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IAS 2022

36

PRELIMS SAMPOORNA FACT FILE

ECONOMY

ECONOMIC GRAPHS & INDICATORS

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PRELIMS SAMPOORNA

As IAS prelims 2022 is knocking at the door, jitters and anxiety is a common emotion that an aspirant feels. But if we analyze the whole journey, these last few days act most crucial in your preparation. This is the time when one should muster all their strength and give the final punch required to clear this exam. But the main task here is to consolidate the various resources that an aspirant is referring to.

GS SCORE brings to you, **Prelims Sampoorna**, a series of all value-added resources in your prelims preparation, which will be your one-stop solution and will help in reducing your anxiety and boost your confidence. As the name suggests, **Prelims Sampoorna** is a holistic program, which has 360-degree coverage of high-relevance topics.

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- **GS Score UPSC Prelims 2021 Yearly Current Affairs Compilation of All 9 Subjects**
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- **Geography Through Maps (6 Themes)**
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ECONOMIC GRAPHS & INDICATORS

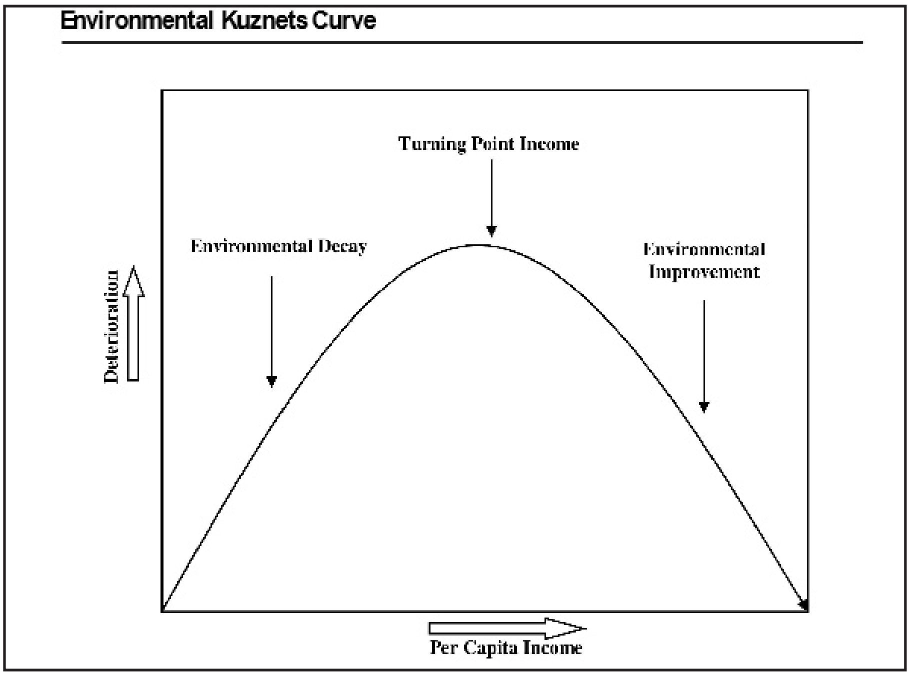
ECONOMIC GRAPHS

1. Engel Curve:

- It describes how the spending on a certain good varies with household income. The shape of an Engel curve is impacted by demographic variables, such as age, gender, and educational level, as well as other consumer characteristics.
- The Engel curve also varies for different types of goods. As income of a household increases its expenditure of food as a percentage declines. However, its expenditure on status goods increases.

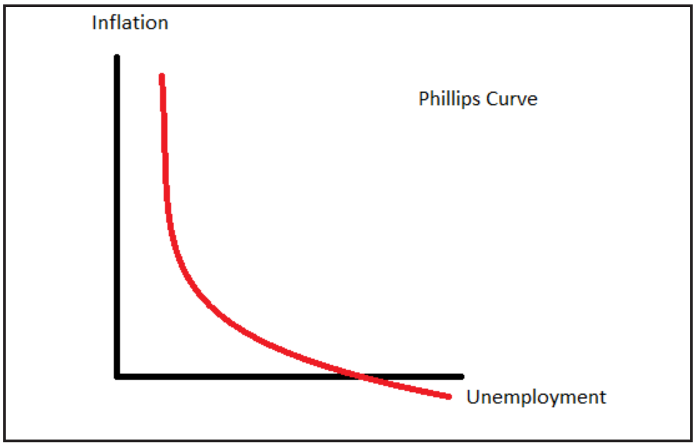
2. Environmental Kuznet Curve

- The environmental Kuznets curve (EKC) is a hypothesized relationship between various indicators of environmental degradation and per capita income. In the early stages of economic growth, pollution emissions increase and environmental quality declines, but beyond some level of per capita income the trend reverses, so that at high income levels, economic growth leads to environmental improvement.
- This implies that environmental impacts or emissions per capita are an inverted U-shaped function of per capita income.
- The proponents of the Environmental Kuznets Curve (EKC) hypothesis advocate that growth is actually a cure for environmental problems, rather than being a cause of it.



