

Economics (Module 2 - Indian Economy) Unit 2

Unit: II

Basic Features of Indian Economy, Sectoral distribution of National Income and Occupational Structure; Structural Change in Indian Economy, issue of Service-led Growth.

As indicated in the study material provided in respect of Unit 1, the general features of a **less-developed economy** are:

- *Low per capita income*
- *High rates of population growth*
- *Inequality and widespread poverty*
- *Pre-dominance of Agriculture/Primary sector/Primary sector exports*
- *Poor educational attainment*
- *Low Human development Index*
- *Lack of infrastructure facility*
- *Capital deficiency and low productivity*
- *Unemployment*
- *Technological backwardness*
- *Poor economic organizations*

Table 2.1: Country Classification benchmark – World Bank

Category	Per capita income (current US\$) (annual) benchmark	India's per capita income (current US\$) (annual)
Low-income	< 1,005	<div style="display: flex; align-items: center; justify-content: center;"> <div style="border: 1px solid black; padding: 2px; margin: 2px;">\$1670 in 2016</div> <div style="margin: 0 10px;">←</div> </div>
Lower-middle income	1,006 - 3,955	
Upper-middle income	3,956 - 12,235	
High-income	> 12,235	

Source: World Development Report, 2017

Therefore, though India's rank in the world order (ranked at 112th out of 164 countries listed by the World Bank) is still quite low, it cannot be termed as a low income country any longer. It is no doubt in the bottom half of the world income ladder, and one of the poorer countries, though it is no longer in the bottom-most rung.

Next, we look at the population growth rate.

Table 2.2: Population growth rate by income class (2017)

Category	Average per annum Population growth rate (%)
Low-income	2.6
Lower-middle income <i>(India belongs to this class)</i>	1.4
Upper-middle income	0.8
India	1.13

Source: World Development Report 2017

Therefore, though India's population growth rate is high in comparison to the upper middle income countries, it is significantly lower than the average growth rate of the lower-middle income group.

Poverty: India has experienced acute poverty over the years. Mass poverty is perhaps the single most identifying characteristic of underdevelopment. However, economic growth and sustained anti-poverty initiatives by the government has resulted in some decline in the percentage of people below the **poverty line** from levels upward of 60% during the 1950s to about 21.9 percent as per currently available estimates.

Table 2.5: Sectoral distribution of India's GDP at Factor Cost (2011-12 prices) (%)

Sector	1960-61	1990-91	2000-01	2010-11
Primary	51.0	33.0	25.0	17.0
Secondary	18.0	24.0	24.0	24.5
Tertiary (Service)	31.0	43.0	51.0	58.5

Source: Economic Survey (various issues)

Therefore, the primary sector is gradually losing its importance in India over the years. (sign of progress to development)

Table 2.6: Occupational pattern in India 1961- 2015 (%)

Sector	1960-61	1990-91	2000-01	2014-15
Primary	72.0	67.5	57.0	47.0
Secondary	10.0	12.0	17.5	22.0
Tertiary	18.0	20.5	25.5	31.0

Sources: Census of India, 2011 & MOSPI website

So, the primary sector is still the main source of livelihood for the Indian people (though its importance has diminished.) (sign of progress to development)

Human development Index: HDI actually can be considered as the final report card of our developmental efforts. India is at present a ‘**medium human development**’ country with an HDI score of **0.640** (Human Development Report 2018 published by UNDP). This is a remarkable improvement from the level of **0.427 in 1990** (first year of publication of HDI), which shows the positive effects of the economic reforms programmes initiated in the 1990s. What is disappointing, however, is India’s poor rank of **130 out 189 countries** even in 2018.

Thus, though India now belongs to the ‘**medium human development**’ category, its poor rank in the international scorecard points to the several shortcomings in our developmental process.

Structural Change in Indian Economy

Structural changes in an economy can be studied in respect of different parameters like:

- (i) Changes in output, its composition and growth pattern,
- (ii) Employment, and changes in the occupational patterns,
- (iii) Changes in consumption patterns (for example, food versus non-food consumption),
- (iv) Composition of export items, international competitiveness of such items and share of international trade in GDP,
- (v) Changing pattern of tax collection (for example, direct versus indirect),
- (vi) Changes in respect of economic ‘duality’, relative sizes of the organised sector vis-vis the unorganised sector,
- (vii) Changes in the size and pattern of Foreign Direct Investment (both inflow and outflow), and so on.

