

TNPSC Group I — Indian Economy

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A. Quick Revision Notes

Basic concepts & National Income

Economies are capitalist, socialist or mixed (India is mixed). Three sectors: primary (agriculture), secondary (industry) and tertiary (services — the largest share of India's GDP). National income aggregates: GDP is domestic output; GNP = GDP + net factor income from abroad; NNP = GNP minus depreciation; NNP at factor cost equals National Income. Per capita income = national income divided by population. Nominal income is at current prices; real income is inflation-adjusted. Estimates are prepared by the National Statistical Office (NSO) under MoSPI, with a periodically revised base year.

Planning & NITI Aayog

The Planning Commission was set up in 1950 and ran the Five-Year Plans (USSR-inspired). The First Plan (1951–56, Harrod-Domar model) focused on agriculture; the Second (Mahalanobis model) on heavy industry. NITI Aayog (National Institution for Transforming India) replaced the Planning Commission on 1 January 2015 as a think-tank promoting cooperative federalism, without fund-allocation powers. The Prime Minister chairs it; there is a CEO, a Vice-Chairperson, and a Governing Council of all Chief Ministers. Key initiatives include the Aspirational Districts Programme and the SDG India Index.

Banking, RBI & monetary policy

The Reserve Bank of India was established in 1935 (on the Hilton-Young Commission's advice) and nationalised in 1949. As the central bank it is the sole issuer of currency (except the one-rupee note and coins, issued by the Finance Ministry), banker to the government and lender of last resort. Monetary policy tools: repo rate, reverse repo, CRR, SLR, bank rate and open market operations. A six-member Monetary Policy Committee sets the repo rate, targeting CPI inflation of 4% (+/- 2%). Banks were nationalised in 1969 (14 banks) and 1980 (6 banks).

Budget, taxation & fiscal policy

The Union Budget is the Annual Financial Statement under Article 112, presented on 1 February. Receipts and expenditure are split into revenue and capital. Fiscal deficit = total expenditure minus total receipts (excluding borrowings); revenue deficit and primary deficit are related measures. Taxes are direct (income and corporate tax, under CBDT) or indirect (GST, customs, under CBIC). GST, a 'one nation, one tax', came into force on 1 July 2017 via the 101st Amendment, governed by the GST Council. The FRBM Act 2003 enforces fiscal discipline.

Money & capital markets

The money market handles short-term funds (under one year) — Treasury bills, commercial paper, call money — and is regulated by the RBI. The capital market handles long-term funds — shares, bonds and debentures — regulated by SEBI (statutory from 1992). The primary market issues new securities (IPOs); the secondary market trades them on stock exchanges — the BSE (1875) is Asia's oldest, alongside the NSE. Key indices are the Sensex (BSE, 30 stocks) and the Nifty (NSE, 50 stocks). Shares are held in demat form via NSDL/CDSL.

Agriculture & food security

India's farm revolutions: Green (foodgrains, high-yielding seeds, M.S. Swaminathan), White (milk — Operation Flood, Verghese Kurien, Amul), Blue (fisheries), Yellow (oilseeds). The Minimum Support Price is recommended by the CACP, with procurement by the Food Corporation of India (FCI, 1965). Food reaches the poor through the Public Distribution System, underpinned by the National Food Security Act 2013. PM-KISAN provides income support to farmers. Tamil Nadu is a major rice and sugarcane producer. Land reforms and tenancy security remain important policy themes.

Industry & MSME

Industrial Policy Resolutions shaped the economy: 1948 and 1956 (public-sector-led, 'commanding heights') and 1991 (LPG reforms — liberalisation, privatisation, globalisation, de-licensing). MSMEs are classified by investment and turnover (revised in 2020) into micro, small and medium; they are the largest employers after agriculture and major exporters. Public sector units are graded Maharatna, Navratna and Miniratna. Programmes include Make in India (2014) and Startup India. Tamil Nadu's industry is strong in automobiles (Chennai), textiles (Tiruppur, Coimbatore) and leather.

Poverty, unemployment & inequality

The poverty line is based on consumption expenditure/calorie norms; the Tendulkar and Rangarajan committees estimated it. Unemployment types: structural, cyclical, frictional, seasonal, disguised (common in agriculture), open and educated unemployment. MGNREGA (2005) guarantees 100 days of wage employment a year as a right to work. Inequality is measured by the Gini coefficient and the Lorenz curve. The Multidimensional Poverty Index assesses deprivation in health, education and living standards, going beyond income alone.

