Mixed Economy

- State have ownership control only on natural resources (not labour).
- State and private sector both play economic roles.
- France became first country to adopt national planning.
- World Bank accepted the 'state intervention' to advocate of the free market economy.
- Neither of the economic systems (market and non-market) are good. Best economic system can be the mixture of the both. But it should be decided by socio-economic needs of country.
- Areas where private sector unable to play effective role (due to low or no profit) taken care by the state.
- Regulation (things like rules, competition, taxation, etc.) of the economic system to be taken care of by the state.

Communist Economy

- The state used to have ownership control over natural resources and labour also. It is also known as State Economy, Command Economy or Centrally Planned Economy. Resource utilisation for wellbeing of all. Resources are best used once they are under the ownership of society/community. Thus, all economic roles will be played by the state only.
- No property rights given to individuals.

Cuba
Republic of Cuba, est. 1961

North Korea
Democratic People's Republic of Korea, est. 1948

Vietnam
Socialist Republic of Vietnam, est. 1976

Laos
Lao People's Democratic Republic, est. 1975

The Five Communist Countries of the World

China
People's Republic of China, est. 1949

- Social, political, and economic system in which goods are owned in common and available to all.

- COMMUNISM is defined as a political theory derived from Karl Marx, advocating class war and leading to a society in which all property is publicly owned and each person works and is paid according to their abilities and needs.
- The color for Communism is RED.
- Symbol for Communism is the hammer and sickle
- Why is the symbol of Communism the hammer and sickle?

Communist Economy

- Absence of market (inter-play of demand and supply remains absent).
- Optimum uses of resources (driven by market forces) were denied leading to their misallocation and wastage.
- Due to absence of property rights there was no motivation to work hard which lead to poor innovation or research and development.
- Liberty and Freedom of individual ignored.
- No market competition (total state monopoly).
- All people work in state owned enterprises.
- The decisions for production and distribution taken by the state itself.

Measurement of National Income

- Income indicates progress
- Economic growth is change (increase or decrease) in the value of goods and services produced in an economy in a definite period of time.
- Economy may be measured by Gross Domestic Product (GDP) and Gross National Product (GNP).

Product Method:

- In this method we calculate the sum total of gross value added by all the firms in the economy during a financial year.
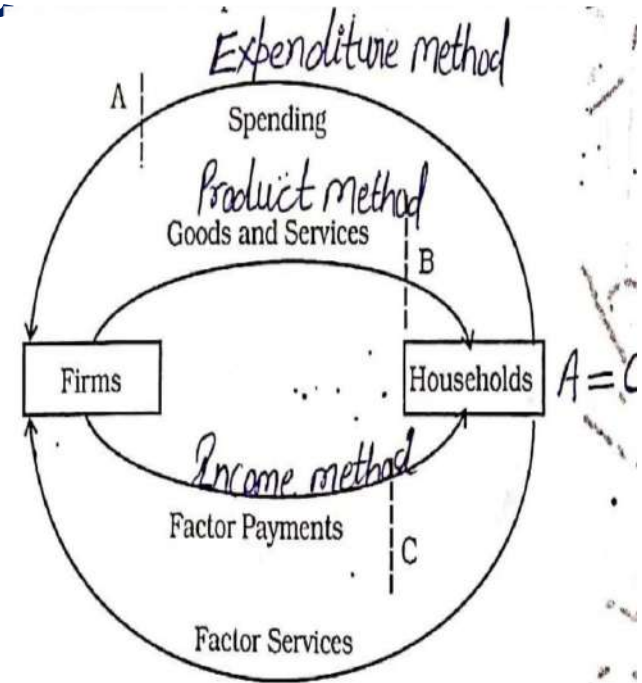- Value added means the net contribution made by a firms.

