B.C.A study

unit-1:The scope and method of economics,the economic problem

introduction to business economics

Business Economics, also called Managerial Economics, is the application of economic theory and methodology to business. Business involves decision-making. Decision making means the process of selecting one out of two or more alternative courses of action. The question of choice arises because the basic resources such as capital, land, labour and management are limited and can be employed in alternative uses. The decision-making function thus becomes one of making choice and taking decisions that will provide the most efficient means of attaining a desired end, say, profit maximation.

Scope of business economics

1.Demand Analysis and Forecasting: A business firm is an economic organisation which is engaged in transforming productive resources into goods that are to be sold in the market. A major part of managerial decision making depends on accurate estimates of demand. A forecast of future sales serves as a guide to management for preparing production schedules and employing resources. It will help management to maintain or strengthen its market position and profit base. Demand analysis also identifies a number of other factors influencing the demand for a product. Demand analysis and forecasting occupies a strategic place in Managerial Economics.

2.Cost and production analysis: A firm's profitability depends much on its cost of production. A wise manager would prepare cost estimates of a range of output, identify the factors causing are cause variations in cost estimates and choose the cost-minimising output level, taking also into consideration the degree of uncertainty in production and cost calculations. Production processes are under the charge of engineers but the business manager is supposed to carry out the production function analysis in order to avoid wastages of materials and time. Sound pricing practices depend much on cost control. The main topics discussed under cost and production analysis are: Cost concepts, cost-output relationships, Economics and Diseconomies of scale and cost control.

3.Pricing decisions, policies and practices: Pricing is a very important area of Managerial Economics. In fact, price is the genesis of the revenue of a firm ad as such the success of a business firm largely depends on the correctness of the price decisions taken by it. The important aspects dealt with this area are: Price determination in various market forms, pricing methods, differential pricing, product-line pricing and price forecasting.

4.Profit management: Business firms are generally organized for earning profit and in the long period, it is profit which provides the chief measure of success of a firm. Economics tells us that profits are the reward for uncertainty bearing and risk taking. A successful business manager is one who can form more or less correct estimates of costs and revenues likely to accrue to the firm at different levels of output. The more successful a manager is in reducing uncertainty, the higher are the profits earned by him. In fact, profit-planning and profit measurement constitute the most challenging area of Managerial Economics.

5.Capital management: The problems relating to firm's capital investments are perhaps the most complex and troublesome. Capital management implies planning and control of capital expenditure because it involves a large sum and moreover the problems in disposing the capital assets off are so complex that they require considerable time and labour. The main topics dealt with under capital management are cost of capital, rate of return and selection of projects.

Method of economics

Methods of Economic Analysis:

An economic theory derives laws or generalizations through two methods:

(1)Deductive Method and (2) Inductive Method.

These two ways of deriving economic generalizations are now explained in brief:

(1) Deductive Method of Economic Analysis:

The ***deductive method*** is also named as ***analytical***, ***abstract*** or ***prior*** method. The deductive method consists in deriving conclusions from general truths, takes few general principles and applies them draw conclusions.

For instance, if we accept the general proposition that man is entirely motivated by self-interest. In applying the deductive method of ***economic analysis***, we proceed from general to particular.

The classical and neo-classical school of economists notably, Ricardo, Senior, Cairnes, J.S. Mill, Malthus, Marshall, Pigou, applied the deductive method in their economic investigations.

Steps of Deductive Method:

The main steps involved in deductive logic are as under:

(i) Perception of the problem to be inquired into: In the process of deriving economic generalizations, the analyst must have a clear and precise idea of the problem to be inquired into.

(ii) Defining of terms: The next step in this direction is to define clearly the technical termsused analysis. Further, assumptions made for a theory should also be precise.

(iii) Deducing hypothesis from the assumptions: The third step in deriving generalizations is deducing hypothesis from the assumptions taken.

(iv) Testing of hypothesis: Before establishing laws or generalizations, hypothesis should be verified through direct observations of events in the rear world and through statistical methods. (Their inverse relationship between price and quantity demanded of a good is a well established generalization).

Merits of Deductive Method:

The main merits of deductive method are as under:

(i) This method is near to reality. It is less time consuming and less expensive.

(ii) **T**he use of mathematical techniques in deducing theories of economics brings exactness and clarity in economic analysis.

(iii) There being limited scope of experimentation, the method helps in deriving economic theories.

(iv) The method is simple because it is analytical.

Demerits of Deductive Method:

It is true that deductive method is simple and precise, underlying assumptions are valid.

(i) The deductive method is simple and precise only if the underlying assumptions are valid. More often the assumptions turn out to be based on half truths or have no relation to reality. The conclusions drawn from such assumptions will, therefore, be misleading.

(ii) Professor Learner describes the deductive method as 'armchair' analysis. According to him, the premises from which inferences are drawn may not
hold good at all times, and places. As such deductive reasoning is not applicable universally.

(iii) The deductive method is highly abstract. It require; a great deal of care to avoid bad logic or faulty economic reasoning.

As the deductive method employed by the classical and neo-classical economists led to many facile conclusions due to reliance on imperfect and incorrect assumptions, therefore, under the German Historical School of economists, a sharp reaction began against this method. They advocated a more realistic method for economic analysis known as inductive method.

(2) Inductive Method of Economic Analysis:

Inductive method which also called ***empirical method*** was adopted by the "Historical School of Economists". It involves the process of reasoning from particular facts to general principle.

This method derives economic generalizations on the basis of (i) Experimentations (ii) Observations and (iii) Statistical methods.

In this method, data is collected about a certain economic phenomenon. These are systematically arranged and the general conclusions are drawn from them.

For example, we observe 200 persons in the market. We find that nearly 195 persons buy from the cheapest shops, Out of the 5 which remains, 4 persons buy local products even at higher rate just to patronize their own products, while the fifth is a fool. From this observation, we can easily draw conclusions that people like to buy from a cheaper shop unless they are guided by patriotism or they are devoid of commonsense.

Steps of Inductive Method:

The main steps involved in the application of inductive method are:

(i) Observation.

(ii) Formation of hypothesis.

(iii) Generalization.

(iv) Verification.

Merits of Inductive Method:

(i) It is based on facts as such the method is realistic.

(ii) In order to test the economic principles, method makes statistical techniques. The inductive method is, therefore, more reliable.

(iii) Inductive method is dynamic. The changing economic phenomenon are analyzed and on the basis of collected data, conclusions and solutions are drawn from them.

(iv) Induction method also helps in future investigations.

Demerits of Inductive Method:

The main weaknesses of this method are as under:

(i) If conclusions drawn from insufficient data, the generalizations obtained may be faulty.

(ii) The collection of data itself is not an easy task. The sources and methods employed in the collection of data differ from investigator to investigator. The results, therefore, may differ even with the same problem.

(iii) The inductive method is time-consuming and expensive.

Conclusion:

The above analysis reveals that both the methods have weaknesses. We cannot rely exclusively on any one of them. Modern economists are of the view that both these methods are complimentary. They partners and not rivals. **Alfred Marshall** has rightly remarked:

"***Inductive and Deductive methods*** are both needed for scientific thought, as the right and left foot are both needed for walking".

We can apply any of them or both as the situation demands.

scarity and choice

Scarcity means that people want more than is available. Scarcity limits us both as individuals and as a society. As individuals, limited income (and time and ability) keep us from doing and having all that we might like. As a society, limited resources (such as manpower, machinery, and natural resources) fix a maximum on the amount of goods and services that can be produced.

Scarcity requires **choice.** People must choose which of their desires they will satisfy and which they will leave unsatisfied. When we, either as individuals or as a society, choose more of something, scarcity forces us to take less of something else. Economics is sometimes called the study of scarcity because economic activity would not exist if scarcity did not force people to make choices.

The price mechanism

Definition of ‘Price Mechanism’

Definition: Price mechanism refers to the system where the forces of demand and supply determine the prices of commodities and the changes therein. It is the buyers and sellers who actually determine the price of a commodity.

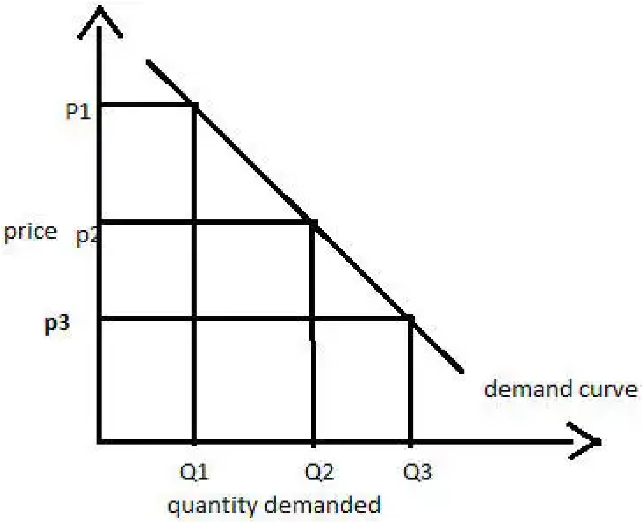
Definition: Price mechanism is the outcome of the free play of market forces of demand and supply. However, sometimes the government controls the price mechanism to make commodities affordable for the poor people too. **For example**, the Government of India recently passed an order to decontrol the prices of diesel and remove it from the jurisdiction of the government. Now the prices will be determined by the demand from consumers and supply from the oil companies.

Demand and supply equlibrium

law of demand:

Definition: The law of demand states that other factors being constant (cetris peribus), price and quantity demand of any good and service are inversely related to each other. When the price of a product increases, the demand for the same product will fall.

Description: Law of demand explains consumer choice behavior when the price changes. In the market, assuming other factors affecting demand being constant, when the price of a good rises, it leads to a fall in the demand of that good. This is the natural consumer choice behavior. This happens because a consumer hesitates to spend more for the good with the fear of going out of cash.



The above diagram shows the demand curve which is downward sloping. Clearly when the price of the commodity increases from price p3 to p2, then its quantity demand comes down from Q3 to Q2 and then to Q3 and vice versa.

The rationing function of the price mechanism

Whenever resources are particularly scarce, demand exceeds supply and prices are driven up. The effect of such a price rise is to discourage demand, conserve resources, and spread out their use over time. The greater the scarcity, the higher the price and the more the resource is rationed. This can be seen in the market for oil. As oil slowly runs out, its price will rise, and this discourages demand and leads to more oil being conserved than at lower prices. The rationing function of a price rise is associated with a contraction of demand along the demand curve

The signalling function of the price mechanism

Price changes send contrasting messages to consumers and producers about whether to enter or leave a market. Rising prices give a signal to consumers to reduce demand or withdraw from a market completely, and they give a signal to potential producers to enter a market. Conversely, falling prices give a positive message to consumers to enter a market while sending a negative signal to producers to leave a market. For example, a rise in the market price of 'smart' phones sends a signal to potential manufacturers to enter this market, and perhaps leave another one. In terms of the labour market a rise in the wage rate, which is the price of labour, provides a signal to the unemployed to join the labour market. The signalling function is associated with shift in demand and supply curve.

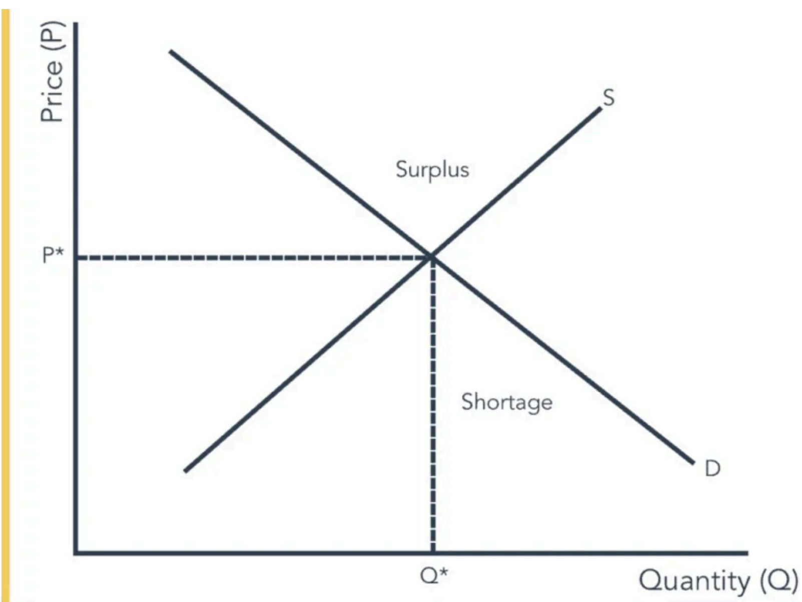
The incentive function of the price mechanism

An incentive is something that motivates a producer or consumer to follow a course of action or to change behaviour. Higher prices provide an incentive to existing producers to supply more because the provide the possibility of more revenues and increased profits.The incentive function of a price rise is associated with an extension of supply along the existing supply curve.

