I;
- ✓ As the propensity to consume is more or less stable, employment depends on the volume of investment;
- ✓ Investment depends on the rate of interest and the marginal efficiency of capital. I- r %+MEC;
- ✓ The rate of interest depends on Liquidity preference and the quantity of money. r%-LP+QM.

KEYNESIAN THEORY OF EMPLOYMENT



Investment Consumption Govt.Expenditure

↓

Rate of Interest MEC Propensity to Consume Income

Liquidity Preference Quantity of Money

Transaction Motive Precautionary Motive Speculative Motive

Propensity to Consume or the Consumption Function:

The propensity to consume is also called 'consumption function' because it shows the functional relationship between income and consumption.

Marginal Propensity to Consume:

The marginal propensity to consume is the ratio of a small change in consumption to a small change in income.

$$\mathbf{APC = C/Y;\ \ MPC = \Delta C/\Delta Y}$$

The Investment Multiplier:

The propensity to consume tells us that there is a definite relationship between consumption and income at all levels of employment. 'The marginal propensity to consume tells us how much income and employment will increase as a result of a given increase in investment'. If the propensity to consume is given, we can say that a definite ratio exists between any increase in income (ΔY) and any given increase in investment (ΔC). This ratio between the increase in income and increase in investment is called investment multiplier.

$$\mathbf{MPC=\Delta C/\Delta Y;\ Investment\ multiplier = \Delta Y/\Delta I}$$

CONCLUSION:

One of the greatest weaknesses of the "General Theory" was in the area of economic growth. Keynes was interested only in the short-run analysis and short-run policy measures. Recently, attempts have been made to modify Keynesian theory in long-run dynamic terms. R.F.Harrod's "Towards a Dynamic Economics" (1949) is a notable contribution in the field. Harrod and Domar have recently developed a growth model making use of the basic ideas of Keynes. Harrod pointed out that Keynes' treatment of investment was one-sided. Thus the General Theory has stimulated theoretical and empirical research so much that we may apply the term "new economics" to Keynesian economics without exaggeration.

INTERNATIONAL TRADE II (UEEC 64B)

INTERNATIONAL MONETARY FUND

Background of IMF:

During the early years of the 20th century, the world suffered through the Great depression. Due to this the global economic system collapsed quickly. This had a major impact on international trade. International negotiations were started in 1943 during the II World War to avoid confusions and disorderliness. In which, a stabilization fund was suggested by United States of America called Dexter-White Plan. Finally, 44 countries met at Bretton woods conference in USA in July 1944 constitute a plan called Bretton Woods Monetary Plan, this leads to creation of IMF and IBRD. IMF focusing on macro-economic issues. The IMF formally came into existence on 27 December 1945, when the first 29 countries ratified its Articles of Agreement. By the end of 1946 the IMF had grown to 39 members. On 1st March 1941, the IMF began its financial operations, and on 8th May France became the first country to borrow from it. Washington D.C as the headquarters of the International Monetary Fund. The financial operations of the IMF started on 1st March 1947.

The primary purpose of the International Monetary Fund is to give technical and financial assistance, oversee exchange rates, and address global financial problems. At present, the IMF has 182 member countries. The sources of steady income for the IMF are gold reserves, loan repayments from debtors, and requested financial resources from shareholders. The money generated by the IMF is used for providing monetary assistance to member countries.

OBJECTIVES:

- To promote global monetary cooperation.
- Promoting of Exchange stability.
- Exchange control.
- Avoidance of International Monetary disequilibrium, and
- Balanced growth of International Trade.

FUNCTIONS:

- Short-term credit institution;
- Reservoir of currencies for member countries;
- Lending institution in Foreign Exchange;
- Gives International consultations;
- Conducts research and technical advice; and
- Short training courses on fiscal or monetary measures.

ORGANISATIONAL STRUCTURE OF THE IMF:

International Monetary and Finance Committee established in 1974, appointed by Board of Governors. Normally, the Ministry of Finance or Governor of Central Bank of a country act as a Governor of IMF. The highest decision making body in the IMF is the Board of Governors. It comprises of one Governor and one alternate governor. They are appointed to the IMF by each member country. The Board of Governors meets once every year. There are other members like Board of Governors (24 members), Executive Board (24 members), Managing Director is chosen by the Executive Board, Development Committee (22 members)

FINANCIAL SOURCES OF THE IMF:

- It gets it money from quota subscriptions paid by member countries;
- Amount from sale of gold, on the basis of General Agreement for Borrowings;

LENDING OPERATION:

- Compensatory and contingency finance facility from 1960;
- Buffer stock finance facility from 1969;
- Extended fund facility from 1974;
- Supplementary reserve facility in 1977
- Oil facility scheme from 1975
- Trust fund from 1976;

New lending instruments of IMF are:

- Flexible credit Line;
- The Precautionary and Liquidity Line.

An internal resource created by IMF to solve International Liquidity Problem in 1969 is SDRs. 25 per cent of each country's quota is paid in Special Drawing Rights (SDRs). India is one of the founder members of the IMF and V largest shareholder and major beneficiaries.