Fig. 2.1: Circular Flow of Income in a Simple Economy

Product Method

- Gross Domestic Product (GDP) = Sum total of gross value added by all firms in the economy

$$GDP = \sum_{i=1}^{n} GVAi$$

- Net value added = Gross value added – Depreciation
- Net Domestic Product = Summation of net value added by all firms

$$NDP = \sum_{i=1}^{N} NVAi$$

- NNP = GNP - Depreciation

Expenditure Method

- All firm receive **consumption** expenditure (C)

  All firm receive **investment** expenditure (I)

  All firm receive **government** expenditure (G)

  All firm receive **export** expenditure (X)

  All firm receive **Import** expenditure (M)

GDP = Sum total of all final expenditure received by all the firms in the economy

GDP = C + I + G + (X-M)

Income Method

- In an economy sum of final expenditure must be equal to income received by all the factors of production.

GDP = Sum of Remuneration of factors of production
= R (Rent) + W (Wage) + I (Interest) + P (Profit)

$$GDP = \sum_{i=1}^{N} GVAi = C + I + G + X - M = R + W + I + P$$

Gross Domestic Product (GDP)

- 'Gross', means same thing in Economics and indicate 'total' in Mathematics;
- 'Domestic' means all economic activities done within the boundary of a country.
- 'Product', means 'goods and services' together.
- 'Final' means the stage of a product after which there is no value addition in it.
- GDP is indicator of aggregate welfare of country.
- GDP is the value of all final goods and services produced within the boundary of a nation in a given period of time usually a calendar year, financial year or fraction of it like quarter.

Gross Domestic Product (GDP)

- Percentage change in 'growth rate' of an economy.
- GDP 7.3% (Feb 2019) means 7.3% higher than the GDP of 2018.
- 'Quantitative' concept rather than 'Qualitative'.
- Ranked by the IMF on the basis of purchasing power parity (PPP).
- Based on PPP, India's GDP is 3rd largest after China and the USA.
- Based on exchange rate of Rupee (into the US dollars) India's GDP is 5th largest.
- GDP = GVA added with the net taxes (taxes minus subsidies).
- IMF, October 2019 database estimated India's GDP at US$ 9.4 trillion at the PPP.

Nominal and Real GDP

- Nominal GDP refers to current year production of final goods and services valued at current market price.
- Real GDP refers to current year production of final goods and services valued at base year prices.
- In 2015, The Base Year was revised from 2004–05 to 2011–12.
- For 2019-20, GDP was estimated, ₹147.8 lakh crore at constant prices (showing a growth rate of 5.0 per cent in comparison to 6.8 percent)

Market Price and Factor Cost

- Market price is actual transacted price which include indirect taxes.
- Factor cost is actual cost of product which occurs by different factors of production. It includes government grants and subsidies and excludes indirect taxes.

Fixed-Base to Chain-Base Method

- Government is planning to shift fixed-base method to chain-base (year) method.
- In chain based method GDP estimates are compared with those of the previous year instead of a fixed base year which is revised every five years.
- In a fixed-base method, the weights assigned (in the index) to various economic activities (i.e., the goods and services produced) stay unchanged even if the economy changes structurally.
- Chain-base method weights assigned to economic activities changes annually and thus captures structural changes more quickly.
- India officially calculates its national income at factor cost.
- The US shifted to the chain base index in 1996.

Net Domestic Product (NDP)

- It is, basically, net form of the GDP, i.e., GDP minus the total value of the 'wear and tear' (depreciation).
- Different assets have different rate of depreciations.
- In the external sector, depreciation can be measured by fall or rise in the value of free floating domestic currency against the foreign currencies.
- Depreciation can be reduced but can never be zero.
- Thus NDP of an economy always remains lower than its GDP.
- Due to different rates of depreciation NDP is not used for comparison of economics.