3. PHILLIPS CURVE

- It states that inflation and unemployment have an inverse relationship. Higher inflation is associated with lower unemployment and vice versa.

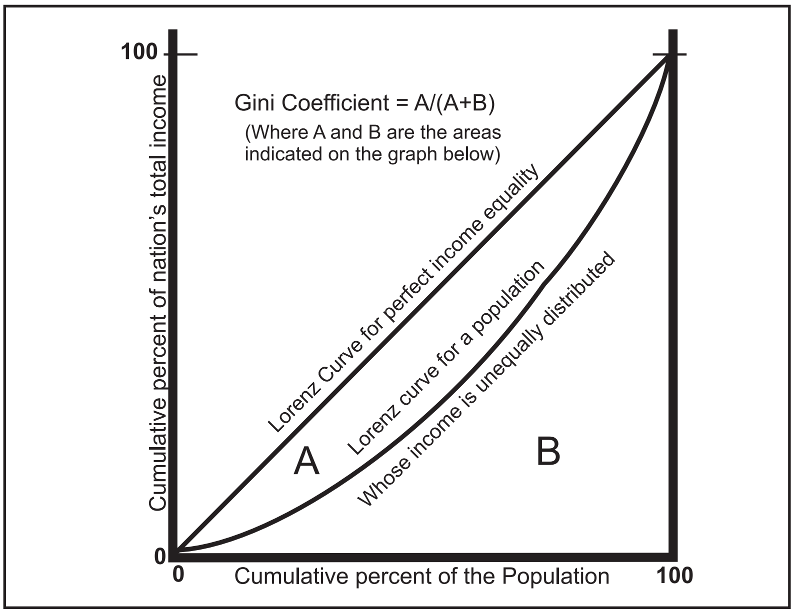


4. Lorenz Curve

- It was developed by Max Lorenz in 1906. The Lorenz Curve (the actual distribution of income curve), is a graphical distribution of wealth, shows the proportion of income earned by any given percentage of the population.
- The line at the 45° angle shows perfectly equal income distribution, while the other line shows the actual distribution of income. The further away from the diagonal, the more unequal the size of the distribution of income.

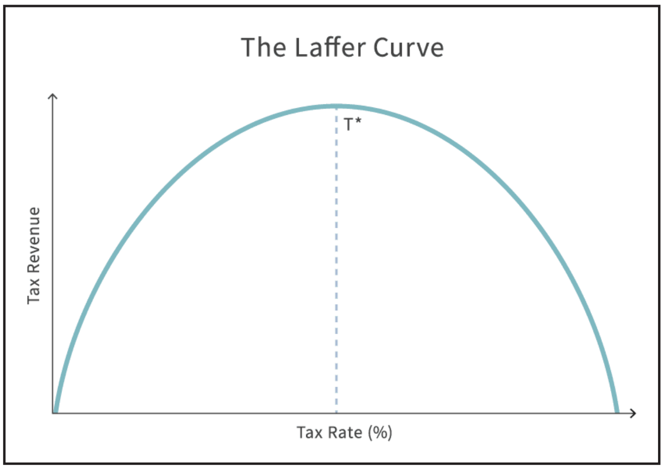
5. Gini Coefficient

- The Gini Coefficient, which is derived from the Lorenz Curve, can be used as an indicator of economic development in a country. It measures the degree of income equality in a population.
- It can vary from 0 (perfect equality) to 1 (perfect inequality). A Gini Coefficient of zero means that everyone has the same income, while a Coefficient of 1 represents a single individual receiving all the income.