Diagrammatic explanation

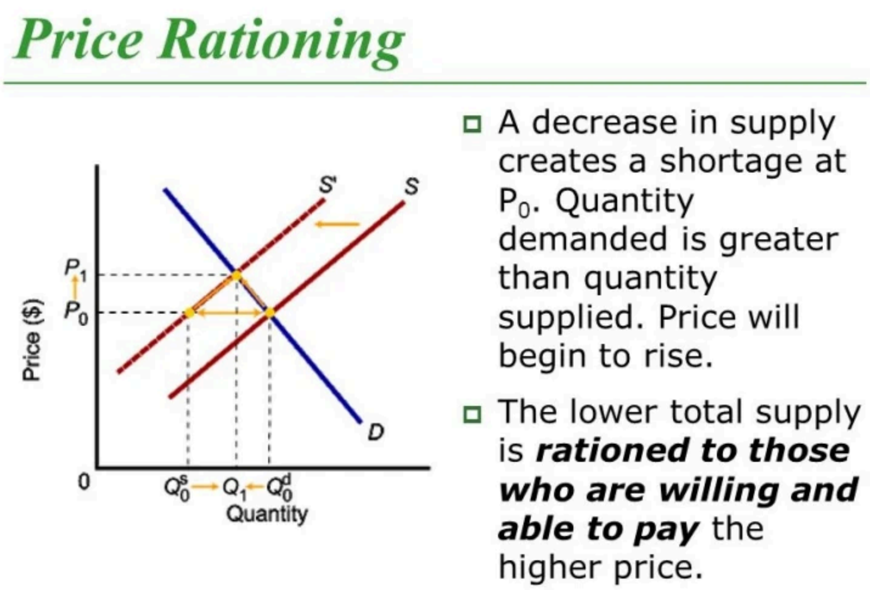
A market starts with a stable equilibrium, where demand equals supply.

intial equilibrium



demand supply intial equilibrium **bcastudyguide.com (https://bcastudyguide.wordpress.com)**

rationing effect



The lower total supply is rationed to those who are willing and able to pay the higher price.
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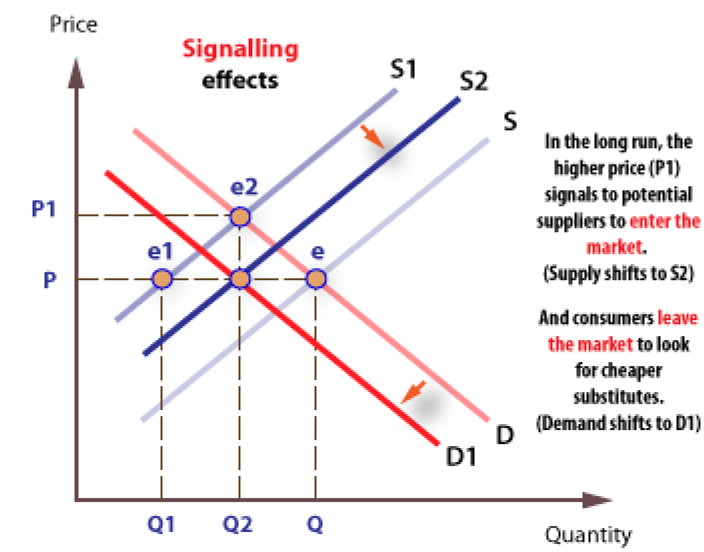
signalling effect:



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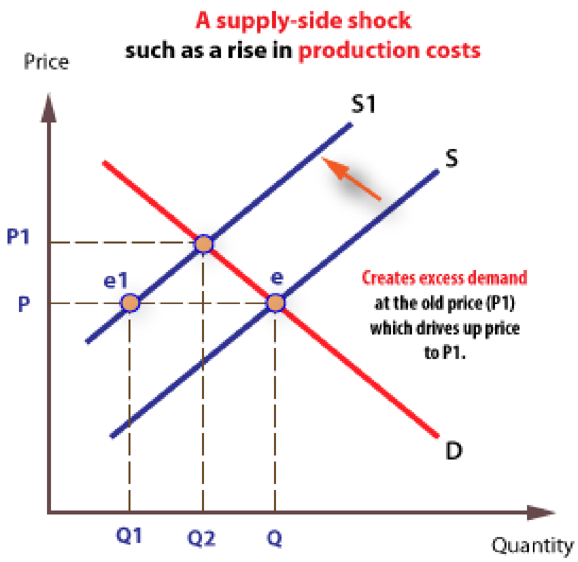

A supply shock reduces supply at each and every price. This creates an excess of demand at the existing price. **bcastudyguide.com (https://bcastudyguide.wordpress.com)**

The concept of elasticity and its application

Price Elasticity of Demand:

Elasticity of demand refers to price elasticity of demand. It is the degree of responsiveness of quantity demanded of a commodity due to change in price, other things remaining the same.

Mathematical Expression of Price Elasticity of Demand

The price elasticity of demand is defined as the percentage change in quantity demanded due to certain percentage change in price.

Mathematical expression of price elasticity of demand.

Where, Ep= Price elasticity of demand

q= Original quantity demanded

Δq = Change in quantity demanded

p= Original price

Δp = Change in price

Calculation of Price Elasticity of Demand

Suppose that price of a commodity falls down from Rs.10 to Rs.9 per unit and due to this, quantity demanded of the commodity increased from 100 units to 120 units. What is the price elasticity of demand?

Give that,

p= initial price= Rs.10 q= initial quantity demanded= 100 units

Δp=change in price=Rs. (10-9) = Rs.1

Δq=change in quantity demanded= (120-100) units = 20 units

Now,

Calculation of price elasticity of demand

The quantity demanded increases by 2% due to fall in price by Rs.1.

types/degrees of elasticity of demand

there are five types of elasticity of demand

1. Perfectly Elastic Demand ($E_P = \infty$)

The demand is said to be perfectly elastic if the quantity demanded increases infinitely (or by unlimited quantity) with a small fall in price or quantity demanded falls to zero with a small rise in price. Thus, it is also known as infinite elasticity. It does not have practical importance as it is rarely found in real life.

Perfectly elastic demand graph

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In the given figure, price and quantity demanded are measured along the Y-axis and X-axis respectively. The demand curve **DD** is a horizontal straight line parallel to the X-axis. It shows that negligible change in price causes infinite fall or rise in quantity demanded.

2. Perfectly Inelastic Demand (E_P = 0)

The demand is said to be perfectly inelastic if the demand remains constant whatever may be the price (i.e. price may rise or fall). Thus it is also called zero elasticity. It also does not have practical importance as it is rarely found in real life.

Perfectly inelastic demand

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In the given figure, price and quantity demanded are measured along the Y-axis and X-axis respectively. The demand curve **DD** is a vertical straight line parallel to the Y-axis. It shows that the demand remains constant whatever may be the change in price. For example: even after the increase in price from **OP** to **OP_2** and fall in price from **OP** to **OP_1**, the quantity demanded remains at **OM**.

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3. Relatively Elastic Demand (E_P> 1)

The demand is said to be relatively elastic if the percentage change in demand is greater than the percentage change in price i.e. if there is a greater change in demand there is a small change in price. It is also called highly elastic demand or simply elastic demand. For example:

If the price falls by 5% and the demand rises by more than 5% (say 10%), then it is a case of elastic demand. The demand for luxurious goods such as car, television, furniture, etc. is considered to be elastic.

relatively elastic demand graph

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In the given figure, price and quantity demanded are measured along the Y-axis and X-axis respectively. The demand curve **DD** is more flat, which shows that the demand is elastic. The small fall in price from **OP** to **OP_1** has led to greater increase in demand from **OM** to **OM_1**. Likewise, demand decrease more with small increase in price.

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4. Relatively Inelastic Demand (E_p< 1)

The demand is said to be relatively inelastic if the percentage change in quantity demanded is less than the percentage change in price i.e. if there is a small change in demand with a greater change in price. It is also called less elastic or simply inelastic demand.

For example: when the price falls by 10% and the demand rises by less than 10% (say 5%), then it is the case of inelastic demand. The demand for goods of daily consumption such as rice, salt, kerosene, etc. is said to be inelastic.

relatively inelastic demand graph

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In the given figure, price and quantity demanded are measured along the Y-axis and X-axis respectively. The demand curve **DD** is steeper, which shows that the demand is less elastic.The greater fall in price from **OP** to **OP_1** has led to small increase in demand from **OM** to **OM_1**. Likewise, greater increase in price leads to small fall in demand.

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5. Unitary Elastic Demand (E_p = 1)

The demand is said to be unitary elastic if the percentage change in quantity demanded is equal to the percentage change in price. It is also called unitary elasticity. In such type of demand, 1% change in price leads to exactly 1% change in quantity demanded. This type of demand is an imaginary one as it is rarely applicable in our practical life.

Unitary elastic demand graph

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In the given figure, price and quantity demanded are measured along Y-axis and X-axis respectively. The demand curve **DD** is a rectangular hyperbola, which shows that the demand is unitary elastic. The fall in price from **OP** to **OP_1** has caused equal proportionate increase in demand from **OM** to **OM_1**. Likewise, when price increases, the demand decreases in the same proportion.

practical application of elasticity of demand

The following points highlight the nine main practical applications of the concept of price elasticity of demand. The uses are: **1.** Effects of changes in price upon demand **2**. Effects of changes in price on revenue **3.** Monopoly pricing **4**. Price discrimination 5. Wage bargaining by trade unions **6**. Importance in taxation **7**. Importance in determining the incidence of taxation and few others.

1. Effects of Changes in Price Upon Demand:

The concept is very useful to study the reactions of the demand for a commodity to the changes in its price. If the demand is elastic, a small change in the price brings about a considerable change in the quantity demanded, but in the case of inelastic demand this consequential change in demand is relatively small. So, the concept is relevant to the decisions relating to business pricing and profits

2. Effects of Changes in Price on Revenue:

The concept enables us to determine the condition of equilibrium of a firm. And a profit-maximising firm reaches equilibrium when revenue = marginal cost.

And, the value assumed by MR depends on price elasticity of demand:

MR = P (1 – 1/E_p) where E_p is coefficient of price elasticity. Thus, we could easily assert from this relationship that

(i) When E_p = 1 (unit elasticity of demand), MR = AR x (1 -1) = 0. It means that a change in price will not affect total revenue.

(ii) When $E_p \rightarrow \alpha$ (perfectly elastic demand),

MR = AR x (1 – 0) = AR, as under perfect competition.

So, a firm may raise the price of its product(s) if demand is inelastic, in which case sales and profits would not be affected. In case of a commodity with elastic demand, a reduction in price alone can raise the sales volume and, consequently, profit.

3. Monopoly Pricing:

The concept is useful in monopoly price- decisions. The monopolist, being the sole supplier of a particular commodity, can raise price but cannot affect demand pattern of consumers. So, in fixing the price the monopolist will have, of necessity, to take note of the elasticity of demand for his product. He will fix the price at a low level when the demand is elastic and at a high level when it is inelastic.

4. Price Discrimination:

In perfect competition, the same price is charged from all the buyers. But, the downward slope of the demand curve of the monopolist gives scope for price discrimination. Price discrimination refers to the practice of charging different prices for the same product from different buyers at the same time. It can be profitably practised only when price elasticity of demand differs from market to market or from one segment of the market to another.

5. Wage Bargaining by Trade Unions:

The bargaining power of the trade unions in raising the wages of a group of labour in a particular industry also depends, among other things, on the elasticity of demand for their services to the employer. A trade union usually succeeds in raising wages when the demand for the services of labour to the employer is inelastic: because, in such a case the employer cannot easily dispense with their services. On the other hand, it may not succeed when demand for labour is elastic.

6. Importance in Taxation:

Furthermore, the concept is a useful tool in taxation. A finance minister is to consider the elasticity of demand of the different commodities for the purpose of taxation. If he pushes commodity tax (excise duty) rates up too much the consequent increase in price may make the total tax yield even lower than before. On the other hand, a small tax reduction may result in an increase in the tax yield.

Firstly, the total expenditure by the consumers will determine the size of the tax yield. And, the total expenditure is the measure of elasticity of demand. If, however, the government simply wishes to discourage the consumption of a commodity which happens to have a highly inelastic demand—e.g., in case of cigarettes — the imposition of a tax may have very little effect on demand and tax collections may rise.

8. Price Determination of Joint-cost Products:

Again, in the case of the joint-cost products (e.g., cotton fibre and cotton seeds) where the cost of each cannot be separately determined, the criterion of demand elasticity is applied in determining their individual prices.

Determinant of elasticity of demand

1. **Accessibility of close surrogates**

Commodities with close surrogates lead to have more elasticity of demand as it is simple for consumers to change from that commodity to others. For instance, cheese and butter are meagrely surrogatable.

A meagre hike in the price of butter presuming the price of cheese is kept fixed creates the vending of butter to drop and cheese to rise. Divergent to this, as eggs are without a close surrogate, the demand for eggs is less elastic than the demand for butter.