Inflation

Inflation is a sustained rise in the general price level that erodes purchasing power. Demand-pull inflation arises from excess demand; cost-push from rising input costs. It is measured by the Wholesale Price Index (WPI, base 2011-12, by the Office of the Economic Adviser) and the Consumer Price Index (CPI, retail, by the NSO) — the RBI targets CPI inflation. Related terms: deflation (falling prices), disinflation (a slowing rate of inflation) and stagflation (high inflation with high unemployment). It is controlled through monetary (repo rate) and fiscal measures.

Tamil Nadu economy & schemes

Tamil Nadu has one of India's largest state economies — highly urbanised and industrialised, and a leader in automobiles, textiles, leather and electronics manufacturing, alongside a strong services sector. It ranks among the top states on the Human Development Index. The state has a long tradition of welfare and human-development spending: the Midday Meal Scheme, greatly expanded by K. Kamaraj and made a nutritious noon-meal programme under M.G. Ramachandran in 1982, was a pioneering measure that boosted school enrolment and child nutrition.

International trade & organisations

The Balance of Payments records all external transactions as the current account (trade plus invisibles) and the capital account; the Balance of Trade covers goods only. India typically runs a trade deficit, with crude oil and gold as major imports. Key bodies: the WTO (1995, replaced GATT, sets trade rules), the IMF (1944 Bretton Woods, supports balance-of-payments, HQ Washington) and the World Bank (development finance). India participates in SAARC, BRICS, the G20 and dialogues with ASEAN. Foreign capital comes as FDI (direct) or FPI (portfolio).

B. Practice MCQs (25)

1. GDP at market prices minus net indirect taxes gives:

- (A) GDP at factor cost
- (B) NDP at market prices
- (C) GNP at market prices
- (D) National Income

2. The Phillips Curve illustrates the relationship between:

- (A) Interest rates and investment
- (B) GDP growth and fiscal deficit
- (C) Inflation and unemployment
- (D) Trade balance and exchange rates

3. The concept of 'Inclusive Growth' as adopted in India's Five Year Plans primarily emphasises:

- (A) Growth that reaches the poor, reduces inequality, and expands opportunities for all
- (B) High GDP growth irrespective of its distribution
- (C) Growth driven exclusively by foreign direct investment
- (D) Growth that benefits only the organised industrial sector

4. MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act 2005) guarantees:

- (A) Employment at urban minimum wage for all BPL households
- (B) 150 days of guaranteed employment for SC/ST households
- (C) 100 days of employment per adult per year at a notified wage
- (D) 100 days of employment per household per year at market wages

5. The Monetary Policy Committee (MPC) of the RBI was constituted under which framework?

- (A) Securities and Exchange Board of India Act 1992
- (B) Fiscal Responsibility and Budget Management Act 2003
- (C) Amended RBI Act, following the adoption of Flexible Inflation Targeting
- (D) Banking Regulation Act 1949

6. Which of the following correctly describes 'Fiscal Deficit'?

- (A) Capital expenditure minus capital receipts
- (B) Total government expenditure minus total revenue receipts
- (C) Revenue expenditure minus revenue receipts
- (D) Total expenditure minus total receipts excluding borrowings

7. The Human Development Index (HDI) combines which three dimensions?

- (A) Income, employment, and access to healthcare
- (B) GDP per capita, literacy rate, and life expectancy
- (C) Long and healthy life, knowledge, and a decent standard of living
- (D) Poverty rate, education years, and food security

8. 'Stagflation' refers to a situation where:

- (A) Low inflation is accompanied by high unemployment
- (B) High economic growth accompanies high inflation
- (C) Deflation occurs during a period of rapid GDP growth
- (D) Stagnant (or negative) growth combines with high inflation and unemployment

9. The Green Revolution in India was concentrated in which crops and regions initially?

- (A) Rice in Kerala and Assam
- (B) Wheat in Punjab, Haryana, and western Uttar Pradesh
- (C) Cotton in Gujarat and Andhra Pradesh
- (D) Pulses in Maharashtra and Rajasthan