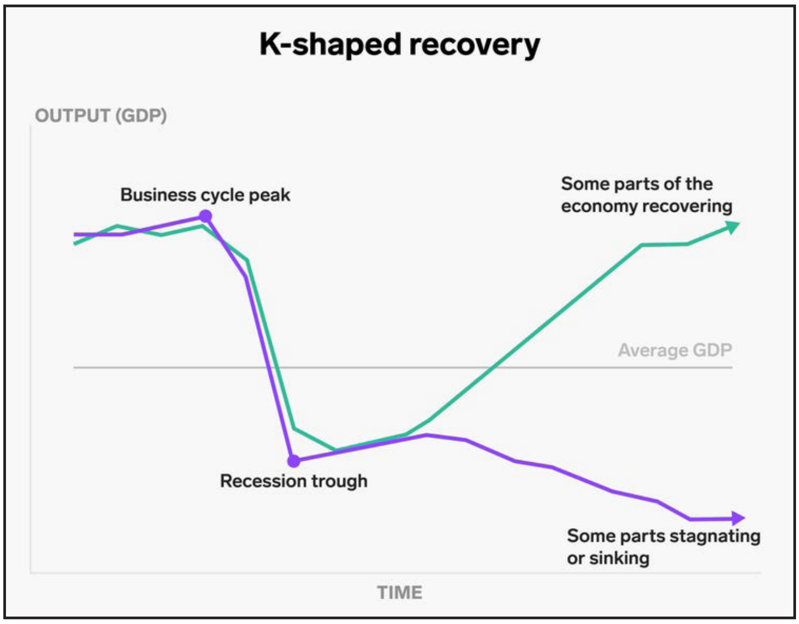
6. Laffer Curve

- It shows the relationship between tax rates and the amount of tax revenue collected by governments. The curve is used to illustrate Laffer's argument that sometimes cutting tax rates can increase total tax revenue.
- If taxes are too high along the Laffer Curve, then they will discourage the taxed activities, such as work and investment, enough to actually reduce total tax revenue. In this case, cutting tax rates will both stimulate economic incentives and increase tax revenue



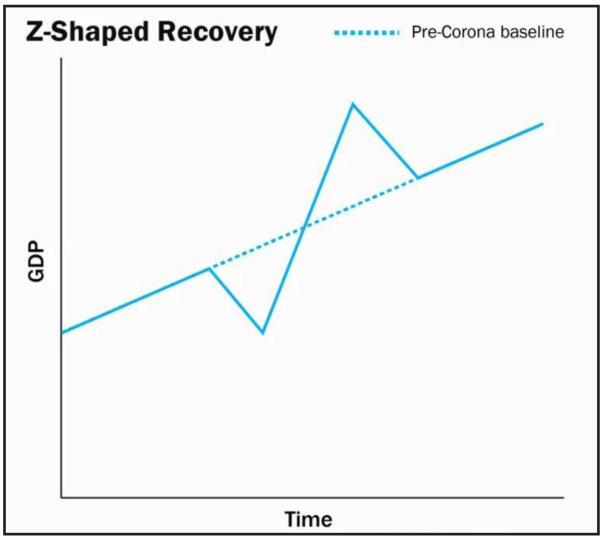
7. K-Shaped Recovery

- A K-shaped recovery occurs when, following a recession, different parts of the economy recover at different rates, times, or magnitudes. This is in contrast to an even, uniform recovery across sectors, industries, or groups of people.
- A K-shaped recovery leads to changes in the structure of the economy or the broader society as economic outcomes and relations are fundamentally changed before and after the recession.
- This type of recovery is called K-shaped because the path of different parts of the economy when charted together may diverge, resembling the two arms of the Roman letter "K.



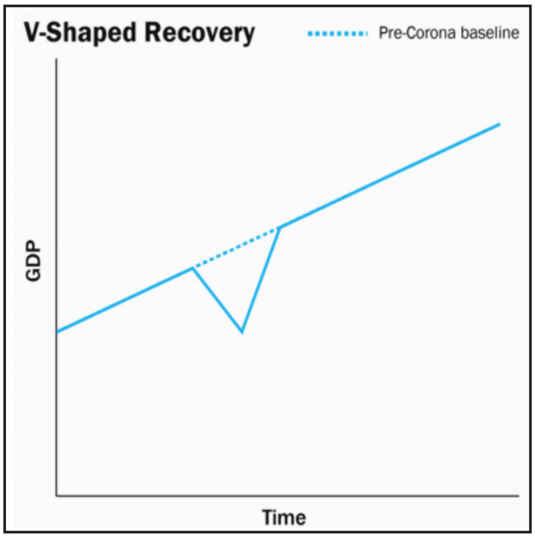
8. Z-shaped Recovery

- It represents the most-optimistic scenario in which the economy quickly rises after an economic crash.
- It makes up more than for lost ground before settling back to the normal trend-line, thus forming a Z-shaped chart.
- In this economic disruption lasts for a small period wherein more than people's incomes, it is their ability to spend is restricted.



