

IEIFS — Indian Economy & Indian Financial System

Complete Book | Table of Contents | 45 chapters + 4 sections

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LEARNING
SESSIONS

CH-1

An overview of Indian Economy

Topic 1 — Economy

An **economy** is a system that provides people the **means to work and earn**. It is the area of **production, distribution and trade**, as well as **consumption** of goods and services.

Topic 2 — Indian Economy

The Indian economy has **diversified towards industry and services**. **Agriculture** remains important for **livelihoods**, while **services** contribute the **largest share of economic output**.

- **Population** — India has the **largest population** on earth, about **1.46 billion** residents.
- **Development status** — India is a **developing country**.
- **Comparison** — Its economic development matches that of other developing nations.

Indicator (FY 2025-26, Provisional Estimates)	Value
Sectoral real GVA growth	Primary 3.2% ; Secondary 8.8% ; Tertiary 9.3%
Share of PFCE / GFCF in GDP	55.7% / 32.3%

- **See** — Ch 18 (p. 47) for the new GDP series (base year **2022-23**, replacing 2011-12) and the headline FY 2025-26 estimates: real GDP growth **7.7%**, nominal GDP ₹**346.36 lakh crore** (growth 8.9%), real GVA growth 7.9% and per capita NNI.

Remember this

- New GDP base year = **2022-23**; FY26 real GDP growth (PE) = **7.7%**; services are the largest and fastest-growing sector.

Topic 3 — World Bank Income Classification

- **Categories** — The **World Bank** classifies economies into **4 categories**.
- **Basis** — The basis is **Gross National Income (GNI) per capita** in US dollars.
- **Atlas method** — GNI is converted using a **3-year moving average** of exchange rates.
- **Annual revision** — Thresholds are **revised every year on 1 July** for inflation.
- **Exam tip** — Always quote the classification year with a threshold.

Category	GNI per capita (FY 2027 classification, effective 1 July 2026)
Low income	USD 1,175 or less
Lower-middle income	USD 1,176 – 4,635
Upper-middle income	USD 4,636 – 14,375
High income	More than USD 14,375

India remains a **lower-middle-income economy**, with GNI per capita (Atlas) of about **USD 2,760** (2025).

Remember this

- India = **Lower-middle income** (band USD 1,176–4,635 for FY27).

Topic 4 — Basic Characteristics of Indian Economy

- **Lower per-capita income** than advanced economies.
- **Large and diverse population**.
- **Structural transformation** from agriculture towards industry and services.
- **Employment quality, productivity and regional inequality** remain key challenges.

Topic 5 — Pre-British Economy

Before British rule, **agriculture** supported most livelihoods. India also produced **cotton and silk textiles, metalwork and precious-stone goods** for domestic and international markets.

Colonial policies later made India a **supplier of raw material** and a **market for British manufactures**.

Topic 6 — Current Growth Context

- **IMF projection** — The **IMF (World Economic Outlook Update, July 2026)** projects India's real GDP growth at **6.4% for 2026** (FY 2026-27).
- **Next year** — India's growth is projected at **6.7% for 2027**.
- **World growth** — World growth is projected at **3.0% for 2026** and **3.4% for 2027**.
- **Position** — India remains among the **fastest-growing major economies**.

India's growth remains **services-led**, while **manufacturing, infrastructure and formal employment** are major policy priorities.

Type of figure	What it means
Advance / Provisional estimate	Official estimate from MoSPI, revised as fuller data arrive
Projection / Forecast	Expected future value (e.g. IMF, RBI); can be revised
Final / Actual	Settled figure after all revisions

In exam answers, always identify whether a number is an **estimate, a provisional figure or a forecast**.

Topic 7 — Structural Change

Structural changes are the **fundamental changes** that have occurred in the critical components of the Indian economy over time.

The long-run shift in output is from the **primary sector towards industry and services**. Agriculture still supports a **much larger share of workers than its share in GVA**, indicating a **productivity gap**.