1. **Requirements Versus Luxuries**

Requirements lead to have inelastic demand, whilst luxuries have elastic demands. When the consultation charges for visiting a doctor hikes patients may not decrease the number of times they visit. Likewise, travel by flight when the rates hike may decrease considerably unlike visiting a doctor as it is requirement whilst travel by flight is a luxury which can be alternated with trains.

1. **Definition of the Marker**

The elasticity of demand in any market is based on how we sketch the limits of the market. Narrowly explained markets lead to have more elastic demand than extensively defined markets as it is simple to determine close surrogates for narrowly explained commodities.

For instance, houses have fairly inelastic demand as there are no commodity surrogates. Whilst chocolates a narrower category has a more elastic demand for the reason that it is simple to surrogate chocolate with cakes other any other snack.

1. **Time Horizon**

Commodities are likely to have more elasticity of demand over longer time horizons. When the price of gasoline hikes the volume of gasoline demanded drops only slightly in the first few months. Over a period of time, nevertheless people purchase more fuel efficient autos, shift to public transportations like buses and trains and shift closer to where they work. Within several years the volume of gasoline demanded drops considerably.

Income Elasticity of Demand

The income elasticity of demand measures how the volume demanded varies as consumer income changes. It is computed as the percentage change in volume demanded divided by the percent change in income and it is given by,

$$\text{Income elasticity of demand} = \frac{\text{Percentage change in volume demanded}}{\text{Percentage change in Income}}$$

Most commodities are normal. Higher income increases the volume demanded. As volume demanded and income travel in the same direction, normal commodities have positive income elasticities.

A few commodities such as bus rides are inferior commodities. Higher income lowers the volume demanded. As volume demanded and income shift in opposite directions, inferior commodities have negative income elasticities.

Even among normal commodities, income elasticities differ considerably in dimension such as food and apparels, are likely to have small income elasticities as consumers regardless of how low their incomes opt to purchase some of these commodities.

Luxuries like platinum, villa are likely to have large income elasticities as consumers feel that they can do without these commodities altogether if their income is too low.

The Cross Price Elasticity of Demand

The cross price elasticity of demand measures how the volume demanded of one commodity varies as the price of another commodity varies. It is computed as the percentage change in volume demanded of commodity 1 divided by the percentage change in the price of commodity 2 and is given by,

Cross price elasticity of demand = Percentage change in Volume Demand commodity 1/
Percentage change in the Price of Commodity 2

Whether the cross price elasticity is a positive or negative number is based on the two commodities are surrogates or complements. Surrogates are commodities that are typically used in place of another such as chocolates and cakes.

The production process

The business firm is basically a producing unit it is a technical unit in which inputs are converted into output for sale to consumers, other firms and various government departments.

Production is a process in which economic resources or inputs (composed of natural resources like land, labour and capital equipment) are combined by entrepreneurs to create economic goods and services (also referred to as outputs or products).

Inputs are the beginning of the production process and output is the end of the process. Fig. 13.1 is a simple schematic presentation of the production process, which can be conceived of as transforming inputs into outputs.

The Production Process (http://cdn.economicsdiscussion.net/wp-content/uploads/2016/04/clip_image002-12.jpg)

It is to be noted at the outset that the process may produce as joint products both goods and services (which are desired by consumers) and commodities such as pollution (which is not desired by consumers).

In traditional economics, the term 'production' is used in a broad sense. It refers to the provision of goods and services for sale in the market with a view to satisfying human needs and wants.

Inputs take the form of labour of all types, the required raw materials and sources of energy. All these involve cost outlays. Thus the theory of cost and theory of production are interrelated. In fact, the former is derived from the latter.

The production system can be shown as a continuous, smooth flow of resources through the process ending in an outflow of a homogeneous product or two or more products (in fixed or variable proportions).

Time also plays a very important role in the theory of production. We usually draw a distinction between the short run and the long-run. The distinction is not based on any time period but is made on the basis of the possibility of factor substitution.

Managers are required to make four different but interrelated production decisions:

(1) Whether or not to actually produce or to shut down;

(2) How much to produce;

(3) What input combination to use and

(4) What type of technology to use.

Simply put, production involves the transformation of inputs – such as capital equipment, labour, and land – into output of goods or services. In this production process, the manager is concerned with efficiency – technical and economic – in the use of these inputs. And the efficiency goal provides us with some basic rules about the manner in which firms should utilize inputs to produce desirable goods and services.

Fixed and Variable Factors:

While analysing the process of production, economists find it convenient to classify inputs into two categories: fixed or variable. A fixed input is one whose level of usage cannot readily be changed. However, in practice no input is absolutely fixed forever, no matter how short the period of time under consideration.

However, while all inputs are in fact variable in practice, the cost of immediate variation in the use of a particular input is often so great that such an input is not varied. For example, buildings, major pieces of machinery, and managerial personnel are inputs that generally cannot be varied quickly.

Therefore, such variation is unlikely to affect short-term production decision. A variable input, on the other hand, is one whose level of usage may be increased or decreased readily and continuously in response to desired changes in output. Various types of labour services as well as certain raw and processed materials could be placed in this category.

On the basis of such classification of inputs, economists draw a distinction between the short run and the long-run. The former refers to that period of time in which the level of usage of one or more of the inputs is fixed. Therefore, in the short-run, output is basically a function of the quantum (usage) of the variable factors, i.e., changes in output must be accomplished exclusively by changes in the use of the variable inputs.

Thus, more output can be produced in the short run by using more hours of labour (a variable service) and other variable inputs, with the existing plant and equipment (or the stock of capital). In a like manner, if producers wish to reduce output in the short run, they may reduce the quantum (usage) of only variable inputs.

output decisions

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B.C.A study

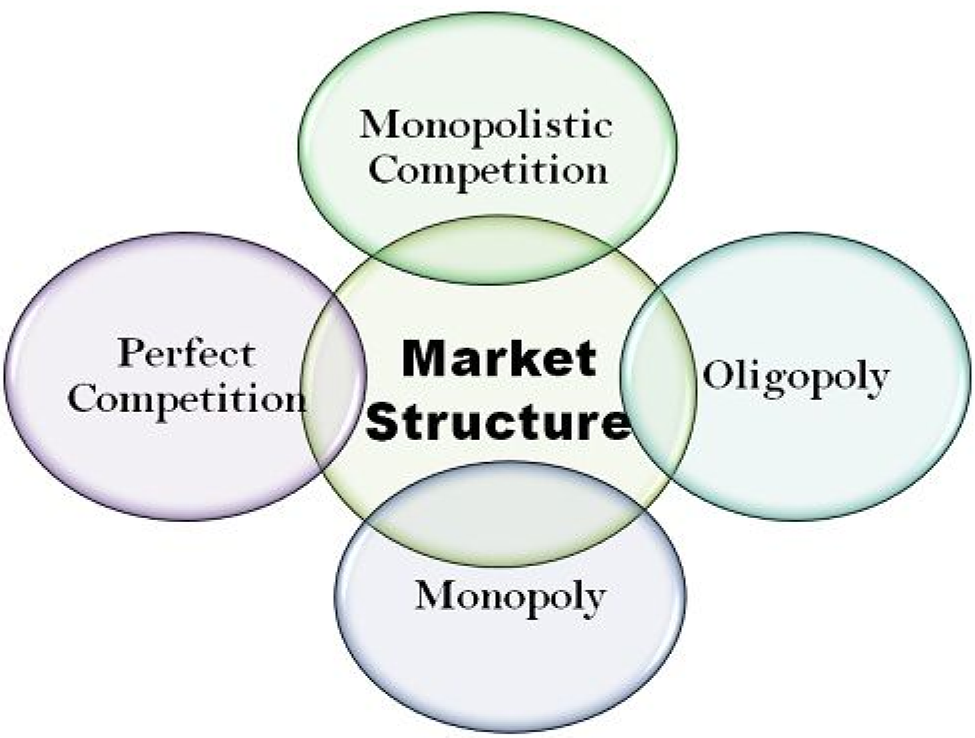
Unit-2 Market Structure:

Definition: The **Market Structure** refers to the characteristics of the market either organizational or competitive, that describes the nature of competition and the pricing policy followed in the market.

Thus, the market structure can be defined as, the number of firms producing the identical goods and services in the market and whose structure is determined on the basis of the competition prevailing in that market.

The term " market" refers to a place where sellers and buyers meet and facilitate the selling and buying of goods and services. But in economics, it is much wider than just a place, It is a gamut of all the buyers and sellers, who are spread out to perform the marketing activities.

Types of Market Structure



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Perfect Competition

Definition: The **Perfect Competition** is a market structure where a large number of buyers and sellers are present, and all are engaged in the buying and selling of the homogeneous products at a single price prevailing in the market.

In other words, perfect competition also referred to as a pure competition, exists when there is no direct competition between the rivals and all sell identically the same products at a single price.

Features of Perfect Competition

(https://businessjargons.com/wp-content/uploads/2015/12/Perfect-Competition.jpg)

1. **Large number of buyers and sellers:** In perfect competition, the buyers and sellers are large enough, that no individual can influence the price and the output of the industry. An individual customer cannot influence the price of the product, as he is too small in relation to the whole market. Similarly, a single seller cannot influence the levels of output, who is too small in relation to the gamut of sellers operating in the market.
2. **Homogeneous Product:** Each competing firm offers the homogeneous product, such that no individual has a preference for a particular seller over the others. Salt, wheat, coal, etc. are some of

the homogeneous products for which customers are indifferent and buy these from the one who charges a less price. Thus, an increase in the price would let the customer go to some other supplier.

3. **Free Entry and Exit:** Under the perfect competition, the firms are free to enter or exit the industry. This implies, If a firm suffers from a huge loss due to the intense competition in the industry, then it is free to leave that industry and begin its business operations in any of the industry, it wants. Thus, there is no restriction on the mobility of sellers.
4. **Perfect knowledge of prices and technology**: This implies, that both the buyers and sellers have complete knowledge of the market conditions such as the prices of products and the latest technology being used to produce it. Hence, they can buy or sell the products anywhere and anytime they want.
5. **No transportation cost:** There is an absence of transportation cost, i.e. incurred in carrying the goods from one market to another. This is an essential condition of the perfect competition since the homogeneous product should have the same price across the market and if the transportation cost is added to it, then the prices may differ.
6. **Absence of Government and Artificial Restrictions:** Under the perfect competition, both the buyers and sellers are free to buy and sell the goods and services. This means any customer can buy from any seller, and any seller can sell to any buyer.Thus, no restriction is imposed on either party. Also, the prices are liable to change freely as per the demand-supply conditions. In such a situation, no big producer and the government can intervene and control the demand, supply or price of the goods and services.

Monopolistic Competition

Definition: Under, the **Monopolistic Competition**, there are a large number of firms that produce differentiated products which are close substitutes for each other. In other words, large sellers selling the products that are similar, but not identical and compete with each other on other factors besides price.

Features of Monopolistic Competition

(https://businessjargons.com/wp-content/uploads/2015/12/Monopolistic-Competition.jpg)

1. **Product Differentiation:** This is one of the major features of the firms operating under the monopolistic competition, that produces the product which is not identical but is slightly different from each other. The products being slightly different from each other remain close substitutes of each other and hence cannot be priced very differently from each other.
2. **Large number of firms:** A large number of firms operate under the monopolistic competition, and there is a stiff competition between the existing firms. Unlike the perfect competition, the firms produce the differentiated products which are substitutes for each other, thus make the competition among the firms a real and a tough one.

3. **Free Entry and Exit:** With an intense competition among the firms, the entity incurring the loss can move out of the industry at any time it wants. Similarly, the new firms can enter into the industry freely, provided it comes up with the unique feature and different variety of products to outstand in the market and meet with the competition already existing in the industry.
4. **Some control over price:** Since, the products are close substitutes for each other, if a firm lowers the price of its product, then the customers of other products will switch over to it. Conversely, with the increase in the price of the product, it will lose its customers to others. Thus, under the monopolistic competition, an individual firm is not a price taker but has some influence over the price of its product.
5. **Heavy expenditure on Advertisement and other Selling Costs:** Under the monopolistic competition, the firms incur a huge cost on advertisements and other selling costs to promote the sale of their products. Since the products are different and are close substitutes for each other; the firms need to undertake the promotional activities to capture a larger market share.
6. **Product Variation:** Under the monopolistic competition, there is a variation in the products offered by several firms. To meet the needs of the customers, each firm tries to adjust its product accordingly. The changes could be in the form of new design, better quality, new packages or container, better materials, etc. Thus, the amount of product a firm is selling in the market depends on the uniqueness of its product and the extent to which it differs from the other products.

The monopolistic competition is also called as **imperfect competition** because this market structure lies between the pure monopoly and the pure competition.

Oligopoly Market

Definition: The **Oligopoly Market** characterized by few sellers, selling the homogeneous or differentiated products. In other words, the Oligopoly market structure lies between the pure monopoly and monopolistic competition, where few sellers dominate the market and have control over the price of the product.