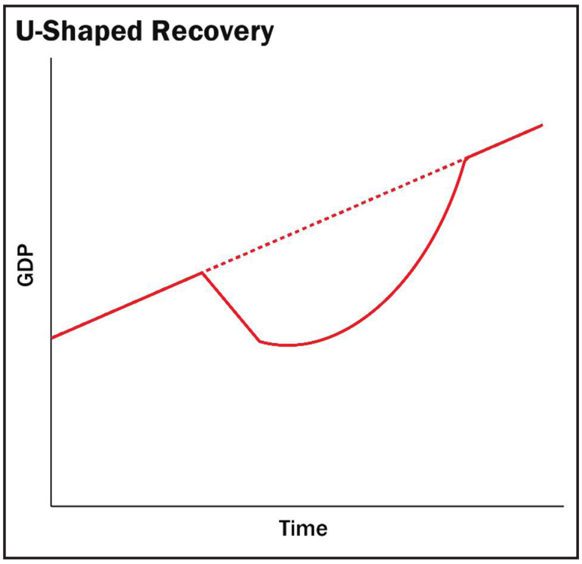
9. V-shaped recovery:

- It is the next-best scenario after Z-shaped recovery in which the economy quickly recoups lost ground and gets back to the normal growth trend-line.
- In this, incomes and jobs are not permanently lost, and the economic growth recovers sharply and returns to the path it was following before the disruption.



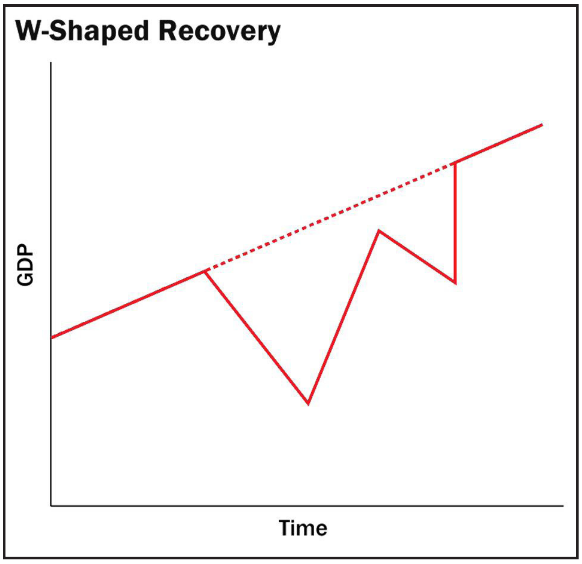
10. U-Shaped recovery

- It means that economy after falling, struggles around a low growth rate for some time, before rising gradually to usual levels.
- In this case several jobs are lost and people fall upon their savings.
- If this process is more-long drawn than it throws up the "elongated U" shape



11. W-shaped recovery

- A W-shaped recovery is when an economy passes through a recession into recovery and then immediately turns down into another recession.
- W-shaped recessions can be particularly painful because the brief recovery that occurs can trick investors into getting back in too early.
- It is estimated that the double-dip depicted by a W-shaped recovery was due to the second wave of the pandemic.