CRITICISM:

- It is a weak and passive organization;
- Fixation of exchange rate cannot be considered as very sound;
- Failure to eliminate Foreign Exchange restrictions;
- Lack of resources; and
- High interest rate.

MANAGERIAL ECONOMICS (UEEC 65 C)

Demand Forecasting

- **Introduction**

- **Meaning Of Demand Forecasting**
- **Factors involved in Demand Forecasting**
- **Purposes of Demand Forecasting**
- **Various Methods of Demand Forecasting**
- **Forecasting Demand for New Products**
- **Criteria of a Good Forecasting Method**

Introduction:

For the production of a firm accurate demand forecasting is quite essential. Forecasting helps a firm to access the future demand for its products and plan its production accordingly. Demand forecasting not only help to a firm but also helpful in better planning and allocation of national resources.

Meaning Of Demand Forecasting:

In literary sense forecasting means Prediction. In short, demand forecasting is an estimation of future demand.

Factors involved in Demand Forecasting:

There are six factors involved in demand forecasting.

1. Period of Forecasting:

- ✓ Short-Run Forecasting
- ✓ Medium-Run Forecasting
- ✓ Long -Run Forecasting

2. Level of Forecasting:

Demand Forecasting may be undertaken at three different levels.

- ✓ Macro Level
- ✓ Industry Level
- ✓ Firm Level
- ✓ Product Line Forecasting

3. General or Specific Forecasting.
4. Well established and new products.
5. Producers and Consumers Goods.
6. Special Factors.

Purposes of Demand Forecasting:

The purposes of demand forecasting can be divided into two categories;

1. Short -Term Forecasting:

- ✓ Suitable Production Policy
- ✓ Reducing Cost
- ✓ Appropriate Price Policy
- ✓ Setting sales targets and establish control and incentives
- ✓ Short-term financial requirements

2. Long-Term Forecasting:

- ✓ Planning of a new unit or expansion of existing
- ✓ Planning of man-power requirements
- ✓ Planning on long-term financial requirements

Various Methods of Demand Forecasting:

Several methods are followed for demand forecasting. They can be under two categories namely;

I. Survey Method:

- ✓ Consumers Survey Method
- ✓ Collective Opinion Method

II. Statistical Method:

- ✓ Time Projection Method
- ✓ Correlation and Regression Method
- ✓ Barometric Method

Forecasting Demand for New Products:

Forecasting Demand for new products is entirely different from that of an established product. In the case of new products no historical data are available.

Joel Dean has suggested the following approaches for estimating the demand for a new product.

- ✓ Evolutionary Approach
- ✓ Substitute Approach
- ✓ Growth Curve Approach
- ✓ Opinion Poll Approach
- ✓ Sales Experience Approach
- ✓ Vicarious Approach

Criteria of a Good Forecasting Method:

A good system of forecasting must have the following features;

- ✓ Economy
- ✓ Accuracy
- ✓ Simplicity and Comprehension
- ✓ Plausibility
- ✓ availability

HUMAN RESOURCE MANAGEMENT (USEC 66)

TRANSFER

Introduction:

Transfer refers to the shifting of employees from one job to another within the same organization where salary, responsibilities and category of the new job and the previous job are almost same.

Meaning of Transfer:
A transfer refers to the Lateral movement of the employees within the same grade from one job to another.
According to Flippo, "a transfer is a change in the job of an employee without a change in responsibilities or remuneration".

Objectives of Transfer:
- ✧ Transfer can be done on the request of employees due to personal reason like family problem.
- ✧ Due to HR policy, that one employee can work in department or place for specific time period.
- ✧ Transfers are common in the organizations where the work load varies timely.
- ✧ If an employee is not able to do the work he can be transferred to the other job.
- ✧ Departmental vacancies can be filled with transfer of employees from overstaffed department.
- ✧ Employees can be transferred to the position with the higher priority workload.

Policy of Transfer:
A good transfer policy should satisfy the following requirements.
- ✧ Specify the circumstances under which transfer will be made. It should be communicated to the employee.
- ✧ Specify the basis for transfer.
- ✧ Decide the authority which would handle transfers.
- ✧ Intimate fact of transfers can be made within a department.
- ✧ Clarify whether transfer is permanent or temporary.
- ✧ Transfer policy is subject to vary from organization to organization.

Types of Transfer:
Employee transfers may be classified into following types, there are five types.
- ✧ Production Transfer
- ✧ Replacement Transfer
- ✧ Versatility Transfer
- ✧ Shift Transfer
- ✧ Penal Transfer

Production transfer:
This type of transfer is made to avoid Lay-off of efficient employees by providing them with alternative positions in the same organizations.
Replacement transfer:
This type of transfer is made when all operations are declining but management wants to retain the long-service employee as long as possible.

Versatility transfer:

This type of transfer will increase the versatility of the employees by shifting him from one job to another. The employee gets an opportunity for varied job experience.

Shift transfer:

These transfers are made to remedy the situation. Remedial transfers provide management with a procedure whereby an unsatisfactory placement can be corrected.

Penal transfer:

This type of transfer should better be called downgrading or bumping. It is used to protect employment opportunities for employees displaced from higher rated jobs.

Evaluation:

Transfers should be favourably considered especially when it comes from an employee.