

# TNPSC Group II / IIA — 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 = GDP at Factor Cost +

- (A) Depreciation
- (B) Net Indirect Taxes (Indirect Taxes minus Subsidies)
- (C) Net Factor Income from Abroad
- (D) Capital Formation

### 2. The 'Fiscal Deficit' of a government is:

- (A) Total expenditure minus tax revenue
- (B) Total expenditure minus total revenue receipts (including borrowings)
- (C) Total expenditure minus total receipts (excluding borrowings)
- (D) Revenue expenditure minus revenue receipts

### 3. The WTO (World Trade Organization) replaced which earlier organisation in 1995?

- (A) UNCTAD (UN Conference on Trade and Development)
- (B) GATT (General Agreement on Tariffs and Trade)
- (C) IMF (International Monetary Fund)
- (D) World Bank

### 4. 'Demand-pull inflation' is caused by:

- (A) Increase in production costs like wages and raw materials
- (B) Excess demand in the economy relative to available supply of goods and services
- (C) Supply chain disruptions reducing output
- (D) Government printing excess money without regard to production

### 5. The concept of 'Poverty Line' in India is currently measured using:

- (A) Monthly per capita consumption expenditure based on a calorie intake norm
- (B) Annual income below ₹1 lakh per family
- (C) Multidimensional Poverty Index (MPI) only
- (D) Land ownership criterion

- 6. Foreign Direct Investment (FDI) differs from Foreign Institutional Investment (FII/FPI) primarily because:**
- (A) FDI is from developed countries only; FII is from all countries
  - (B) FDI involves long-term investment with management control; FII is short-term portfolio investment in securities
  - (C) FDI flows only into manufacturing; FII flows into services
  - (D) FDI requires government approval; FII is automatic
- 7. Which of the following best describes the 'Monetary Policy' of the RBI?**
- (A) Government's tax and spending decisions to manage the economy
  - (B) RBI's control of money supply and credit conditions to achieve price stability and growth
  - (C) RBI's regulation of foreign exchange reserves
  - (D) Government's borrowing programme and debt management
- 8. The term 'Stagflation' refers to:**
- (A) Rapid economic growth with low inflation
  - (B) Economic stagnation (high unemployment) combined with high inflation
  - (C) Deflation during a boom period
  - (D) Zero GDP growth with stable prices
- 9. SIDBI (Small Industries Development Bank of India) was established to:**
- (A) Finance large public sector enterprises
  - (B) Provide financial assistance to the small and medium enterprise (SME/MSME) sector
  - (C) Regulate non-banking financial companies
  - (D) Manage India's foreign exchange
- 10. India's 'Disinvestment' policy involves:**
- (A) Government investing in new public sector companies
  - (B) Government selling its equity stake in public sector undertakings (PSUs) to private investors
  - (C) Government buying back shares from foreign investors
  - (D) Reduction in subsidies to private companies
- 11. The Kuznets Curve (Environmental) hypothesises that:**
- (A) Income inequality increases consistently with economic growth
  - (B) Environmental degradation initially increases with economic growth, then declines after a threshold income level
  - (C) GDP and pollution always move in the same direction
  - (D) Economic growth causes irreversible environmental collapse
- 12. The 'Phillips Curve' depicts the relationship between:**
- (A) GDP and trade deficit
  - (B) Inflation and unemployment (inverse relationship in the short run)
  - (C) Interest rates and investment
  - (D) Money supply and price level
- 13. The Niti Aayog's 'Aspirational Districts Programme' targets:**
- (A) India's top 112 most developed districts for further growth
  - (B) India's 112 least developed districts for accelerated improvement across health, nutrition, education, and livelihood
  - (C) All districts with less than 1 million population
  - (D) Districts with high foreign investment potential
- 14. The 'Invisible Hand' theory in economics was propounded by:**
- (A) John Maynard Keynes
  - (B) Karl Marx
  - (C) Adam Smith
  - (D) David Ricardo
- 15. India's trade with which bloc accounts for the largest share of its exports as of recent years?**
- (A) SAARC countries
  - (B) ASEAN
  - (C) United States
  - (D) European Union

**16. 'Zero-Based Budgeting' means:**

- (A) A budget with zero deficit
- (B) Every expense must be justified from scratch each year, not based on previous year's allocations
- (C) A government budget with no revenue expenditure
- (D) A budget prepared without any taxation assumptions

**17. The 'Current Account' of India's Balance of Payments includes:**

- (A) Foreign investment flows and borrowings
- (B) Trade in goods, trade in services, and transfer payments (remittances)
- (C) Only merchandise trade in goods
- (D) Foreign exchange reserve changes

**18. The Economic Survey of India is published by:**

- (A) NITI Aayog
- (B) Ministry of Finance (Department of Economic Affairs)
- (C) Reserve Bank of India
- (D) Ministry of Commerce