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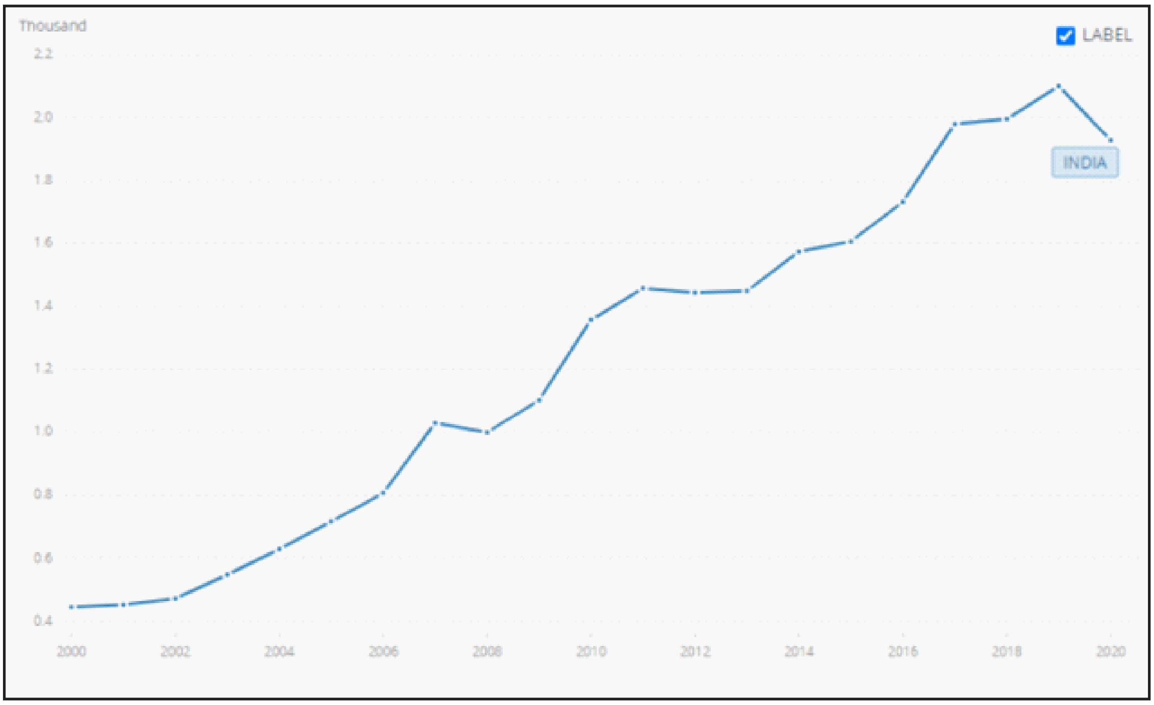
ECONOMIC INDICATORS

1. GDP Growth Rate

- Gross Domestic Product measures the aggregate production of final goods and services taking place within the domestic economy during a year.
- According to budget 2022-23, India's GDP growth will be highest among economies with an economic growth of 9.2 per cent for FY22.
- India's economy contracted by 6.6 per cent in FY21, in wake of two successive quarters of negative growth.
- The Economic Survey 2022 also projected India to grow at 9.2 per cent for FY22 and at 8-5.5 per cent for FY23.
- Nominal GDP refers to measuring the value of all final goods and services produced within a country for a given period at current market prices. Real GDP takes nominal GDP for a given period and adjusts it for changes in prices.
- The Reserve Bank pegged the economic growth rate for 2022-23 at 7.8 per cent, down from 9.2 per cent expected in 2021-22, in view of uncertainties on account of the pandemic.

2. Per Capita GDP

- While the GDP provides an all-India aggregate, per capita GDP is a better variable if one wants to understand how an average India has been impacted.
- According to world-bank data the per capita GDP is US $ 1,927.7.

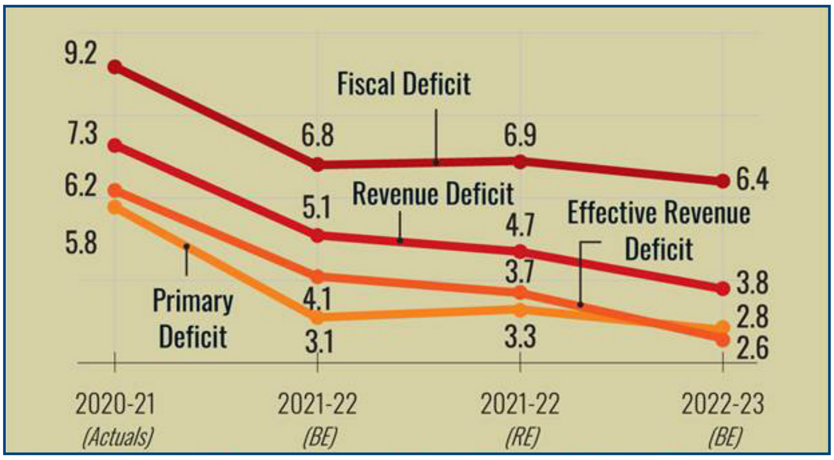


3. Inflation rate

- RBI has projected India's CPI inflation for 2022-23 at 4.5 per cent.
- India's retail inflation, measured by the Consumer Price Index (CPI) surged to 7.79% in the month of April due to rising fuel and food prices, according to the data released by the statistics ministry.
- The average headline CPI-Combined inflation moderated to 5.2 per cent in 2021-22 (April-December) from 6.6 per cent in the corresponding period of 2020-21.
- India inflation rate for 2020 was 6.62%, a 2.9% increase from 2019.
- India inflation rate for 2019 was 3.72%, a 0.22% decline from 2018.
- India inflation rate for 2018 was 3.95%, a 0.62% increase from 2017.
- India inflation rate for 2017 was 3.33%, a 1.62% decline from 2016.