India’s trade in goods and services as a percentage of GDP

	1980	1990	2000	2016
India	15.9	17.2	30.6	41

Therefore, India is becoming more reliant on international trade (sign of progress to development).

Direct and Indirect Taxes as a percentage of Total Tax Revenue (1991 - 2015)

Year	Direct Taxes (%)	Indirect Taxes (%)
1990-91	22.6	77.4
2014-15	56.1	43.9

So, from a heavy dependence on indirect taxes (almost 80% of tax collection) in 1980, it is now a case of greater dependence on direct taxes (sign of progress to development).

Issue of Service-led Growth

India is one of the two fastest growing economies in the world (one other is China). But while China is a leading exporter of manufactured goods, India has depended heavily on the export of services, somewhat bypassing the manufacturing sector. Also, we have already seen how India's service sector contributes the maximum share to the GDP.

Points to Remember

1. National Income estimates in India are prepared by **Central Statistics Office**
2. **Tertiary sector** of Indian Economy contributes largest to the Gross National Product.
3. The main source of National Income of India is **Service Sector** (Tertiary Sector)
4. **Occupational structure** refers to the Distribution of working population among different occupations
5. The study of occupational structure provides background knowledge for formulating future development plans. The occupation means doing a certain type of work.
6. The term '**work**' is used in special sense in the census. Work may be defined as a participation in economically productive activity. The participation is physical or mental in nature (Census of India 1991).
7. According to Census of India, the working population grouped into **three major groups**: Main workers, Marginal workers, Non workers.
8. **Main workers** are those who had worked for the major part of the year (at least 6 months or 183 days).
9. The **marginal workers** are those who worked for some time during the one year, but not for the major part.
10. The non-workers are those who had not worked at all during the one year.
11. **Raj Krishna** coined the term "**Hindu rate of growth**" for Indian Economy (per capita income around 1.5% per year).
12. Hindu Rate of Growth refers to the **Low rate of growth of GDP**
13. **Economic structure** is a term that describes the balance of output, trade, incomes and employment drawn from different **economic** sectors - ranging from primary (farming, fishing, mining etc) to secondary (manufacturing and construction industries) to tertiary sectors (tourism, banking, software etc.)
14. In economics, **structural change** is a shift or change in the basic ways a market or economy functions or operates. For example, a subsistence economy may be transformed into a manufacturing economy, or a regulated mixed economy may be liberalized
15. **Structural reforms** are essentially measures that change the basic structure of an economy, the institutional and regulatory framework in which businesses and people operate.
16. In order to **study the structural change** in any economy, one has to analyse the contribution of various sectors to the national output.
17. The history of economic development of advanced countries indicates that the contribution of agricultural sector to national income **goes on decreasing** as the country develops.

18. In **advanced countries**, the contribution of service sector to national income is the highest.
19. In India though the **contribution of industrial sector** is increasing, its progress is slow.
20. The slow growth in manufacturing sector is mainly responsible for the **slow rate of economic growth** in the country.
21. In Indian economy, **the tertiary sector** or service sector has been constantly increasing its share in the national income.
22. The tertiary sector includes transport, communication, trade and commerce, banking, insurance, community and personal services.
23. India's sector wise contribution to national income gives a clear idea regarding the extent of change in the structure of production in the process of development.
24. In India the share of agriculture has declined and those of industry and service sectors have increased.

MCQ: Marks-1

1. *Which sectors of Indian Economy contributes largest to the Gross National Product?*
 - a) Primary Sector
 - b) Secondary Sector
 - c) **Tertiary Sector**
 - d) Public Sector (Answer c)

2. *National Income estimates in India are prepared by?*
 - a) Planning Commission
 - b) Reserve Bank of India
 - c) **CSO**
 - d) Indian Statistical Institute (Answer c)

3. *The most appropriate measure of a country's economic growth is?*
 - a) Gross Domestic Product
 - b) Net Domestic Product
 - c) Net National Product
 - d) **Per capita Real Income (Answer d)**

4. *Occupational structure refers to the*
 - a) Number of workers living in the country
 - b) Size of the working population in industry
 - c) **Distribution of working population among different occupations**
 - d) Nature of different occupations in the economy (Answer c)

5. *Per capita GDP of India is at current prices*
 - a) less than \$350
 - b) more than \$20,000
 - c) Between \$15000 and \$20,000
 - d) **Between \$1500 and \$2000 (Answer d)**

6. *India's population according to 2011 census is*
 - a) 1 billion
 - b) **1.2 billion**
 - c) 2 billion
 - d) 2.5 billion (answer b)