Under the Oligopoly market, a firm either produces:

- **Homogeneous product:** The firms producing the homogeneous products are called as Pure or Perfect Oligopoly. It is found in the producers of industrial products such as aluminum, copper, steel, zinc, iron, etc.
- **Heterogeneous Product:** The firms producing the heterogeneous products are called as Imperfect or Differentiated Oligopoly. Such type of Oligopoly is found in the producers of consumer goods such as automobiles, soaps, detergents, television, refrigerators, etc.

Features of Oligopoly Market

(https://businessjargons.com/wp-content/uploads/2015/12/Oligopoly-Market.jpg)

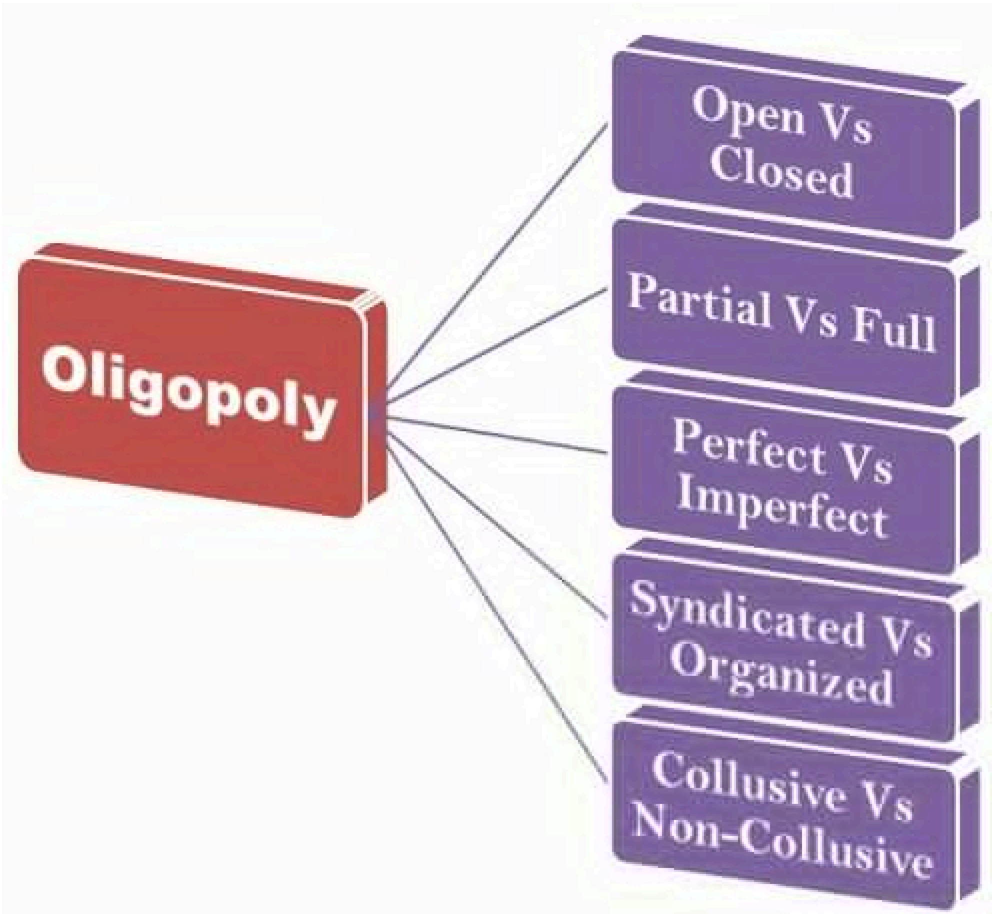
1. **Few Sellers:** Under the Oligopoly market, the sellers are few, and the customers are many. Few firms dominating the market enjoys a considerable control over the price of the product.
2. **Interdependence:** it is one of the most important features of an Oligopoly market, wherein, the seller has to be cautious with respect to any action taken by the competing firms. Since there are few sellers in the market, if any firm makes the change in the price or promotional scheme, all other firms in the industry have to comply with it, to remain in the competition.Thus, every firm remains alert to the actions of others and plan their counterattack beforehand, to escape the turmoil. Hence, there is a complete interdependence among the sellers with respect to their price-output policies.
3. **Advertising:** Under Oligopoly market, every firm advertises their products on a frequent basis, with the intention to reach more and more customers and increase their customer base.This is due to the advertising that makes the competition intense.If any firm does a lot of advertisement while the other remained silent, then he will observe that his customers are going to that firm who is continuously promoting its product. Thus, in order to be in the race, each firm spends lots of money on advertisement activities.
4. **Competition:** It is genuine that with a few players in the market, there will be an intense competition among the sellers. Any move taken by the firm will have a considerable impact on its rivals. Thus, every seller keeps an eye over its rival and be ready with the counterattack.
5. **Entry and Exit Barriers:** The firms can easily exit the industry whenever it wants, but has to face certain barriers to entering into it. These barriers could be Government license, Patent, large firm's economies of scale, high capital requirement, complex technology, etc. Also, sometimes the government regulations favor the existing large firms, thereby acting as a barrier for the new entrants.
6. **Lack of Uniformity:** There is a lack of uniformity among the firms in terms of their size, some are big, and some are small.

Since there are less number of firms, any action taken by one firm has a considerable effect on the other. Thus, every firm must keep a close eye on its counterpart and plan the promotional activities accordingly.

Types of Oligopoly Market

Definition: The **Oligopoly** is a market structure wherein few sellers dominate the market and sell the homogeneous or heterogeneous products.

Types of Oligopoly Market



(https://businessjargons.com/wp-content/uploads/2015/12/Oligopoly-Market1.jpg)

1. **Open Vs Closed Oligopoly:** This classification is made on the basis of freedom to enter into the new industry. An open Oligopoly is the market situation wherein firm can enter into the industry any time it wants, whereas, in the case of a closed Oligopoly, there are certain restrictions that act as a barrier for a new firm to enter into the industry.
2. **Partial Vs Full Oligopoly:** This classification is done on the basis of price leadership. The partial Oligopoly refers to the market situation, wherein one large firm dominates the market and is looked upon as a price leader. Whereas in full Oligopoly, the price leadership is conspicuous by its absence.
3. **Perfect (Pure) Vs Imperfect (Differential) Oligopoly:** This classification is made on the basis of product differentiation. The Oligopoly is perfect or pure when the firms deal in the homogeneous products. Whereas the Oligopoly is said to be imperfect, when the firms deal in heterogeneous products, i.e. products that are close but are not perfect substitutes.
4. **Syndicated Vs Organized Oligopoly:** This classification is done on the basis of a degree of coordination found among the firms. When the firms come together and sell their products with the common interest is called as a Syndicate Oligopoly. Whereas, in the case of an Organized Oligopoly, the firms have a central association for fixing the prices, outputs, and quotas.
5. **Collusive Vs Non-Collusive Oligopoly:** This classification is made on the basis of agreement or understanding between the firms. In Collusive Oligopoly, instead of competing with each other, the firms come together and with the consensus of all fixes the price and the outputs. Whereas in the case

of a non-collusive Oligopoly, there is a lack of understanding among the firms and they compete against each other to achieve their respective targets.

Thus, oligopoly market is a market structure that lies between the monopolistic competition and a pure monopoly.

Monopoly Market

Definition: The **Monopoly** is a market structure characterized by a single seller, selling the unique product with the restriction for a new firm to enter the market. Simply, monopoly is a form of market where there is a single seller selling a particular commodity for which there are no close substitutes.

Features of Monopoly Market

(https://businessjargons.com/wp-content/uploads/2015/12/monopoly-Market.jpg)

1. Under monopoly, the firm has full control over the supply of a product. The elasticity of demand is zero for the products.
2. There is a single seller or a producer of a particular product, and there is no difference between the firm and the industry. The firm is itself an industry.
3. The firms can influence the price of a product and hence, these are price makers, not the price takers.
4. There are barriers for the new entrants.
5. The demand curve under monopoly market is downward sloping, which means the firm can earn more profits only by increasing the sales which are possible by decreasing the price of a product.
6. There are no close substitutes for a monopolist's product.

Under a monopoly market, new firms cannot enter the market freely due to any of the reasons such as Government license and regulations, huge capital requirement, complex technology and economies of scale. These economic barriers restrict the entry of new firms.

B.C.A study

UNIT- 3:Macro Economic concern

Inflation-

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. It is the constant rise in the general level of prices where a unit of currency buys less than it did in prior periods. Often expressed as a percentage, inflation indicates a decrease in the purchasing power of a nation's currency

Inflation is measured in a variety of ways depending upon the types of goods and services considered and is the opposite of deflation which indicates a general decline occurring in prices for goods and services when the inflation rate falls below 0 percent.

KEY TAKEAWAYS

- Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.
- Inflation is classified into three types: Demand-Pull inflation, Cost-Push inflation, and Built-In inflation.
- Most commonly used inflation indexes are the Consumer Price Index (CPI) and the Wholesale Price Index (WPI).
- Inflation can be viewed positively or negatively depending on the individual viewpoint.
- Those with tangible assets, like property or stocked commodities, may like to see some inflation as that raises the value of their assets.
- People holding cash may not like inflation, as it erodes the value of their cash holdings.
- Ideally, an optimum level of inflation is required to promote spending to a certain extent instead of saving, thereby nurturing economic growth.

Pros and Cons of Inflation

Inflation is both good and bad, depending upon which side one takes.

For example, individuals with tangible assets, like property or stocked commodities, may like to see some inflation as that raises the value of their assets which they can sell at a higher rate. However, the buyers of such assets may not be happy with inflation, as they will be required to shell out more money.

People holding cash may also not like inflation, as it erodes the value of their cash holdings. Inflation promotes investments, both by businesses in projects and by individuals in stocks of companies, as they expect better returns than inflation.

However, an optimum level of inflation is required to promote spending to a certain extent instead of saving. If the purchasing power of money remains the same over the years, there may be no difference in saving and spending. It may limit spending, which may negatively impact the overall economy as decreased money circulation will slow overall economic activities in a country. A balanced approach is required to keep the inflation value in an optimum and desirable range.

Example of Inflation

Imagine your grandma stuffed a $10 bill in her old wallet in the year 1975 and then forgot about it. The cost of gasoline during that year was around $0.50 per gallon, which means she could have then bought 20 gallons of gasoline with that $10 note. Twenty-five years later in the year 2000, the cost of gasoline was around $1.60 per gallon. If she finds the forgotten note in the year 2000 and then goes on to purchase gasoline, she would have bought only 6.25 gallons. Although the $10 note remained the same for its value, it lost its purchasing power by around 69 percent over the 25-year period. This simple example explains how money loses its value over time when prices rise. This phenomenon is called inflation.

Types of inflection-

US ECONOMY INFLATION

Types of Inflation: The Four Most Critical Plus Nine More

Including Asset, Wage, and Core Inflation

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Inflation is when the prices of goods and services increase. There are four main types of inflation, categorized by their speed. They are creeping, walking, galloping and hyperinflation. There are specific types of asset inflation and also wage inflation. Some experts say demand-pull and cost-push inflation are two more types, but they are causes of inflation. So is expansion of the money supply.

01 Creeping Inflation

Creeping or mild inflation is when prices rise 3 percent a year or less. According to the Federal Reserve, when prices increase 2 percent or less it benefits economic growth. This kind of mild inflation makes consumers expect that prices will keep going up. That boosts demand. Consumers buy now to beat higher future prices. That's how mild inflation drives economic expansion. For that reason, the Fed sets 2 percent as its target inflation rate.

02 Walking Inflation

This type of strong, or pernicious, inflation is between 3-10 percent a year. It is harmful to the economy because it heats up economic growth too fast. People start to buy more than they need, just to avoid tomorrow's much higher prices. This drives demand even further so that suppliers can't keep up. More important, neither can wages. As a result, common goods and services are priced out of the reach of most people.

03 Galloping Inflation

U.S. National Archives and Records Administration

When inflation rises to 10 percent or more, it wreaks absolute havoc on the economy. Money loses value so fast that business and employee income can't keep up with costs and prices. Foreign investors avoid the country, depriving it of needed capital. The economy becomes unstable, and government leaders lose credibility. Galloping inflation must be prevented at all costs.

04 Hyperinflation

Hyperinflation is when prices skyrocket more than 50 percent a month. It is very rare. In fact, most examples of hyperinflation have occurred only when governments printed money to pay for wars. Examples of hyperinflation include Germany in the 1920s, Zimbabwe in the 2000s, and Venezuela in the 2010s. The last time America experienced hyperinflation was during its civil war.

05 Stagflation

Stagflation is when economic growth is stagnant but there still is price inflation. This seems contradictory, if not impossible. Why would prices go up when there isn't enough demand to stoke economic growth?

It happened in the 1970s when the United States abandoned the gold standard. Once the dollar's value was no longer tied to gold, it plummeted. At the same time, the price of gold skyrocketed.