Topic 8 — Evolution Before and After 2008

Phase	Key features
After Independence	Planned development ; a public-sector role combined with private enterprise
1991 reforms	Liberalised industry, finance and foreign trade
2008 global crisis	Slowed exports and growth ; India responded with fiscal support and monetary easing
After 2008	Expansion of services, infrastructure, digitalisation and financial inclusion , alongside employment and productivity challenges

Topic 9 — Sectoral Impact of COVID-19

Sector	Impact
Services	Contact-intensive services were almost halted. Profitability fell in retail trading, hotels and restaurants, air transport, transport logistics and education.
Labour market	Severe decline in the first wave; unemployment hit an all-time high and labour force participation plummeted.
Agriculture	Remained robust in production, because agriculture and allied activities were spared from lockdown restrictions.

Remember this

- COVID-19: services hit hardest; agriculture was the only resilient sector.

IEIFS | Module A | CH-1 | MCQs

Q1. A student describes the economy as 'a system that provides people the means to work and earn'. Which set of activities does an economy cover? [Ref: Topic 1, p. 3]

- Only production and trade of goods
- Production, distribution, trade and consumption of goods and services
- Only government spending and taxation
- Only consumption of services

Q2. Agriculture's share in employment is much higher than its share in GVA. What does this indicate? [Ref: Topic 7, p. 3]

- A productivity gap in agriculture
- Over-capitalisation of farms
- Higher wages in agriculture
- Agriculture is the most productive sector

Q3. A country's GNI per capita (Atlas method) is USD 2,760 under the World Bank FY 2027 classification. In which group does it fall? [Ref: Topic 3, p. 3]

- Low income
- Upper-middle income
- Lower-middle income
- High income

Q4. Under the FY 2027 World Bank classification, an economy with GNI per capita of USD 5,000 is classified as: [Ref: Topic 3, p. 3]

- Lower-middle income
- Upper-middle income
- High income
- Low income

Q5. Why should a World Bank income threshold not be memorised as permanent? [Ref: Topic 3, p. 3]

- The thresholds are revised every year (on 1 July) for inflation
- The World Bank uses GDP instead of GNI
- India sets its own thresholds
- Thresholds change only once a decade

Q6. The World Bank converts GNI into US dollars for income classification using the: [Ref: Topic 3, p. 3]

- Purchasing power parity method
- Market exchange rate of 31 March
- Atlas method
- Fixed 2011-12 exchange rate

Q7. An analyst quotes '6.4% growth for India in 2026' from the IMF. How should this figure be described? [Ref: Topic 6, p. 3]

- Final actual growth
- Provisional estimate of MoSPI
- Advance estimate of RBI
- A projection that can be revised

Q8. What is the base year of India's new GDP series? [Ref: Topic 2, p. 3]

- 2011-12
- 2022-23
- 2017-18
- 2004-05

Q9. As per the Provisional Estimates for FY 2025-26, India's real GDP growth was: [Ref: Topic 2, p. 3]

- 6.4%
- 7.1%
- 7.7%
- 8.9%

Q10. Which statement correctly describes the pre-British Indian economy? [Ref: Topic 5, p. 3]

- Industry was the main source of livelihood
- India produced cotton and silk textiles, metalwork and precious-stone goods for domestic and international markets
- India imported most of its textiles
- Agriculture played a minor role

Q11. Which change is associated with the 1991 reforms? [Ref: Topic 8, p. 3]

- Nationalisation of 14 banks
- Introduction of five-year plans
- Liberalisation of industry, finance and foreign trade
- Imposition of import tariffs to protect industry

Q12. How did India respond to the 2008 global financial crisis? [Ref: Topic 8, p. 3]

- By raising taxes and interest rates
- By closing the capital account
- By stopping public investment
- With fiscal support and monetary easing

Q13. During the COVID-19 pandemic, which sector remained robust in production? [Ref: Topic 9, p. 4]

- Agriculture and allied activities
- Hotels and restaurants
- Air transportation
- Education services

Q14. Which group of businesses faced the sharpest fall in profitability during the pandemic? [Ref: Topic 9, p. 4]

- Agriculture and allied activities
- Contact-intensive services such as retail, hotels, restaurants and air transport
- Pharmaceutical manufacturing
- Telecom services