7. *Rate of population growth in India is*
- a) less than 1%
 - b) **1% to 2%**
 - c) 2% to 3%
 - d) more than 3% (answer b)
8. *Dual economy indicates simultaneous existence of*
- a) industrial and agricultural sector
 - b) **modern and backward sector**
 - c) public and private sector
 - d) none of the above (answer b)
9. *Which one of the following does not belong to tertiary sector?*
- a) **mining**
 - b) transport
 - c) tourism
 - d) banking (answer a)
10. *Contribution of service sector in India's GDP is*
- a) **more than 50%**
 - b) less than 20%
 - c) between 40%-50%
 - d) none of the above (answer a)
11. *According to Planning Commission, %-age of Indian population living below the poverty line is*
- a) less than 15 %
 - b) **between 15% to 25%**
 - c) between 25% to 35%
 - d) above 35% (answer b)
12. *Which of the following is not considered in constructing HDI?*
- a) adult literacy rate
 - b) per capita GDP in ppp \$
 - c) **child mortality rate**
 - d) life expectancy at birth (answer c)
13. *In 1950-51 contribution of primary sector in GDP was*
- a) **between 50% to 60%**
 - b) between 20% to 30%
 - c) between 30% to 40%
 - d) less than 20% (answer a)
14. *Main feature of structural change in Indian economy during the plan period is*
- a) **substantial increase in share of service sector in GDP**
 - b) emergence of industrial sector as the highest contributing sector in GDP

- c) emergence of industrial sector as the highest employment generating sector
- d) All of the above (**answer a**)

MCQ: Marks-2

1. **In the prevailing situation in India, the income originating from the primary sector is:**
 - a) Greater than that originating from the tertiary sector but less than that originating from the secondary sector
 - b) Greater than that originating from the secondary as well as tertiary sector
 - c) **Less than that originating from the secondary as well as tertiary sector**
 - d) Greater than that originating from the secondary sector but less than that originating from the tertiary sector

Answer: c)
2. **The 'Hindu Rate of Growth':**
 - a) Refers to growth of Hindu population
 - b) **Is the term used by Raj Krishna to represent the low rate of the growth of the Indian economy for three decades**
 - c) Is the term coined by Amartya Sen to represent the nature of growth of the Indian economy at around 3.5 percent per year
 - d) Is the term coined by V. K. Rao to decide the nature of the growth of the Indian economy at around 4 percent.

Answer: b)
3. **Types of economic systems are**
 - a) Traditional economy
 - b) Traditional economy and market economy
 - c) Traditional economy, market economy, command economy
 - d) **Traditional economy, market economy, command economy and mixed economy**

Answer: d)
4. **In economics, structural change of the economy means -**
 - a) A subsistence economy may be transformed into a manufacturing economy
 - b) a regulated mixed economy may be liberalized
 - c) **Both a and b**
 - d) None

Answer: c)
5. **Main workers are those who had worked for**
 - a) **at least 6 months or 180 days**
 - b) more than 200 days
 - c) more than 300 days
 - d) All 365 days

Answer: a)
6. **The history of economic development of advanced countries indicates that the contribution of agricultural sector to national income _____ as the country develops.**
 - a) **Goes on decreasing**
 - b) Goes on increasing
 - c) Remains constant
 - d) None of the above

Answer: a)
7. **The _____ share of the service sector shows that Indian economy is on the way of development**
 - a) Decreasing
 - b) **Increasing**
 - c) Constant

d) None of the above

Answer: b)

8. *The tertiary sector or service sector has been _____ its share in the national income.*

a) Constantly increasing

b) Constantly decreasing

c) Constant

d) None of the above

Answer: a)

9. *India's sector wise contribution to national income reveals*

a) The share of agriculture has declined and that of industry and service sectors has increased.

b) The share of agriculture has increased and that of industry and service sectors has declined

c) The share of agriculture ,industry and service sectors have increased

d) The share of agriculture , industry and service sectors have declined

Answer: a)

10. *Objectives of Liberalization Policy are:*

a) To increase competition amongst domestic industries.

b) To encourage foreign trade with other countries

c) Enhancement of foreign capital and technology and expansion of global market frontiers of the country.

d) All

Answer: d)

11. *According to World Bank, India is a*

a) Low income country

b) Low-middle income country

c) Upper middle income country

d) High income country

Answer: b)

12. *According to UNDP, India is a*

a) Low Human Development country

b) Medium Human Development country

c) Low-medium Human Development country

d) High Human Development country

Answer: b)