Stagflation didn't end until Federal Reserve Chairman Paul Volcker raised the fed funds rate to the double-digits. He kept it there long enough to dispel expectations of further inflation. Because it was such an unusual situation, stagflation probably won't happen again.

06 Core Inflation

The core inflation rate measures rising prices in everything *except* food and energy. That's because gas prices tend to escalate every summer. Families use more gas to go on vacation. Higher gas costs increase the price of food and anything else that has large transportation costs.

The Federal Reserve uses the core inflation rate to guide it in setting monetary policy. The Fed doesn't want to adjust interest rates every time gas prices go up.

Continue to 7 of 13 below.

07 Deflation

Deflation is the opposite of inflation. It's when prices fall. It's caused when an asset bubble bursts.

That's what happened in housing in 2006. Deflation in housing prices trapped those who bought their homes in 2005. In fact, the Fed was worried about overall deflation during the recession. That's because deflation can turn a recession into a depression. During the Great Depression of 1929, prices dropped 10 percent a year. Once deflation starts, it is harder to stop than inflation.

08 Wage Inflation

Wage inflation is when workers' pay rises faster than the cost of living. This occurs in three situations. First, is when there is a shortage of workers. Second, is when labor unions negotiate ever-higher wages. Third is when workers effectively control their own pay.

A worker shortage occurs whenever unemployment is below 4 percent. Labor unions negotiated higher pay for auto workers in the 1990s. CEOs effectively control their own pay by sitting on many corporate boards, especially their own. All of these situations created wage inflation.

Of course, everyone thinks their wage increases are justified. But higher wages are one element of cost-push inflation. That can drive up the prices of a company's goods and services.

09 Asset Inflation

An asset bubble, or asset inflation, occurs in one asset class. Good examples are housing, oil and gold. It is often overlooked by the Federal Reserve and other inflation-watchers when the overall rate of inflation is low. But the subprime mortgage crisis and subsequent global financial crisis demonstrated how damaging unchecked asset inflation can be.

10 Asset Inflation — Gas

Gas prices rise each spring in anticipation of the summertime vacation driving season. In fact, you can expect gas prices to rise ten cents per gallon each spring. But political uncertainty in the oil-exporting countries drove gas prices higher in 2011 and 2012. Prices hit an all-time peak of $4.11 in July 2008, thanks to economic uncertainty.

What do oil prices have to do with gas prices? A lot. In fact, oil prices are responsible for 72 percent of gas prices. The rest is distribution and taxes. They aren't as volatile as oil prices.

11 Asset Inflation — Oil

David McNew/Getty Images

Crude oil prices hit an all-time high of $143.68 a barrel in July 2008. This was in spite of a decrease in global demand and an increase in supply. Oil prices are determined by commodities traders. That includes both speculators and corporate traders hedging their risks. Traders bid up crude oil prices in two situations. First, is if they think there are threats to supply, such as unrest in the Middle East. Second, is if they see an uptick in demand, such as growth in China.

12 Asset Inflation — Food

Food prices soared 6.8 percent in 2008, causing food riots in India and other emerging markets. They spiked again in 2011, rising 4.8 percent. High food costs led to the Arab Spring, according to many economists. Food riots caused by inflation in this important asset class could reoccur.

13 Asset Inflation — Gold

An asset bubble occurred when gold prices hit the all-time high of $1,895 an ounce on September 5, 2011. Although many investors might not call this inflation, it sure was. That's because prices rose without a corresponding shift in gold's supply or demand. Instead, investors ran to gold as a safe haven. They were concerned about the declining dollar. They felt gold protected them from hyperinflation in U.S. goods and services. They were uncertain about global stability.

What spooked investors? In August, the jobs report showed absolutely zero new job gains. During the summer, the eurozone debt crisis looked like it might not get resolved. There was also stress about whether the United States would default on its debt. Gold prices rise in response to uncertainty. Sometimes it's to hedge against inflation. Other times it's the exact opposite, the resurgence of recession.

What is Unemployment?

Unemployment occurs when a person who is actively searching for employment is unable to find work. Unemployment is often used as a measure of the health of the economy. The most frequent measure of unemployment is the unemployment rate, which is the number of unemployed people divided by the number of people in the labor force.

KEY TAKEAWAYS

- Unemployment occurs when workers who want to work are unable to find jobs, which means lower economic output, while still requiring subsistence.

- High rates of unemployment are a signal of economic distress, but extremely low rates of unemployment may signal an overheated economy.
- Unemployment can be classified as frictional, cyclical, structural, or institutional.
- Unemployment data are collected and published by government agencies in a variety of ways.

Understanding Unemployment

Unemployment is a key economic indicator because it signals the (in)ability of workers to readily obtain gainful work to contribute to the productive output of the economy. More unemployed workers mean less total economic production will take place than might have otherwise. And unlike idle capital, unemployed workers will still need to maintain at least subsistence consumption during their period of unemployment. This means the economy with high unemployment has lower output without a proportional decline in the need for basic consumption. High, persistent unemployment can signal serious distress in an economy and even lead to social and political upheaval.

On the other hand, a low unemployment rate means that the economy is more likely to be producing near its full capacity, maximizing output, and driving wage growth and rising living standards over time. However, extremely low unemployment can also be a cautionary sign of an overheating economy, inflationary pressures, and tight conditions for businesses in need of additional workers.

While the definition of unemployment is clear, economists divide unemployment into many different categories. The two broadest categories of unemployment are voluntary and involuntary unemployment. When unemployment is voluntary, it means that a person has left his job willingly in search of other employment. When it is involuntary, it means that a person has been fired or laid off and must now look for another job. Digging deeper, unemployment — both voluntary and involuntary — can be broken down into four types.

Frictional Unemployment

Frictional unemployment arises when a person is in between jobs. After a person leaves a company, it naturally takes time to find another job, making this type of unemployment short-lived. It is also the least problematic from an economic standpoint. Frictional unemployment is a natural result of the fact that market processes take time and information can be costly. Searching for a new job, recruiting new workers, and matching the right workers to the right jobs all take time and effort to do, resulting in frictional unemployment.

Cyclical Unemployment

Cyclical unemployment is the variation in the number of unemployed workers over the course of economic upturns and downturns, such as changes to oil prices. Unemployment rises during recessionary periods and declines during periods of economic growth. Preventing and alleviating cyclical unemployment during recessions is a major concern behind the study of economics and the purpose of the various policy tools that governments employ on the downside of business cycles to stimulate the economy.

Structural Unemployment

Structural unemployment comes about through technological change in the structure of the economy in which labor markets operate. Technological change such as automation of manufacturing or the replacement of horse-drawn transport by automobiles, lead to unemployment among workers displaced from jobs that are no longer needed. Retraining these workers can be difficult, costly, and time consuming, and displaced workers often end up either unemployed for extended periods or leaving the labor force entirely.

Institutional Unemployment

Institutional unemployment is unemployment that results from long term or permanent institutional factors and incentives in the economy. Government polices such as high minimum wage floors, generous social benefits programs, and restricive occupational licensing laws; labor market phenomena such as efficiency wages and discriminatory hiring; and labor market institutions such as high rates of unionization can all contribute to institutional unemployment.

Measuring Unemployment

In the United States, the government uses surveys, census counts, and the number of unemployment insurance claims to track unemployment.

The US Census conducts a monthly survey on behalf of the Bureau of Labor Statistics called the **current population survey** in order to produce the primary estimate of nation's unemployment rate. This survey has been done every month since 1940. The sample consists of about 60,000 eligible households, translating to about 110,000 people each month. The survey changes one-fourth of the households in the sample so that no household is represented for more than four consecutive months in order to strengthen the reliability of the estimates.

Meaning of Trade Cycle:

A trade cycle refers to fluctuations in economic activities specially in employment, output and income, prices, profits etc. It has been defined differently by different economists. According to Mitchell, "Business cycles are of fluctuations in the economic activities of organized communities. The adjective 'business' restricts the concept of fluctuations in activities which are systematically conducted on commercial basis.

The noun 'cycle' bars out fluctuations which do not occur with a measure of regularity". According to Keynes, "A trade cycle is composed of periods of good trade characterised by rising prices and low unemployment percentages altering with periods of bad trade characterised by falling prices and high unemployment percentages".

Features of a Trade Cycle:

1. A business cycle is synchronic. When cyclical fluctuations start in one sector it spreads to other sectors.

2. In a trade cycle, a period of prosperity is followed by a period of depression. Hence trade cycle is a wave like movement.

3. Business cycle is recurrent and rhythmic; prosperity is followed by depression and vice versa.

4. A trade cycle is cumulative and self-reinforcing. Each phase feeds on itself and creates further movement in the same direction.

5. A trade cycle is asymmetrical. The prosperity phase is slow and gradual and the phase of depression is rapid.

6. The business cycle is not periodical. Some trade cycles last for three or four years, while others last for six or eight or even more years.

7. The impact of a trade cycle is differential. It affects different industries in different ways.

8. A trade cycle is international in character. Through international trade, booms and depressions in one country are passed to other countries.

Circular flow upto four sector economy-

International trade includes exports and imports. The **four sectors** are as follows: household, firm, government, and foreign. The arrows denote the **flow** of income through the units in the **economy**. This **circular flow** of income model also shows injections and leakages

Circular flow of income in a four-sector economy consists of households, firms, government and foreign sector.

Household Sector:

Households provide factor services to firms, government and foreign sector.

In return, it receives factor payments. Households also receive transfer payments from the government and the foreign sector.

Households spend their income on:

(i) Payment for goods and services purchased from firms;

(ii) Tax payments to government;

(iii) Payments for imports.

Firms:

Firms receive revenue from households, government and the foreign sector for sale of their goods and services. Firms also receive subsidies from the government.

Firm makes payments for:

(i) Factor services to households;

(ii) Taxes to the government;

(iii) Imports to the foreign sector.

Government:

Government receives revenue from firms, households and the foreign sector for sale of goods and services, taxes, fees, etc. Government makes factor payments to households and also spends money on transfer payments and subsidies.

Foreign Sector:

Foreign sector receives revenue from firms, households and government for export of goods and services. It makes payments for import of goods and services from firms and the government. It also makes payment for the factor services to the households.

Circular Flow of Income in a Four Sector Economy (http://cdn.yourarticlelibrary.com/wp-content/uploads/2014/03/image160.png)

The savings of households, firms and the government sector get accumulated in the financial market. Financial market invests money by lending out money to households, firms and the government. The inflows of money in the financial market are equal to outflows of money. It makes the circular flow of income complete and continuous. The circular flow of income in a four-sector economy is shown in Fig. 1.7.

Government in the macro economy–

Three main types of government macroeconomic policies are as follows: 1. Fiscal Policy 2. Monetary Policy 3. Supply-side Policies!

The three main types of government macroeconomic policies are fiscal policy, monetary policy and supply-side policies. Other government policies including industrial, competition and environmental policies. Price controls, exercised by government, also affect private sector producers.

1. Fiscal Policy:

Fiscal policy refers to changes in government expenditure and taxation. Government expenditure, also called public expenditure, and taxation occur at two main levels – national and local. Governments spend money on a variety of items including benefits (for the retired, unemployed and disabled), education, health care, transport, defense and interest on national debt.

A government sets out the amount it plans to spend and raise in tax revenue in a budget statement. A budget deficit is when the government's expenditure is higher than its revenue. In this case, the government will have to borrow to finance some of its expenditure.

In contrast, a budget surplus occurs when government revenue is greater than government expenditure. A balanced budget, which occurs less frequently, is when government expenditure and revenue are equal. A government may deliberately alter its expenditure or tax revenue to influence economic activity.

If a government wants to raise aggregate demand in order to increase economic growth and employment, it will increase its expenditure and/or cut taxation by lowering tax rates, reducing the items taxed or raising tax thresholds. For example, a government may cut income tax rates.

This will raise people's disposable income, which will enable them to spend more. Higher consumption is also likely to raise investment. Fig. 1 shows the effect of a reflationary fiscal policy (also called an expansionary fiscal policy).

The Effect of a Reflationary Fiscal Policy (http://cdn.yourarticlelibrary.com/wp-content/uploads/2014/04/clip_image00275.jpg)

A government may implement a deflationary fiscal policy (also called a contractionary fiscal policy) to reduce inflationary pressure. A cut in government expenditure on, for instance, education would reduce aggregate demand. Such a reduction may lower the rise in the general price level.

2. Monetary Policy:

Monetary policy includes changes in the money supply, the rate of interest and the exchange rate, although some economists treat changes in the exchange rate as a separate policy. The main monetary policy measure, currently used in most countries, is changes in the rate of interest.

A rise in the rate of interest helps implement a deflationary monetary policy. It will be likely to reduce aggregate demand by lowering consumption and investment. Households will spend less due to availability of less discretionary income, expensive borrowing and greater incentive to save.

Firms will invest less as they will expect consumption to be lower. Also the opportunity cost of investment will have risen and borrowing will have become expensive. A higher interest rate may also reduce aggregate demand by lowering net exports.