Gross National Product (GNP)

- Gross National Product (GNP) is the GDP of a country added with its 'Income from Abroad'.
- Remittances: Money transferred by Indian nationals working outside of India. In 2019 too, India remained world's top recipient of remittances (US $80 billion) followed by China (US $67 billion).
- Interest on External Loans or interest on 'net borrowings'
- External Grants: balance of such grants which flow to and from India
- To calculate GNP 'Income from Abroad' is subtracted from India's GDP.
- **GNP = GDP + Income from Abroad**
- For India, GNP is always lower than GDP
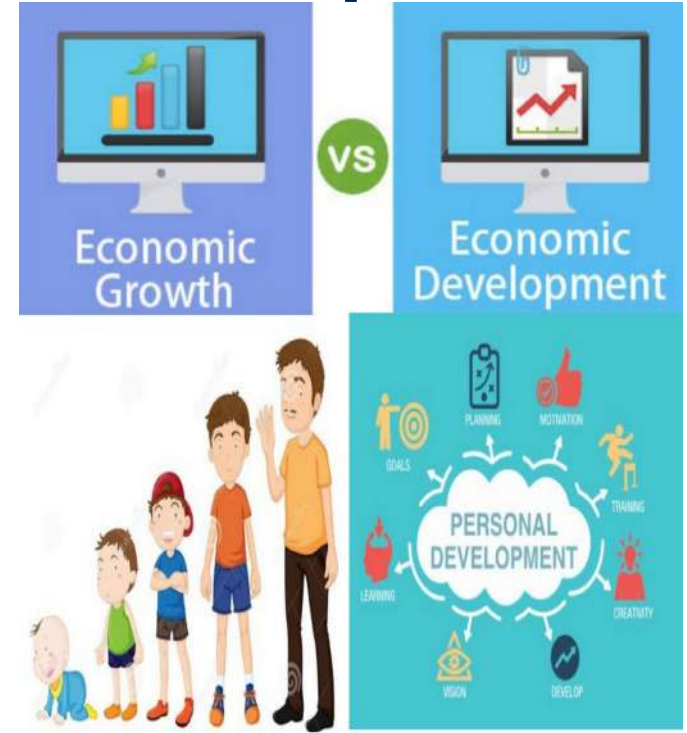
Net National Product (NNP)

- **NNP = GNP – Depreciation = GDP + Income from Abroad – Depreciation**
- It is purest form of National Income

$$\text{Per Capita Income (PCI)} = \frac{\text{NNP}}{\text{Total Population of Nation}}$$

- ❖ India is at 145th position in term of GDP (nominal) per capita. Per capita income of India (2,104.1) is approx 5 times lower than world's average around of $11,673.
- ❖ Lower the rates of depreciation higher the PCI of the nation
- ❖ PCNI was estimated to be ₹1, 35,050 at current prices (6.8 per cent higher over the preceding year).

Measurement of growth and Development

- **Growth** means quantitative progress
- **Development** means quantitative as well as qualitative progress
- Development can be indicated by consumption, healthcare, nutrition, safe drinking water, literacy and education, social security, peaceful community life, social respect, entertainment, clean environment, etc.
- Development is combination of human wellbeing, social inclusion and environmental sustainability.

Human Development Index

- United Nations Development Programme (UNDP) published its first Human Development Report (HDR) in 1990.
- HDR measures development by combining three indicators—Health, Education and Standard of Living.
- Index is prepared on scale value between 0 and 1.

Education

- Mean of years of schooling (for adults aged 25 years)
- Expected years of schooling (for children of school entering age)

Health

- life expectancy at birth which is calculated using a minimum value of 20 years and maximum value of 83.57 years.

Human Development Index

Standard of Living

- It is measured by GNI (Gross National Income/Product) per capita at 'Purchasing Power Parity in US Dollars' (PPP $).
- Minimum income is $100 (PPP) and the maximum is US $87,478 (PPP).

Based on above parameters UNDP ranked the economies in accordance of their achievements. Index might be overlooking some important factors like Peace of mind, happiness and prestige, safe environment etc. which affect the development.

Disorders of Development.

- Obesity, diabetes, tobacco related illnesses, anorexia, psychosocial disorders and addictions to shopping, TV and gambling etc.