

# TNPSC Group IV — 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. NITI Aayog replaced which body in January 2015?

- (A) Reserve Bank of India
- (B) Planning Commission
- (C) Finance Commission
- (D) National Development Council

### 2. GDP stands for:

- (A) Gross Domestic Product
- (B) General Development Plan
- (C) Gross Development Parameter
- (D) Government Development Policy

### 3. The Reserve Bank of India (RBI) was established in which year?

- (A) 1935
- (B) 1947
- (C) 1950
- (D) 1952

### 4. Which of the following is an example of direct tax?

- (A) Goods and Services Tax (GST)
- (B) Customs Duty
- (C) Excise Duty
- (D) Income Tax

### 5. The Five Year Plans in India were formulated by the:

- (A) Finance Ministry
- (B) Planning Commission
- (C) Reserve Bank of India
- (D) NITI Aayog

**6. Inflation means:**

- (A) A decrease in the money supply
- (B) A sustained rise in the general price level
- (C) An increase in the production of goods
- (D) A fall in unemployment

**7. The Green Revolution in India during the 1960s was associated with which crop?**

- (A) Pulses
- (B) Cotton
- (C) Wheat and Rice
- (D) Sugarcane

**8. The primary sector of the Indian economy includes:**

- (A) Manufacturing and construction
- (B) Banking and finance
- (C) Agriculture, forestry, fishing, and mining
- (D) Trade, transport, and communication

**9. Which of the following best describes cyclical unemployment?**

- (A) Unemployment due to seasonal fluctuations in demand
- (B) Unemployment resulting from workers being between jobs
- (C) Unemployment caused by a downturn in the business cycle
- (D) Unemployment due to technological change displacing workers

**10. What is the Minimum Support Price (MSP)?**

- (A) The maximum price at which farmers sell crops
- (B) The price below which the government will not allow crops to be sold in the open market
- (C) The price at which the government buys crops from farmers to prevent distress selling
- (D) The price fixed for importing food grains

**11. SIDCO in Tamil Nadu stands for:**

- (A) State Industries Development Corporation
- (B) Small Industries Development Corporation
- (C) State Investment and Development Company
- (D) Southern Industrial Development Co-operative

**12. The Human Development Index (HDI) was developed by:**

- (A) World Bank
- (B) International Monetary Fund (IMF)
- (C) United Nations Development Programme (UNDP)
- (D) World Trade Organization (WTO)

**13. GST (Goods and Services Tax) in India was implemented from:**

- (A) 1 April 2017
- (B) 1 July 2017
- (C) 1 January 2017
- (D) 26 January 2017

**14. Which of the following is a function of the Reserve Bank of India?**

- (A) Collecting income tax
- (B) Issuing currency notes and acting as banker to the government
- (C) Regulating stock markets
- (D) Setting import tariffs

**15. Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched primarily to:**

- (A) Provide subsidised housing to rural poor
- (B) Ensure financial inclusion by providing bank accounts to all households
- (C) Offer free medical insurance to farmers
- (D) Create rural employment through public works

**16. Which of the following organisations is responsible for conducting the Census of India?**

- (A) NITI Aayog
- (B) National Statistical Office (NSO)
- (C) Office of the Registrar General and Census Commissioner of India
- (D) Planning Commission

**17. What does NABARD stand for?**

- (A) National Agriculture and Banking Rural Development
- (B) National Bank for Agriculture and Rural Development
- (C) National Bank for Agrarian Reform and Development
- (D) National Bureau of Agricultural Research and Development

**18. The Eleventh Five Year Plan (2007–12) of India focused on which theme?**

- (A) Agriculture and Food Security
- (B) Inclusive Growth
- (C) Infrastructure Development
- (D) Poverty Alleviation

**19. Which body regulates the securities market in India?**

- (A) RBI
- (B) SEBI
- (C) NABARD
- (D) SIDBI

**20. The Self-Help Group (SHG) model in India was pioneered by which bank?**

- (A) State Bank of India
- (B) Punjab National Bank
- (C) NABARD with South Indian banks
- (D) Reserve Bank of India

**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)** NITI (National Institution for Transforming India) Aayog was established on 1 January 2015 by the Modi government, replacing the Planning Commission which had existed since 1950.
2. **(A)** GDP (Gross Domestic Product) is the total monetary value of all goods and services produced within a country's borders in a specific time period, usually a year.
3. **(A)** The Reserve Bank of India was established on 1 April 1935 under the Reserve Bank of India Act, 1934, initially as a private shareholders' bank and nationalised in 1949.
4. **(D)** Income tax is a direct tax levied directly on a person's income, where the taxpayer bears the tax burden themselves and cannot pass it on to others.
5. **(B)** India's Five Year Plans (First Plan: 1951–56, through Twelfth Plan: 2012–17) were formulated by the Planning Commission, established in 1950 under the chairmanship of the Prime Minister.
6. **(B)** Inflation is a sustained, generalised rise in the price level of goods and services in an economy over time, resulting in a decrease in the purchasing power of money.
7. **(C)** The Green Revolution (mid-1960s) introduced high-yielding varieties (HYV) of wheat (mainly in Punjab, Haryana, UP) and rice, significantly increasing India's food grain production.
8. **(C)** The primary sector involves the extraction of natural resources: agriculture, forestry, fishing, and mining. It forms the base of the economic structure.
9. **(C)** Cyclical unemployment occurs due to the business cycle — during economic recessions or downturns, demand for goods falls, causing businesses to reduce output and lay off workers.
10. **(C)** MSP is the price at which the government (through agencies like FCI) procures specific crops from farmers to protect them from price crashes in the market, ensuring a minimum income.
11. **(B)** SIDCO (Tamil Nadu Small Industries Development Corporation Limited) was established in 1970 to promote and develop small-scale industries in Tamil Nadu through infrastructure, finance, and marketing support.
12. **(C)** The Human Development Index was developed by the UNDP in 1990, pioneered by economists Mahbub ul Haq and Amartya Sen, to measure development beyond GDP using health, education, and living standards.
13. **(B)** The Goods and Services Tax was implemented across India from 1 July 2017, replacing multiple central and state taxes to create a unified indirect tax system.
14. **(B)** The RBI's core functions include issuing currency (except ₹1 coins and notes, which are issued by the Ministry of Finance), acting as banker to central and state governments, and regulating the banking system.
15. **(B)** PMJDY was launched on 28 August 2014 by PM Narendra Modi as a national mission for financial inclusion, aiming to provide every household access to banking services, credit, insurance, and pension.
16. **(C)** The Census of India is conducted by the Office of the Registrar General and Census Commissioner of India, under the Ministry of Home Affairs, every 10 years.
17. **(B)** NABARD (National Bank for Agriculture and Rural Development) was established in 1982 to provide credit and other support for the promotion of agriculture, cottage industries, and rural development.
18. **(B)** The Eleventh Five Year Plan (2007–12) had 'Inclusive Growth' as its central theme, targeting reduction of poverty and inequality while maintaining high economic growth rates.
19. **(B)** SEBI (Securities and Exchange Board of India), established in 1988 and given statutory powers in 1992, regulates the securities market, stock exchanges, mutual funds, and investor protection.
20. **(C)** The SHG-Bank Linkage Programme was pioneered by NABARD in 1992, initially with banks in South India including Canara Bank, to provide microfinance to rural women through 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.