4. Fiscal Deficit

- Fiscal deficit is the condition when the expenditure of the government exceeds its revenue in a year, is the difference between the two. Fiscal deficit is calculated both in absolute terms and as a percentage of the country's gross domestic product (GDP)
- Under the budget, the fiscal deficit for the financial year 2022-2023 has been pegged at 6.4% of the GDP.
- States will be allowed a fiscal deficit of 4% of GSDP in the next fiscal year.
- It has kept a target of a 4.5% fiscal deficit by FY26.
- The Fiscal Deficit of the Government for 2022-23 is estimated to be Rs. 16, 61,196 crore.
- The Revised Estimates for 2021-22 indicate a Fiscal Deficit of Rs. 15, 91,089 crore as against the Budget Estimates of Rs. 15, 06,812 crore.



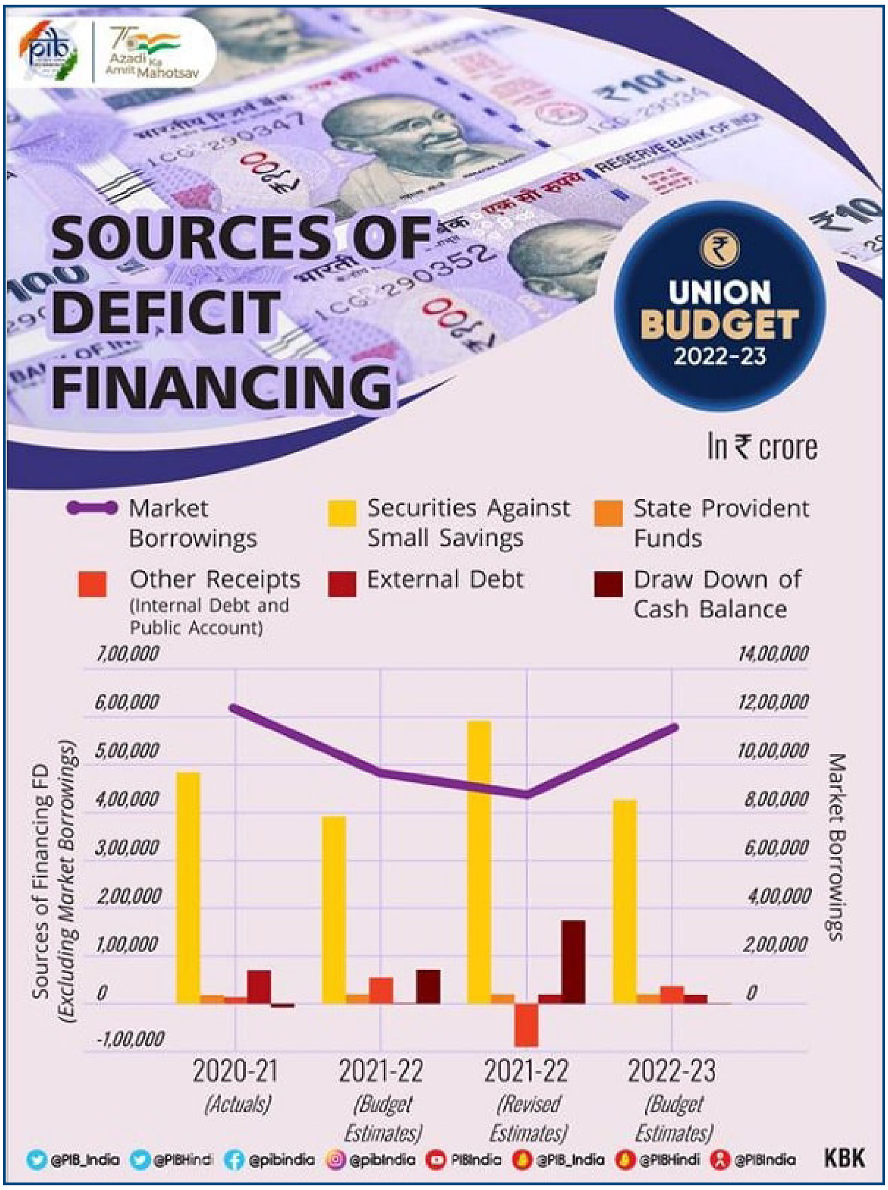
5. Cash Reserve Ratio (CRR)

- Percentage of cash required to be kept in reserves, vis-a-vis a bank's total deposits, is called the Cash Reserve Ratio. The cash reserve is either stored in the bank's vault or is sent to the RBI.