**19. TIDCO (Tamil Nadu Industrial Development Corporation) was established to:**

- (A) Regulate small-scale industries in Tamil Nadu
- (B) Promote large and medium industrial projects in Tamil Nadu through equity participation
- (C) Manage the Tamil Nadu budget
- (D) Provide agricultural loans

**20. 'Inclusive growth', as articulated in India's planning approach, specifically aims to:**

- (A) Maximise GDP growth at all costs
- (B) Ensure benefits of economic growth reach the poor, SC/ST, women, and marginalised groups
- (C) Grow only the organised sector of the economy
- (D) Restrict foreign investment to protect domestic industry

**21. 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

**22. 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

**23. 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

**24. 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

**25. 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

## C. Answer Key & Explanations

1. **(B)** GDP at Market Prices = GDP at Factor Cost + Net Indirect Taxes (Indirect Taxes – Subsidies). This adjusts for taxes that inflate market prices and subsidies that reduce them.
2. **(C)** Fiscal Deficit = Total Government Expenditure – Total Receipts (excluding borrowings). It measures the total borrowing requirement of the government.
3. **(B)** The WTO was established on 1 January 1995, replacing the GATT (General Agreement on Tariffs and Trade, 1947) as the principal international organisation governing trade rules between nations.
4. **(B)** Demand-pull inflation occurs when aggregate demand in the economy outpaces aggregate supply — 'too much money chasing too few goods'. It is associated with economic booms and high employment.
5. **(A)** India's official poverty line is measured using monthly per capita consumption expenditure (MPCE) from NSS surveys, originally anchored to minimum calorie norms.
6. **(B)** FDI involves investment in real assets with a significant degree of management control, typically long-term. FII/FPI involves investment in financial markets with no management control and is short-term in nature.
7. **(B)** Monetary Policy refers to the RBI's use of instruments like repo rate, reverse repo rate, CRR, SLR, and open market operations to control inflation, manage liquidity, and support economic growth.
8. **(B)** Stagflation is the simultaneous occurrence of stagnant economic growth (or recession) and high inflation — a policy nightmare because the usual tools to fight one worsen the other.
9. **(B)** SIDBI (established 1990) functions as the principal financial institution for the promotion, financing, and development of the micro, small, and medium enterprise (MSME) sector in India.
10. **(B)** Disinvestment refers to the government reducing its shareholding in PSUs by selling equity to the private sector, either partially (minority stake sale) or fully (strategic disinvestment/privatisation).
11. **(B)** The Environmental Kuznets Curve (EKC) hypothesises an inverted-U relationship: as income grows, pollution initially rises (industrialisation phase) but then decreases as societies become wealthier and invest in cleaner technologies.
12. **(B)** The Phillips Curve (A. W. Phillips, 1958) shows an inverse short-run relationship between the rate of inflation and the unemployment rate — low unemployment is associated with higher inflation.
13. **(B)** Launched in January 2018, the Aspirational Districts Programme identifies 112 of India's most under-developed districts and focuses a multi-ministry convergence on rapidly improving key human development indicators.
14. **(C)** Adam Smith, in 'The Wealth of Nations' (1776), used the metaphor of the 'invisible hand' to describe how individuals pursuing their self-interest in free markets inadvertently promote the economic well-being of society.
15. **(C)** The United States is consistently India's largest single-country export destination, accounting for approximately 17–18% of India's total merchandise exports in recent years.
16. **(B)** Zero-Based Budgeting (ZBB) requires each department to justify every rupee of its budget from zero each year, rather than using the previous year's budget as a base.
17. **(B)** The Current Account records: (1) trade in merchandise goods (visible), (2) trade in services (invisible), (3) income (investment returns), and (4) current transfer payments (remittances, foreign aid).
18. **(B)** The Economic Survey is an annual document published by the Ministry of Finance's Department of Economic Affairs, prepared by the Chief Economic Adviser (CEA) to the Government of India.
19. **(B)** TIDCO (Tamil Nadu Industrial Development Corporation), established in 1965, promotes industrialisation in Tamil Nadu by participating as a co-promoter and equity partner in large and medium industrial enterprises.
20. **(B)** Inclusive growth (central theme of 11th and 12th Five Year Plans) seeks to ensure that the gains from economic growth are distributed equitably, reaching the poor, Dalits, tribals, women, minorities, and other disadvantaged groups.
21. **(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).
22. **(C)** The Phillips Curve (1958) showed an empirical inverse relationship between unemployment and wage inflation — lower unemployment was associated with higher inflation.
23. **(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.
24. **(C)** MGNREGA guarantees 100 days of unskilled manual work per financial year per rural household at notified MGNREGA wage rates.
25. **(C)** The RBI Act was amended in 2016 to legally establish the MPC, which targets CPI inflation at 4% (±2%) — a formal inflation-targeting framework.