Changes in the money supply, as with changes in interest rates, are implemented by Central Banks on behalf of governments. If the money supply is increased by the Bank printing more money, buying back government bonds or encouraging commercial banks to lend more, the aggregate demand increases. On the other hand, a decrease in the money supply reduces aggregate demand.

3. Supply-side Policies:

Supply-side policies are policies designed to increase aggregate supply and hence increase productive potential. Such policies seek to increase the quantity and quality of resources and raise the efficiency of markets. These include improving education and training, cutting direct taxes and benefits, reforming trade unions and privatization. Improving education and training is designed to raise labour productivity.

The intention behind cutting direct taxes and benefits is to make work more attractive, relative to living on benefits. If successful, this will make the unemployed search for work more actively and will raise the labour force by encouraging more people (including for instance married women and the disabled) to seek employment. Reforming trade unions may make labour more productive and privatization may increase productive capacity, if private sector firms invest more and work more efficiently than state owned enterprises.

Measuring national income and output

A variety of **measures of national income and output** are used in economics to estimate total economic activity in a country or region, including gross domestic product (GDP), grass national product(GNP), net national income (NNI), and adjusted national income (NNI adjusted for natural resources depletion – also called as NNI at factor cost). All are specially concerned with counting the total amount of goods and services produced within the economy and by different sectors. The boundary is usually defined by geography or citizenship, and it is also defined as the total income of the nation and also restrict the goods and services that are counted. For instance, some measures count only goods & services that are exchanged for money, excluding bartered goods, while other measures may attempt to include bartered goods by *imputing* monetary values to them.

B.C.A study

Unit-4:The world Economic-

WTO-

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.Also in this section

Who we are

There are a number of ways of looking at the World Trade Organization. It is an organization for trade opening. It is a forum for governments to negotiate trade agreements. It is a place for them to settle trade disputes. It operates a system of trade rules. Essentially, the WTO is a place where member governments try to sort out the trade problems they face with each other.

What we do

The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who usually meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva).

What we stand for

The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. But a number of simple, fundamental principles run throughout all of these documents. These principles are the foundation of the multilateral trading system.

Overview

The World Trade Organization — the WTO — is the international organization whose primary purpose is to open trade for the benefit of all.

Globalization-

The History of Globalization

Globalization is not a new concept. Traders traveled vast distances in ancient times to buy commodities that were rare and expensive for sale in their homelands. The Industrial Revolution brought advances in transportation and communication in the 19th century that eased trade across borders.

The think tank, Peterson Institute for International Economics (PIIE), states globalization stalled after World War I and nations' **(https://piie.com/microsites/globalization/what-is-globalization.html)** movement toward port taxes to more closely guard their industries in the aftermath of the conflict. This trend continued through the Great Depression and World War II until the U.S. took on an instrumental role in reviving international trade

Globalization–

Globalization is the spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade.

On the upside, it can raise the standard of living in poor and less developed countries by providing job opportunity, modernization, and improved access to goods and services. On the downside, it can destroy job opportunities in more developed and high-wage countries as the production of goods moves across borders.

Globalization motives are idealistic, as well as opportunistic, but the development of a global free market has benefited large corporations based in the Western world. Its impact remains mixed for workers, cultures, and small businesses around the globe, in both developed and emerging nations. 1:39

Globalization

Globalization Explained

Corporations gain a competitive **(https://www.investopedia.com/terms/c/competitive_advantage.asp)**advantage on multiple fronts through globalization. They can reduce operating costs by manufacturing abroad. They can buy raw materials more cheaply because of the reduction or removal of tariffs. Most of all, they gain access to millions of new consumers.

Globalization is a social, cultural, political, and legal phenomenon.

- Socially, it leads to greater interaction among various populations.
- Culturally, globalization represents the exchange of ideas, values, and artistic expression among cultures.
- Globalization also represents a trend toward the development of single world culture.
- Politically, globalization has shifted attention to intergovernmental organizations like the United Nations (UN) and the World Trade Organization (WTO).
- Legally, globalization has altered how international law is created and enforced.

KEY TAKEAWAYS

- Globalization has sped up to an unprecedented pace since the 1990s, with public policy changes and communications technology innovations cited as the two main driving factors.
- China and India are among the foremost examples of nations that have benefited from globalization.
- One clear result of globalization is that an economic downturn in one country can create a domino effect through its trade partners.

Disadvantages of Globalization

One clear result of globalization is that an economic downturn in one country can create a domino effect through its trade partners. For example, the 2008 financial crisis had a severe impact on Portugal, Ireland, Greece, and Spain. All these countries were members of the European Union, which had to step in to bail out debt-laden nations, which were thereafter known by the acronym PIGS.

Globalization detractors argue that it has created a concentration of wealth and power in the hands of a small corporate elite which can gobble up smaller competitors around the globe.

Globalization has become a polarizing issue in the U.S. with the disappearance of entire industries to new locations abroad. It's seen as a major factor in the economic squeeze on the middle class

For better and worse, globalization has also increased homogenization. Starbucks, Nike, and Gap Inc. dominate commercial space in many nations. The sheer size and reach of the U.S. have made the cultural exchange among nations largely a one-sided affair.

Real World Examples of Globalization

A car manufacturer based in Japan can manufacture auto parts in several developing countries, ship the parts to another country for assembly, then sell the finished cars to any nation.

China and India are among the foremost examples of nations that have benefited from globalization, but there are many smaller players and newer entrants. Indonesia, Cambodia, and Vietnam are among fast-growing global players in Asian

MNC'S

Introduction to Multinational Corporations:

An important development in the post-war period is that of the spread of multinational corporations (MNCs) as the vehicle of foreign direct investments. These are also called as Transnational Corporations (TNCs).

Salvatore has defined them in these words, "These are the firms that own, control or manage production facilities in several countries." Paul Streeten and S. Lal have defined MNCs from economic, organisational and motivational viewpoints. The economic definition of MNCs lays stress on the size, geographical spread and magnitude of investment.

The chief characteristics of multinational corporations (MNCs)

(i) They operate on a large scale having assets or sales in billions of dollars.

(ii) They operate internationally through a central office in the country of origin.

(iii) They have an oligopolistic structure and deal in differentiated products.

(iv) They try to bring about a collective transfer of resources like machinery, equipment, technological know-how, materials, finance and managerial services.

Role of MNCs:

The MNCs have become a very powerful force in the world economy during the last few decades. They have exercised a revolutionary effect on international economic system in general and industrial organisation in particular. It has been truly regarded as a remarkable economic phenomenon of the twentieth century. We assess here the role of MNCs from the point of view of the LDCs. The benefits of these organisations are based upon the theory of foreign direct investments.

These are given below:

(i) Transfer of Capital:

The LDCs are invariably faced with the problem of acute shortage of capital. On account of the paucity of domestic saving, these countries are unable to raise the rate of investment upto a desirable level necessary for their long-term steady growth.

The MNCs have abundance of surplus capital resources which become available for the industrial and commercial development of the poor countries. The MNCs become important conduits through which transfer of capital takes place from the capital-abundant to the capital-scarce countries.

(ii) Undertaking of Risk:

There is risk inherent in the development process especially in LDCs in the initial stages of their development. The shortage of capital, small extent of the market, absence of enterprising groups and undeveloped infrastructure signify a high degree of risk in different fields such as mining, oil exploration, power, transport, capital goods industries etc. The MNCs undertake this risk and remove a major barrier in the development of the LDCs.

(iii) Transfer of Superior Technology:

The LDCs are characterised by obsolete and inefficient techniques of production. They lack resources for research and development of better and more efficient techniques. The MNCs attempt to bridge the widening technological gap between the advanced and the LDCs through the transfer of advanced technical know-how sophisticated manufacturing processes and improved skills.

(iv) Development of Markets:

The growth process in LDCs remains inhibited on account of the small size of market. The MNCs have made a unique contribution in enlarging the market for the products manufactured in the LDCs through concerted advertising and global network of sales organisation. They undertake market research and adopt novel and highly efficient methods of marketing.

(v) Development of Human Resources:

The MNCs wants to make use of cheap labour available in LDCs. They provide training to different categories of workers in advanced techniques. In this way they make a highly useful contribution in the creation of skills. This brings about the development of human resources in these countries and raises their productive capacities. It is on account of this contribution of MNCs that they are sometimes called as carriers of knowledge and experience.

(vi) Fuller Utilisation of Natural Resources:

The LDCs have abundance of natural resources such as lands, minerals and water resources. These countries remain undeveloped because they fail to exploit them efficiently and utilise them economically. The MNCs by setting up projects in mining, manufacturing and plantations attempt to make the best possible use of available natural resources in these countries for maximising production and income.

(vii) Creation of Infrastructure:

The development process in the LDCs remains inhibited on account of under-development of economic and social overheads or basic infra-structure which includes means of transport and communications, means of irrigation and power, education and training and health services. The MNCs assist in the creation of economic and social overheads and stimulate growth process in the developing countries.

(viii) Creation of Industrial Linkages:

The industrial structure in any country is highly integrated. The different industries have forward or backward linkages with other industries. If some linked industries remain undeveloped, the whole process of industrialisation can remain blocked. The MNCs sometimes help create those missing links in industrial chain. The creation of those linked industries greatly accelerates the process of industrial expansion.

(ix) Creation of Employment Opportunities:

The expanding activities of MNCs in industrial and commercial spheres lead to the creation of job opportunities for different categories of workers and there is greater use of available manpower in the LDCs.

(x) Favourable Impact on Balance of Payments:

Many MNCs establish manufacturing units in the LDCs not only for catering to the needs of the host country but also for producing goods and services for exports. They are capable of expanding exports of the host countries to a large extent as they have a global marketing organisation. The earning of large amounts of foreign exchange helps in improving the balance of payments position in the developing countries.

In fact, the MNCs ensure the transfer of a 'package of resources' to the LDCs and effectively pave the way for their rapid economic transformation.

Adverse Effects of MNCs:

The MNCs are viewed with much distrust in the LDCs because their operations involve exploitation of men, materials and markets of these countries. They have failed to raise upto their expectations and have many adverse consequences for them.

(i) No Commitment to Economic and Social Development:

The LDCs allow MNCs to start and expand their operations in the hope that they will accelerate the development process. In fact the MNCs are highly profit-oriented organisations. They have no commitment to economic and social development of the poor countries. They want only to maximise their profits, no matter the pursuit of this goal involves economic exploitation of these countries.

(ii) Disincentive for Domestic Capital:

The capital-starved poor countries expect that MNCs will contribute in stepping up the rate of their capital formation. No doubt, there is some inflow of capital from abroad but at the same time the domestic capital mobilisation and investment is hit hard and there is not desired increase in the rate of capital formation.

(iii) Low Government Revenues:

It is sometimes thought that the operations of MNCs result in substantial increase in government revenues through different types of taxes. In fact, this benefit does not materialise because MNCs resort to transfer pricing under which the purchases of materials, machinery and equipment are made by them from their branches in other countries at higher prices and manufactured goods transferred to their foreign branches at much lower prices.

These manipulations show lower profits and value of product and cause loss of revenue to the government.

(iv) Low Foreign Exchange Earnings:

It is often supposed that MNCs specialise in exports. They can earn precious foreign exchange for the host countries and relieve their BOP difficulties. In fact, the MNCs do not ensure any substantial increase in the foreign exchange reserves of the host countries. They again resort to the practice of transfer pricing under which the imports of machinery and equipments from their foreign branches are over-priced while at the same time exports from the host country are under-priced. That results in much loss in foreign exchange reserves of the host country.

(v) Unsuited Technology:

The MNCs often make use of highly capital-intensive or labour-saving techniques of production. Such technology may not be in conformity with the resource endowment in the host countries and may aggravate the problem of unemployment. In addition, the host country becomes permanently dependent upon the foreign countries.

(vi) Heavy Cost of Transfer of Technology:

The MNCs charges exorbitant fees, royalties and other charges from the host countries. Thus the LDCs have to bear very heavy cost of transfer of technology.

(vii) No Significant Transfer of Technology:

The LDCs permit the MNCs to operate in the host countries with the expectation that they will promote the transfer of advanced technology. In fact, the MNCs show little interest in the promotion of research and training in the host countries. Key posts are invariably held by the foreigners. They are paid very high salaries and allowances.

Some of the executives of MNCs receive salaries and perquisites even higher than what is received by the heads of state in those countries. The techniques of production are kept as the guarded secrets. They sometimes thrust upon the LDCs a technology which has become out-of-date by their standards. That happens when the turnkey projects are transferred to the less developed countries.

(viii) Drain of Foreign Exchange:

The MNCs are responsible for a persistent heavy drain of foreign exchange from the LDCs in the form of repatriation of capital and remittance of royalties and profits. No such drain is involved when a developing country depends upon the foreign loans.

(iv) Exploitation:

The most serious objection against the MNCs is that these are the agents of exploitation of labour, raw materials and markets at the hands of the foreigners. The MNCs squeeze the famished economies of LDCs for maximising their profits. According to David Korten, these corporations have depleted or destroyed all kinds of capital like natural capital, human capital, social capital and institutional capital.