10. The WTO's 'Most Favoured Nation' (MFN) principle means:

- (A) Any trade advantage given to one member must be extended to all members
- (B) One country receives preferential trade treatment over all others
- (C) Developed countries must give concessions to developing countries only
- (D) Nations with highest export volumes receive the most favourable tariff rates

11. Tamil Nadu's economy is characterised primarily by:

- (A) Large petroleum and mining sector
- (B) Agrarian economy dependent on monsoon rainfall
- (C) A diversified economy strong in manufacturing, services, and agriculture
- (D) Economy dominated by public sector enterprises only

12. Foreign Direct Investment (FDI) differs from Foreign Portfolio Investment (FPI) primarily in:

- (A) FDI involves equity shares; FPI involves debt instruments only
- (B) FDI implies managerial control and long-term commitment; FPI is passive financial investment
- (C) FPI is illegal in India; FDI is regulated by FEMA
- (D) FDI is permitted only in manufacturing; FPI only in services

13. The Goods and Services Tax (GST) replaced which of the following taxes at the Central level?

- (A) Central Excise Duty, Service Tax, and Central Sales Tax
- (B) Securities Transaction Tax and Dividend Distribution Tax
- (C) Customs Duty and Corporate Tax
- (D) Income Tax and Wealth Tax

14. India's NITI Aayog replaced the Planning Commission in 2015. A key difference is that NITI Aayog:

- (A) Cannot allocate funds to states directly, unlike the Planning Commission
- (B) Is a constitutional body, unlike the Planning Commission which was statutory
- (C) Allocates funds to states, unlike the Planning Commission which only gave advice
- (D) Has greater powers over monetary policy than the Planning Commission had

15. Which of the following measures best captures the productive capacity of an economy?

- (A) Real GDP
- (B) Potential GDP
- (C) GNP at current prices
- (D) Nominal GDP

16. The Pradhan Mantri Fasal Bima Yojana (PMFBY) is related to:

- (A) Comprehensive crop insurance against natural disasters and crop failure
- (B) Providing crop loans at subsidised interest
- (C) Land consolidation for small and marginal farmers
- (D) Free seeds and fertilisers to marginal farmers

17. The 'Laffer Curve' in taxation theory suggests:

- (A) Tax revenue increases monotonically with higher tax rates
- (B) There is an optimal tax rate beyond which higher taxes reduce total revenue
- (C) Government expenditure and tax revenue are always equal
- (D) Tax rates should always be set at zero to maximise economic activity

18. India's Micro, Small and Medium Enterprises (MSME) sector contributes approximately:

- (A) Less than 10% of GDP and 5% of exports
- (B) Exactly 50% of GDP due to government mandates
- (C) About 30% of GDP and over 45% of exports
- (D) Over 60% of GDP and 80% of employment

19. Which of the following correctly describes the Gini Coefficient?

- (A) An international ranking of nations by per capita income
- (B) A measure of poverty headcount below the poverty line
- (C) An index of 0 to 1 measuring income inequality — 0 is perfect equality, 1 is perfect inequality
- (D) A measure of total national income

20. The Strategic Petroleum Reserves (SPR) of India are located at:

- (A) Kandla, Haldia, and Ennore
- (B) Chennai, Kochi, and Paradip
- (C) Vishakhapatnam, Mangaluru, and Padur
- (D) Mumbai, Kochi, and Visakhapatnam

21. The concept of 'Hindu Rate of Growth' was coined by which Indian economist to describe the historical growth trajectory of the Indian economy?

- (A) Amartya Sen
- (B) P.C. Mahalanobis
- (C) Raj Krishna
- (D) V.K.R.V. Rao

22. Which of the following components is EXCLUDED while calculating the National Income of a country?

- (A) Rental income received on real estate
- (B) Transfer payments such as pensions and scholarships
- (C) Profits of public sector undertakings
- (D) Wages and salaries paid to employees

23. The Mahalanobis model, which fundamentally prioritized rapid industrialization and the development of heavy industries, was adopted during which Five Year Plan?

- (A) Third Five Year Plan
- (B) Fourth Five Year Plan
- (C) First Five Year Plan
- (D) Second Five Year Plan

24. In the context of India's policy-making apparatus, what does the acronym 'NITI' in NITI Aayog stand for?

- (A) National Institution for Transforming India
- (B) National Innovation and Technology Initiative
- (C) New Initiative for Transforming India
- (D) National Institute for Transforming India

25. The interest rate at which the Reserve Bank of India (RBI) lends short-term funds to commercial banks against approved securities is called?