- Banks can't lend the CRR money to corporates or individual borrowers, banks can't use that money for investment purposes. And Banks don't earn any interest on that money.
- Recently RBI allowed banks to exclude loans up to Rs 25 lakh given to the micro, small and medium enterprises from its net demand and time liabilities (NDTL) for the purpose of calculating cash reserve ratio (CRR).
- The Reserve Bank announced a hike in cash reserve ratio (CRR) by 50 basis points to 4.5 per cent.

6. Market Borrowings

- The total Market Borrowings of the government for 2022-23 are estimated to stand at Rs. 11,58,719 crore.
- The Revised Estimates for the same for 2021-22 are Rs. 8, 75,771 crore as against the Budget Estimates of Rs. 9, 67,708 crore.



7. Foreign Exchange Reserves

- Net capital flows were higher at US$ 65.6 billion in the first half of 2021-22, on account of continued inflow of foreign investment, revival in net external commercial borrowings, higher banking capital and additional special drawing rights (SDR) allocation.

Special Drawing Rights (SDR)

- Special drawing rights (SDRs) are an artificial currency instrument created by the International Monetary Fund, which uses them for internal accounting purposes.
- The value of the SDR is calculated from a weighted basket of major currencies, including the U.S. dollar, the euro, Japanese yen, Chinese yuan, and the British pound.
- The SDR interest rate (SDRi) provides the basis for calculating the interest rate charged to member countries when they borrow from the IMF and paid to members for their remunerated creditor positions in the IMF.
- SDRs are allocated based on the quota amounts of each member country. The higher the quota amount, the larger the SDR allocation a country will receive. In general, stronger economies have higher quotas.
- SDRs can be used to exchange for other currencies, the repayment of loans, the payments of obligations, pledges, the payment of interest on loans, or paying for increases in quota amounts.

- India's external debt rose to US $ 593.1 billion at end-September 2021, from US $ 556.8 billion a year earlier, reflecting additional SDR allocation by IMF, coupled with higher commercial borrowings.
- Foreign Exchange Reserves crossed US$ 600 billion in the first half of 2021-22 and touched US $ 633.6 billion as of December 31, 2021.
- As of end-November 2021, India was the fourth largest forex reserves holder in the world after China, Japan and Switzerland.

8. Government debt to GDP

- The debt-to-GDP ratio is the metric comparing a country's public debt to its gross domestic product (GDP). By comparing what a country owes with what it produces, the debt-to-GDP ratio reliably indicates that particular country's ability to pay back its debts.
- According to Economic Survey 2021-22, with the enhanced borrowings on account of COVID-19, the Central Government debt has gone up from 49.1 percent of GDP in 2019-20 to 59.3 percent of GDP in 2020-21, but is expected to follow a declining trajectory with the recovery of the economy.

9. Fiscal Developments

- The revenue receipts from the Central Government (April to November, 2021) have gone up by 67.2 percent (YoY) as against an expected growth of 9.6 percent in the 2021-22 Budget Estimates (over 2020-21 Provisional Actuals).
- Gross Tax Revenue registers a growth of over 50 percent during April to November, 2021 in YoY terms. This performance is strong compared to pre-pandemic levels of 2019-2020 also.

- During April-November 2021, Capex has grown by 13.5 percent (YoY) with focus on infrastructure-intensive sectors.
- Sustained revenue collection and a targeted expenditure policy has contained the fiscal deficit for April to November, 2021 at 46.2 percent of BE.