(v) Harmful for Long-Term Development:

The steady long-term development of the poor countries requires inflow of capital and technology in the modernisation of agriculture, creation of strong capital base and creation of infra-structure. The MNCs, on the other hand, are mostly engaged in consumer goods industries.

The strong MNCs do not permit the other firms to grow. The domestic enterprise remains in a state of demoralisation. It is not possible for the local firms to face stiff competition from the powerful MNCs. The whole situation created by MNCs is clearly detrimental for the long-term sustained and rapid growth of the LDCs.

MNCs and India:

In view of the serious shortage of capital, India followed a liberal policy right since the early 1950’s to attract foreign capital and enterprise. The MNCs had secured a strong foothold in the Indian economy by the 1960’s. According to the Industrial Licensing Policy Enquiry Committee, there were 112 companies in India in 1966 with assets of Rs. 10 crores or more. Of these 48 companies were either branches of foreign companies or they were their subsidiaries.

Of those 112 companies, the foreign control was explicit in atleast 62 companies. The MNCs even in 1966 had control over 53.7 percent assets of the giant sector in Indian industries. It is clear that the top of the industrial pyramid in the country was under the effective control of the foreigners as early as 1966.

The prime reason for which the MNCs are invited to the LDCs in general is that they will bring a larger inflow of foreign capital. An interesting and rather negative feature of the operations of MNCs in India has been that they have raised a major part of investment resources from within the country.

A study related to 1956-75 period conducted by S. Chaudhury revealed that the foreign sources contributed only 5.4 percent of the financial resources of the foreign subsidiaries. 94.6 percent of the financial resources had been obtained by them from the domestic sources.

Another study made by John Martinussen showed that the amount of capital issues consented with foreign participation declined from 61.5 percent of all consents to public limited companies in 1976 to a mere 29.5 percent in 1980. According to this study, 20 MNCs affiliated enterprises had even reduced their foreign funding. Several of these companies obtained no foreign funds at all during 1974-83 period. This fact totally explodes the myth that MNCs bring large amounts of foreign capital to the developing countries.

Another feature related to MNC investment in India is that foreign direct investment in general and MNC investment in particular declined in plantation, mining and petroleum sectors during 1948-1980 period and there was a significant rise in investment in the manufacturing sector. Martinussen pointed out that investment in foreign branches and subsidiaries has been concentrating increasingly in the manufacturing industries.

A common form of MNC participation in Indian industries is through collaboration with Indian companies. The Indian industrialists enter in foreign collaborations for the sake of advanced technology, foreign brand names and for having easy access to the foreign markets. The policy of liberalisation initiated in 1980's resulted in a substantial spurt in foreign collaborations. Between 1948 and 1986, 10981 collaboration agreements had been approved.

Out of them about 49 percent had been approved between 1980-86 periods. The agreements with foreign enterprises took place predominantly in the areas of electrical equipments, industrial machinery, chemicals, pharmaceuticals, transport, precision instruments, metallurgical machinery, machine tools, glass and ceramics.

The liberalisation policy adopted by the government during the last few years for encouraging larger inflow of foreign investments is likely to induce MNCs to expand their operations in a big way. Already about 500 projects are under active consideration of the MNCs belonging to different advanced countries. During 1990's, several foreign and indigenous enterprises underwent the process of restructuring and mergers.

The restructuring had become necessary in view of impending increased competition. The different amalgamating companies integrate their marketing and distribution set up to face effectively their competitors in the Indian market. The merger also enables them to economise in respect of overheads. The MNCs through their experience elsewhere are well aware that mergers and strategic alliances are route to competitive success.

In 2003, top executives of major transnational corporations have assigned high ranking to India as a highly preferred destination for foreign direct investments. The global management consultancy firm A.T. Kearney gave A.T. Kearney FDI Index, based on an annual survey of executives from world's largest companies who are asked to rank countries on various parameters of FDI attractiveness.

Manufacturing investors ranked India among the top six most preferred investment locations and nearly a one-third were most optimistic about the Indian market. India was ranked ahead of apparently more developed countries such as the United Kingdom, Italy, Canada, Japan, Brazil and Indonesia. China was ranked at the top. Services sector investors ranked India as the fourth most attractive investment destination up from the 14th place in 2002. At present India is the second most preferred investment destination of the foreign investors, next only to China.

outsourcing

Outsourcing is a business practice in which a company hires another company or an individual to perform tasks, handle operations or provide services that are either usually executed or had previously been done by the company's own employees.

The outside company, which is known as the service provider or a **third-party provider (https://whatis.techtarget.com/definition/third-party)**, arranges for its own workers or computer systems to perform the tasks or services either on site at the hiring company's own facilities or at external locations.

Companies today can outsource a number of tasks or services. They often outsource information technology services, including programming and application development as well as technical support. They frequently outsource customer service and call service functions. They can outsource other types of work as well, including manufacturing processes, human resources tasks and financial functions such as bookkeeping and payroll. Companies can outsource entire divisions, such as its entire **IT department (https://searchdatacenter.techtarget.com/definition/IT)**, or just parts of a particular department.

Outsourcing business functions is sometimes called contracting out or business process outsourcing.

Outsourcing can involve using a large third-party provider, such as a company like **IBM (https://searchitchannel.techtarget.com/definition/IBM-International-Business-Machines)** to manage IT services or FedEx Supply Chain for third-party logistics services, but it can also involve hiring individual independent contractors and temporary office workers

Outsourcing pros and cons

In addition to delivering lower costs and increased efficiencies, companies that outsource could see other benefits.

By outsourcing, companies could free up resources (i.e., cash, personnel, facilities) that can be redirected to existing tasks or new projects that deliver higher yields for the company than the functions that had been outsourced.

Companies might find, too, that they can streamline production and/or shorten production times because the third-party providers can more quickly execute the outsourced tasks.

Companies engaged in outsourcing must adequately manage their contracts and their ongoing relationships with third-party providers to ensure success. Some might find that the resources devoted to managing those relationships rivals the resources devoted to the tasks that were outsourced, thereby possibly negating many, if not all, of the benefits sought by outsourcing.

Companies also could realize that they lose control over aspects of the outsourced tasks or services. For instance, a company could lose control over the quality of customer service provided when it outsources its **call center (https://searchcrm.techtarget.com/definition/call-center)** function; even if the company's contract with the provider stipulates certain quality measures, the company might find it's more difficult to correct an outsourced provider than it would be to correct an in-house team.

Companies that outsource could also face heightened security risks, as they exchange with their third-party providers the company's proprietary information or sensitive data that could be misused, mishandled or inadvertently exposed by the outsource provider.

Additionally, companies might encounter difficulties in getting their own employees to communicate and collaborate effectively with those working for third-party providers — a scenario that's more common if the third-party operates overseas.

Foreign capital in india

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

Market size

According to Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows in India in 2018-19 stood at US$ 44.37 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

The net foreign direct investment stood US$ 3.034 billion in May 2019 and US$ 7 billion in June 2019. India invited US$ 7.8 billion of foreign investment in month of June 2019 as compared to US$ 1.6 billion in previous year.

Data for 2018-19 indicates that the services sector attracted the highest FDI equity inflow of US$ 9.16 billion, followed by computer software and hardware – US$ 6.42 billion, trading – US$ 4.46 billion and telecommunications – US$ 2.67 billion. Most recently, the total FDI equity inflows for the month of March 2019 touched US$ 3.60 billion.

During 2018-19, India received the maximum FDI equity inflows from Singapore (US$ 16.23 billion), followed by Mauritius (US$ 8.08 billion), Netherlands (US$ 3.87 billion), USA (US$ 3.14 billion), and Japan (US$ 2.97 billion).

Investments/ developments

India emerged as the top recipient of greenfield FDI Inflows from the Commonwealth, as per a trade review released by The Commonwealth in 2018.

Some of the recent significant FDI announcements are as follows:

- In August 2019, Reliance Industries (RIL) announced one of India's biggest FDI deals, as Saudi Aramco will buy a 20 per cent stake in Reliance's oil-to-chemicals (OTC) business at an enterprise value of US$ 75 billion.
- In October 2018, VMware, a leading software innovating enterprise of US has announced investment of US$ 2 billion in India between by 2023.
- In August 2018, Bharti Airtel received approval of the Government of India for sale of 20 per cent stake in its DTH arm to an America based private equity firm, Warburg Pincus, for around $350 million.
- In June 2018, Idea's appeal for 100 per cent FDI was approved by Department of Telecommunication (DoT) followed by its Indian merger with Vodafone making Vodafone Idea the largest telecom operator in India
- In February 2018, Ikea announced its plans to invest up to Rs 4,000 crore (US$ 612 million) in the state of Maharashtra to set up multi-format stores and experience centres.
- Kathmandu based conglomerate, CG Group is looking to invest Rs 1,000 crore (US$ 155.97 million) in India by 2020 in its food and beverage business, stated Mr Varun Choudhary, Executive Director, CG Corp Global.
- International Finance Corporation (IFC), the investment arm of the World Bank Group, is planning to invest about US$ 6 billion through 2022 in several sustainable and renewable energy programmes in India.

Government Initiatives

In Union Budget 2019-2020, the government of India proposed opening of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders.

In February 2019, the Government of India released the Draft National e-Commerce Policy which encourages FDI in the marketplace model of e-commerce. Further, it states that the FDI policy for e-commerce sector has been developed to ensure a level playing field for all participants.

Government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds.

In December 2018, the Government of India revised FDI rules related to e-commerce. As per the rules 100 per cent FDI is allowed in the marketplace based model of e-commerce. Also, sales of any vendor through an e-commerce marketplace entity or its group companies have been limited to 25 per cent of the total sales of such vendor.

In September 2018, the Government of India released the National Digital Communications Policy, 2018 which envisages increasing FDI inflows in the telecommunications sector to US$ 100 billion by 2022.

In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval. The investment cannot exceed 49 per cent directly or indirectly.

No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services.

In September 2017, the Government of India asked the states to focus on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.

The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of Department of Revenue and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application.

The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.

In January 2018, Government of India allowed 100 per cent FDI in single brand retail through automatic route

Trips-

- TRIPs provide minimum standards in the form of common set of rules for the protection of intellectual property globally under WTO system.
- The TRIPs agreement gives set of provisions deals with domestic procedures and remedies for the enforcement of intellectual property rights.

- Member countries have to prepare necessary national laws to implement the TRIPs provisions.
- TRIPs cover eight areas for IPRs legislation including patent, copyright and geographical indications

What is the G20?

The G20 (Group of 20) is an annual meeting for the leaders of the world's biggest economies (technically 19 countries plus the EU). Together these countries account for 85% of the world economy and two-thirds of its population.

The G20 is the new kid on the block of international organizations (http://www.ecnmy.org/learn/your-world/international-organizations/). It was founded to create a bigger economic club than what existed at the time – the G7 – when more countries were needed to help respond to the financial crisis in East Asia in 1999.

Back then, the G20 was a fairly uneventful annual meeting of finance ministers and central bankers. The global financial crisis in 2008, kicked it into action, turning the organization into **an economic emergency council for presidents and prime ministers**. To keep things moving as the global economy was slipping into crisis mode, the G20 quickly organized for $1.1trillion to be injected into countries around the world, allowing businesses to continue operating despite what was going on.[1]CASE STUDYDid your country make the list?As of 2017, the members of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.

The reason why the G20 were the ones to do this was because, in contrast to bigger organizations like the **UN (http://www.ecnmy.org/learn/your-world/international-organizations/what-is-the-un/)**, the **World Bank (http://www.ecnmy.org/learn/your-world/international-organizations/what-is-the-world-bank/)**, orthe **IMF (http://www.ecnmy.org/learn/your-world/international-organizations/what-is-the-imf/)**, they could much more easily sit around the same table and come to quick agreements in a way that larger international bodies couldn't. **In some ways, the G20 is now the world's premier economic crisis-management organization**.

But the small size of the G20 is a curse as well as blessing. As it only represents 19 countries (plus the EU), it excludes a pretty huge chunk of the world from discussions about big economic decisions (about 172 countries are not invited to the meetings). **The idea of top leaders quickly deciding things around a table can also create sticky political situations**; a lot of national governments aren't set up for one leader to make big changes overnight without consulting a congress or parliament.

Issues of dumping-

Dumping is when a country exports or sells products in a foreign country for less than either:

1. The price in the domestic country
2. The cost of making the product

For example, if a television manufacturer in the U.S. sells televisions domestically for $500 dollars, but costing them only $300 dollars, and then sells them in France for $250, that could potentially be categorized as dumping. The U.S. manufacturer is not only selling the televisions below the prices they offer in the U.S. but also selling them at a loss! This could harm French television manufacturers, who simply can't compete.