- (A) Bank Rate
- (B) Reverse Repo Rate
- (C) Repo Rate
- (D) Marginal Standing Facility

C. Answer Key & Explanations

1. **(A)** GDP at factor cost (now called GVA at basic prices in the new series) = GDP at market prices – Net indirect taxes (taxes minus subsidies).
2. **(C)** The Phillips Curve (1958) showed an empirical inverse relationship between unemployment and wage inflation — lower unemployment was associated with higher inflation.
3. **(A)** Inclusive growth, adopted from the 11th Five Year Plan onward, means growth that reduces poverty, narrows regional and social disparities, and creates productive employment.
4. **(C)** MGNREGA guarantees 100 days of unskilled manual work per financial year per rural household at notified MGNREGA wage rates.
5. **(C)** The RBI Act was amended in 2016 to legally establish the MPC, which targets CPI inflation at 4% ($\pm 2\%$) — a formal inflation-targeting framework.
6. **(D)** Fiscal Deficit = Total Expenditure – (Revenue Receipts + Non-debt Capital Receipts), i.e., the total borrowing requirement of the government.
7. **(C)** The UNDP's HDI measures: (1) health — life expectancy at birth; (2) education — mean years of schooling and expected years; (3) standard of living — GNI per capita (PPP).
8. **(D)** Stagflation (stagnation + inflation) — witnessed in 1970s Western economies after the OPEC oil shock — defied the conventional Phillips Curve trade-off.
9. **(B)** The Green Revolution (late 1960s) was driven by High Yielding Variety (HYV) wheat seeds (Mexico-origin Borlaug varieties), irrigation, and fertilisers primarily in Punjab, Haryana and W. UP.
10. **(A)** MFN (GATT Article I) is the cornerstone of multilateral trade — if Country A lowers tariffs for Country B, it must immediately apply the same rate to all other WTO members.
11. **(C)** Tamil Nadu has a diversified economy: automobile manufacturing (Chennai — Detroit of Asia), textiles (Tiruppur), IT services, leather, and a strong agricultural base.
12. **(B)** FDI involves meaningful ownership (typically 10%+ equity) with managerial participation, technology transfer, and long-term presence; FPI is portfolio investment for financial returns without control.
13. **(A)** GST subsumed Central Excise (CENVAT), Service Tax, Central Sales Tax, and additional customs duties; state VAT, entertainment tax, and entry tax were also subsumed at the state level.
14. **(A)** The Planning Commission could allocate central plan funds to states; NITI Aayog is a think-tank without financial allocation powers — finance moves through Finance Commission and ministries.
15. **(B)** Potential GDP represents the output an economy can sustain at full employment without triggering inflation — it measures productive capacity, not actual output.
16. **(A)** PMFBY (2016) provides comprehensive insurance coverage against crop losses due to natural calamities, pests, and diseases, with premium subsidised by state and central governments.
17. **(B)** The Laffer Curve (popularised by Arthur Laffer) shows that at 0% and 100% tax rates revenue is zero; the curve peaks at some intermediate rate.
18. **(C)** The MSME sector contributes approximately 30% of India's GDP, employs around 110 million people, and accounts for about 45-48% of exports.
19. **(C)** The Gini Coefficient measures the deviation of actual income distribution from perfect equality; 0 = all earn the same; 1 = one person earns everything.
20. **(C)** India's underground strategic petroleum reserves are at Visakhapatnam (Andhra Pradesh), Mangaluru and Padur (Karnataka) — enough for approximately 9.5 days of oil consumption.
21. **(C)** Professor Raj Krishna coined the term 'Hindu Rate of Growth' in 1978 to describe the low, stagnant annual growth rate of the Indian economy before the 1991 economic reforms.
22. **(B)** Transfer payments are excluded from National Income calculations because they are unilateral payments that do not correspond to the production of any current goods or services.
23. **(D)** The Second Five Year Plan (1956-1961) was based on the Mahalanobis model, shifting the economic focus from agriculture to basic and heavy industries.

24. (A) NITI Aayog stands for National Institution for Transforming India, established in 2015 to replace the Planning Commission and act as a public policy think tank.

25. (C) The Repo Rate (Repurchasing Option Rate) is the rate at which commercial banks borrow short-term money from the RBI to manage liquidity.