Q15. Which of the following is NOT a basic characteristic of the Indian economy? [Ref: Topic 4, p. 3]

- Large and diverse population
- Lower per-capita income than advanced economies
- Structural shift from agriculture to industry and services
- Uniform productivity across regions

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	b	7	d	10	b	13	a
2	a	5	a	8	b	11	c	14	b
3	c	6	c	9	c	12	d	15	d

CH-2 Economic Planning in India

Topic 1 — Economic Planning

- **Author** — The classic definition of economic planning is given by **H.D. Dickinson**.
- **Meaning** — Planning is the making of major economic decisions.
- **Decisions covered** — What and how much is to be produced, and to whom it is to be allocated.
- **Who decides** — Decisions are taken by the conscious decision of a determinate authority.
- **Basis** — They rest on a comprehensive survey of the economic system as a whole.

Topic 2 — Types of Planning

Type	Features
Centralised planning	A central agency or government creates holistic plans for the development of the nation.
Decentralised planning	Sub-national agencies such as state and local governments participate in creating plans; ensures people's participation in local development.
Regional planning	Defined by geographic area, usually a land area covering multiple cities. The United States was the first country to begin regional planning (1916).
National planning	Started with the Soviet Union, whose first five-year plan ran 1928–1933. India adopted national planning to take an active role in resource allocation and mobilisation for equitable growth and development.

Topic 3 — Objectives of Economic Planning in India

Objective	Focus
Economic growth	Sustainable growth in the economy's output; one of the primary goals of planning
Poverty alleviation	Several anti-poverty programmes introduced by all governments
Employment generation	A fundamental goal — reduce unemployment
Social justice and reducing inequalities	Planning as a technique to address all types of economic inequities and injustices
Self-reliant economy	Reduce excessive external dependence while continuing to trade with the world
Modernisation of the economy	Industrialisation of the conventional sector, beginning with agriculture through modern farming, dairying and other practices

Topic 4 — Planning Commission and National Development Council

- **Role** — The Planning Commission was the Government of India body that formulated the Five-Year Plans, among other functions.
- **Established** — It was set up on 15 March 1950.

- **Chairman** — Prime Minister Jawaharlal Nehru was its first chairman.
- **Reporting** — It reported directly to the Prime Minister.
- **Approval** — Plans were approved for implementation by the National Development Council (NDC).
- **NDC chair** — The NDC was chaired by the Prime Minister.
- **Five-Year Plan** — A document in which the Government sets out its income and expenditure for five years.

Remember this

- Planning Commission: 15 March 1950, chaired by PM; plans approved by NDC (chaired by PM).

Topic 5 — Five-Year Plans: First to Fifth

Plan	Key features	Target / Actual growth
1st (1951–56)	Rehabilitation of refugees; rapid agricultural development for food self-sufficiency; control of inflation	2.1% / 3.6%
2nd (1956–61)	Rapid industrialisation and the public sector; import tariffs to protect domestic industries	4.5% / 4.27%
3rd (1961–66)	Focus on agriculture and wheat production; states given additional development responsibilities; Panchayat elections introduced for grassroots democracy	5.6% / 2.4%
Annual Plans (1966–69)	Plan Holiday — three successive Annual Plans after the Sino-Indian and Indo-Pak wars caused the Third Plan to fail	—
4th (1969–74)	PM Indira Gandhi; based on the Gadgil Formula; growth with stability and progress towards self-reliance; 14 major banks nationalised; Green Revolution boosted agriculture	5.6% / 3.3%
5th (1974–78)	Employment and poverty alleviation (Garibi Hatao). Electricity Supply Act amended in 1975 to let the Centre into power generation and transmission. National Highway System introduced. Minimum Needs Programme in its first year	4.4% / 4.8%
Rolling Plan (1978–80)	Period of instability: the Janata Party government rejected the Fifth Plan and introduced a new Sixth Plan, which was rejected by the Congress in 1980	—

Remember this

- Plans that exceeded their growth target: 1st, 5th, 6th, 7th, 8th. All others fell short.