Under the World Trade Organization Agreement, dumping is not favorably looked upon, though it is not prohibited, if it causes, or threatens to cause, material injury to a domestic industry in the importing country. Some countries will go as far as to make it illegal to dump various products, because the government is trying to protect certain industries or companies that are vital or could potentially fail.

The Advantages and Disadvantages of Trade Dumping

The primary advantage of trade dumping is the ability to permeate a market with product prices that are often considered unfair. The exporting country may offer the producer a **subsidy (https://www.investopedia.com/terms/s/subsidy.asp)** to counterbalance the losses incurred when the products sell below their manufacturing cost. One of the biggest disadvantages of trade dumping is that subsidies can become too costly over time to be sustainable. Additionally, trade partners who wish to restrict this form of market activity may increase restrictions on the good, which could result in increased export costs to the affected country or limits on the quantity a country will import.

International Attitude on Dumping

While the **World Trade Organization (https://www.investopedia.com/terms/w/wto.asp)** reserves judgment on whether dumping is an unfair competitive practice, most nations are not in favor of dumping. Dumping is legal under WTO rules unless the foreign country can reliably show the negative effects the exporting firm has caused its domestic producers. To counter dumping and protect their domestic industries from **predatory pricing (https://www.investopedia.com/terms/p/predatory-pricing.asp)** most nations use **tariffs (https://atlas.dotdash.com/news/what-are-tariffs-and-how-do-they-affect-you/)** and **quotas (https://atlas.dotdash.com/terms/q/quota.asp)**. Dumping is also prohibited when it causes "material retardation" in the establishment of an industry in the domestic market.

The majority of trade agreements include restrictions on trade dumping. Violations of such agreements may be difficult to prove and can be cost prohibitive to enforce fully. If two countries do not have a **trade agreement (https://www.investopedia.com/terms/t/trading-partner-agreement.asp)** in place, then there is no specific ban on trade dumping between them.

The Highlights of the India's Foreign Trade Policy 2004-2009!

The new United Progressive Alliance (UPA) Government at the Centre changed the name of EXIM Policy and called it Foreign Trade Policy (FTP). Consequently, on August 31, 2004, the Commerce and Industry Minister, Mr. Kamal Nath, announced the five year (2004-09) FTP.

The policy aims at doubling India's percentage share of global merchandise trade to 1.5 per cent by 2009 from 0.7 per cent in 2003, besides serving as an effective tool to generate employment, especially in semi-urban and rural areas.

Exporters of all goods and services, including those from Domestic Tariff Area (DTA), were exempted from service tax. Also exporters with minimum turnover of Rs. 5 crore and a sound track record have been exempted from furnishing bank guarantees in any of the export schemes. So as to reduce their high transaction cost and tax burden.

The Highlights of the India's Foreign Trade Policy 2004-2009 is discussed below:

1. Strategy:

(a) It is for the first time that a comprehensive Foreign Trade Policy is being notified. The Foreign Trade Policy takes an integrated view of the overall development of India's foreign trade.

(b) The objective of the Foreign Trade Policy is two-fold:

(i) To double India's percentage share of global merchandise trade by 2009; and

(ii) To act as an effective instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas.

(c) The key strategies are:

i. Unshackling of controls;

ii. Creating an atmosphere of trust and transparency;

1. Simplifying procedures and bringing down transaction costs;

2. Adopting the fundamental principle that duties and levies should not be exported;

3. Identifying and nurturing different special focus areas to facilitate development of India as a global hub for manufacturing, trading and services.

2. Special Focus Initiatives:

(a) Sectors with significant export prospects coupled with potential for employment generation in semi-urban and rural areas have been identified as thrust sectors and specific sectoral strategies have been prepared.

(b) Further sectoral initiatives in other sectors will be announced from time to time. For the present, Special Focus Initiatives have been prepared for Agriculture, Handicrafts, Handlooms, Gems & Jewellery and Leather & Footwear sectors.

(c) The threshold limit of designated Towns of Export Excellence is reduced from Rs.1000 crores to Rs.250 crores in these thrust sectors.

3. Package for Agriculture:

The Special Focus Initiative for Agriculture includes:

(a) A new scheme called Vishesh Krishi Upaj Yojana has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.

(b) Duty free import of capital goods under Export Promotion Capital Goods Scheme (EPCG).

(c) Capital goods imported under EPCG for agriculture permitted to be installed anywhere in the Agri Export Zone.

(d) Assistance to States for Developing Export Infrastructure and allied Activities (ASIDE) funds to be utilized for development for Agri Export Zones also.

(e) Import of seeds, bulbs, tubers and planting material has been liberalized.

(f) Export of plant portions, derivatives and extracts has been liberalized with a view to promote export of medicinal plants and herbal products.

4. Gems & Jewellery:

(a) Duty free import of consumables for metals other than gold and platinum allowed up to 2% of Free on Board (FOB) value of exports.

(b) Duty free re-import entitlement for rejected jewellery allowed up to 2% of FOB value of exports.

(c) Duty free import of commercial samples of jewellery increased to Rs. 1 lakh.

(d) Import of gold of 18 carat and above shall be allowed under the replenishment scheme.

5. Handlooms & Handicrafts:

(a) Duty free import of trimmings and embellishments for Handlooms & Handicrafts sectors increased to 5% of FOB value of exports.

(b) Import of trimmings and embellishments and samples shall be exempt from Counter Vailing Duty (CVD).

(c) Handicraft Export Promotion Council authorized to import trimmings, embellishments and samples for small manufacturers.

(d) A new Handicraft Special Economic Zone shall be established.

6. Leather & Footwear:

(a) Duty free entitlements of import trimmings, embellishments and footwear components for leather industry increased to 3% of FOB value of exports.

(b) Duty free import of specified items for leather sector increased to 5% of FOB value of exports.

(c) Machinery and equipment for Effluent Treatment Plants for leather industry shall be exempt from Customs Duty.

7. Export Promotion Schemes:

(a) Target Plus:

A new scheme to accelerate growth of exports called Target Plus has been introduced.

Exporters who have achieved a quantum growth in exports would be entitled to duty free credit based on incremental exports substantially higher than the general actual export target fixed. (Since the target fixed for 2004-05 is 16%, the lower limit of performance for qualifying for rewards is pegged at 20% for the current year).

Rewards will be granted based on a tiered approach. For incremental growth of over 20%, 25% and 100%, the duty free credits would be 5%, 10% and 15% of FOB value of incremental exports.

(b) Vishesh Krishi Upaj Yojana:

Another new scheme called Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme) has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.

Export of these products shall qualify for duty free credit entitlement equivalent to 5% of FOB value of exports.

The entitlement is freely transferable and can be used for import of a variety of inputs and goods.

(c) Served from India Scheme:

To accelerate growth in export of services so as to create a powerful and unique Served from India brand instantly recognized and respected the world over, the earlier scheme for services has]peen revamped and re-cast into the Served from India scheme.

Individual service providers who earn foreign exchange of at least Rs. 5 lakhs and other service providers who earn foreign exchange of at least Rs. 10 lakhs will be eligible for a duty credit entitlement of 10% of total foreign exchange earned by them.

In the case of stand-alone restaurants, the entitlement shall be 20%, whereas in the case of hotels, it shall be 5%.

Hotels and Restaurants can use their duty credit entitlement for import of food items and alcoholic beverages.

(d) EPCG:

(i) Additional flexibility for fulfillment of export obligation under Export Promotion Capital Goods Scheme (EPCG), scheme in order to reduce difficulties of exporters of goods and services.

(ii) Technological upgradation under EPCG scheme has been facilitated and incentives.

(iii) Transfer of capital goods to group companies and managed hotels now permitted under EPCG.

(iv) In case of movable capital goods in the service sector, the requirement of installation certificate from Central Excise has been done away with.

(v) Export obligation for specified projects shall be calculated based on concessional duty permitted to them. This would improve the viability of such projects.

(e) DFRC:

Import of fuel under Duty Free Replenishment Certificate (DFRC) entitlement shall be allowed to be transferred to marketing agencies authorized by the Ministry of Petroleum and Natural Gas.

(f) DEPB:

The Duty Entitlement Pass Book in short DEPB scheme would be continued until replaced by a new scheme to be drawn up in consultation with exporters.

8. New Status Holder Categorization:

(a) A new rationalized scheme of categorization of status holders as Star Export Houses has been introduced as under:

i. Category Total performance over three years

ii. One Star Export House 15 crores

iii. Two Star Export House 100 crores

iv. Three Star Export House 500 crores

v. Four Star Export House 1500 crores

vi. Five Star Export House 5000 crores

(b) Star Export Houses shall be eligible for a number of privileges including fast-track clearance procedures, exemption from furnishing of Bank Guarantee, eligibility for consideration under Target plus Scheme etc.

9. EOUs:

(a) Export Oriented Units (EOUs), shall be exempted from Service Tax in proportion to their exported goods and services.

(b) EOUs shall be permitted to retain 100% of export earnings in Export Earners Foreign Currency (EEFC) accounts.

(c) Income Tax benefits on plant and machinery shall be extended to Domestic Tariff Area (D1 A) units which convert to EOUs.

(d) Import of capital goods shall be on self-certification basis for EOUs.

(e) For EOUs engaged in Textile & Garments manufacture leftover materials and fabrics upto 2% of Cost, Insurance and Freight (CIF) value or quantity of import shall be allowed to be disposed of on payment of duty on transaction value only.

(f) Minimum investment criteria shall not apply to Brass Hardware and Hand-made Jewellery EOUs (this facility already exists for Handicrafts, Agriculture, Floriculture, Aquaculture, Animal Husbandry, IT and Services).

10. Free Trade and Warehousing Zone:

(i) A new scheme to establish Free Trade and Warehousing Zone (FTWZs) has been introduced to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. This is aimed at making India into a global trading-hub.

(ii) Foreign Direct Investment (FDI) would be permitted up to 100% in the development and establishment of the zones and their infrastructural facilities.

(iii) Each zone would have minimum outlay of Rs.100 crores and Five Lakh sq. mts. built up area.

(iv) Units in the FTWZs would qualify for all other benefits as applicable for Special Economic Zones (SEZ) units.

11. Import of Second Hand Capital Goods:

a. Import of second-hand capital goods shall be permitted without any age restrictions.

b. Minimum depreciated value for plant and machinery to be re-located into India has been reduced from Rs.50 crores to Rs.25 crores.

12. Services Export Promotion Council:

An exclusive Services Export Promotion Council shall be set up in order to map opportunities for key services in key markets and develop strategic market access programmes, including brand building, in co-ordination with sectoral players and recognized nodal bodies of the services industry.

13. Common Facility Centres:

Government shall promote the establishment of Common Facility Centres to be used by home- based service providers, particularly in areas like Engineering & Architectural design, Multi-media operations, software developers etc., in State and District-level towns, to draw in a vast multitude of home-based professionals into the services export arena.

14. Procedural Simplification & Rationalization Measures:

(a) All exporters with minimum turnover of Rs.5 crores and good track record shall be exempted from furnishing Bank Guarantee in any of the schemes, so as to reduce their transactional costs.

(b) All goods and services exported, including those from Domestic Tariff Area (DTA) units, shall be exempted from Service Tax.

(c) Validity of all licences/entitlements issued under various schemes has been increased to a uniform 24 months.

(d) Number of returns and forms to be filed has been reduced. This process shall be continued in consultation with Customs & Excise.

(e) Enhanced delegation of powers to Zonal and Regional offices of Directorate General of Foreign Trade (DGFT) for speedy and less cumbersome disposal of matters.

(f) Time bound introduction of Electronic Data Interface (EDI) for export transactions. 75% of all export transactions to be on EDI within six months.

15. Pragati Maidan:

In order to showcase our industrial and trade prowess to its best advantage and leverage existing facilities Pragati Maidan will be transformed into a world-class complex. There shall be state-of-the- art environmentally-controlled, visitor friendly exhibition areas and marts.

A huge Convention Centre to accommodate 10,000 delegates with flexible hall spaces, auditorium and meeting rooms with high- tech equipment, as well as multi-level car parking for 9,000 vehicles will be developed within the envelope of Pragati Maidan.

16. Legal Aid:

Financial assistance would be provided to deserving exporters, on the recommendation of Export Promotion Councils, for meeting the costs of legal expenses connected with trade related matters.

17. Grievance Redressal:

A new mechanism for grievance redressal has been formulated and put into place by a Government Resolution to facilitate speedy redressal of grievances of trade and industry.

18. Quality Policy:

(a) DGFT shall be a business-driven, transparent, corporate oriented organization.

(b) Exporters can file digitally signed applications and use Electronic Fund Transfer Mechanism or paying application fees.

(c) All DGFT offices shall be connected via a central server making application processing faster. DGFT Head Quarters (HQ) has obtained ISO 9000 certification by standardizing and automating procedures.

19. Bio Technology Parks:

Biotechnology Parks to be set up which would be granted all facilities of 100% EOUs.

20. Co-acceptance/ Avalisation introduced:

As equivalent to irrevocable letter of credit to provide wider flexibility in financial instrument for export transaction.

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