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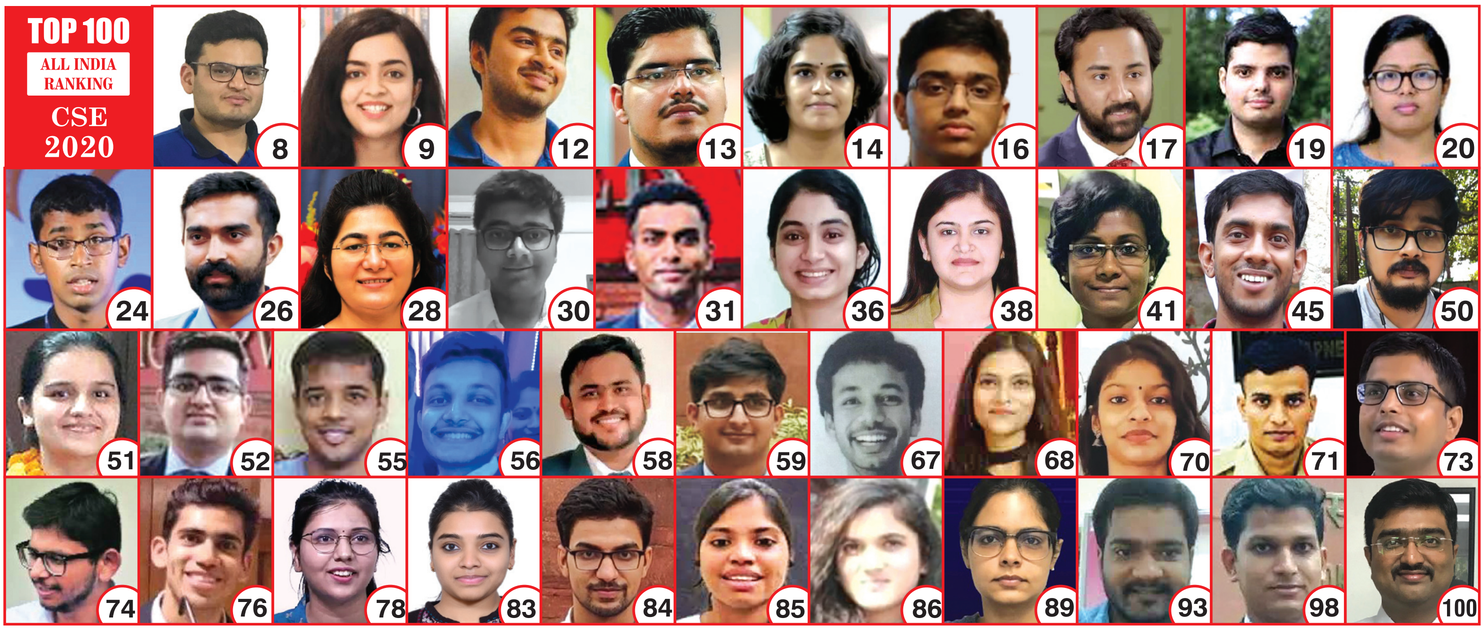

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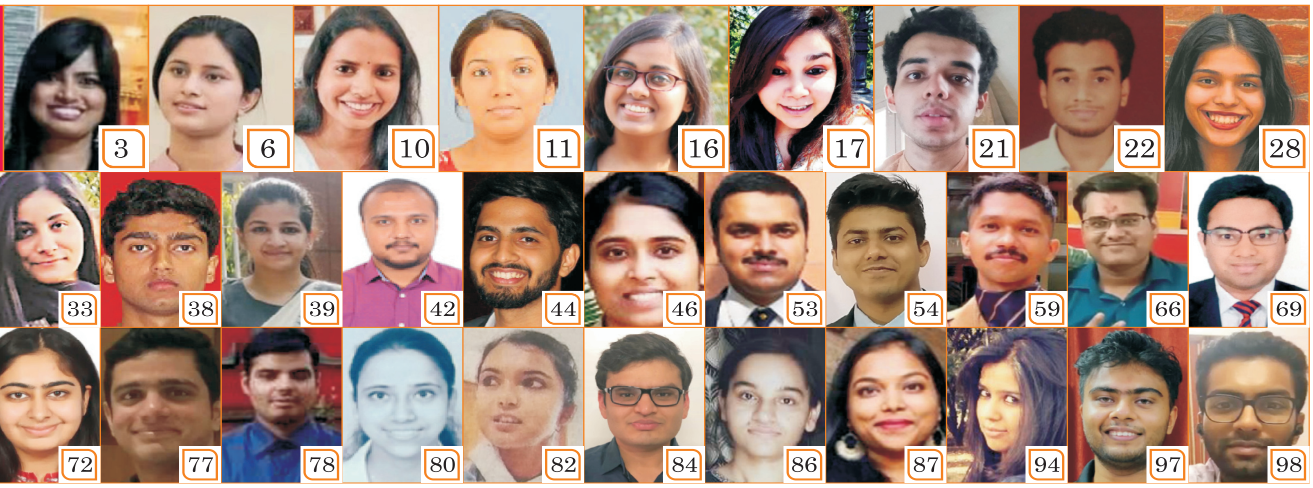

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