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# General Studies
# INDIAN ECONOMY

# 2023-24

## PART - 1,2

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# INDIAN ECONOMY
# 2023

**PART-1**

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# CHAPTER - 1

# ECONOMY AND ECONOMICS

## Chapter Highlights

**1.** Economics: As a Discipline

**2.** Trade Offs

**3.** Macro, Micro, and Mesoeconomics

**4.** Different Schools of Thought

## Introduction

Food, shelter, clothes, and so on are the basic necessities for humans. In today's world, the basic necessities also include electricity, transport, education, phones, and so on. We rely on nature to provide the resources to satisfy our daily needs. Initially, we relied on nature and produced items for daily consumption as well as the immediate future. In the usual course of time, we advanced the techniques and methods of manufacturing to produce far more than what the manufacturers could consume. Through the barter system, surplus goods and services (education, health, transport, etc.) were exchanged for other goods and services in demand. Money did not exist as a mode of payment yet, and the barter system, also known as the exchange system, served a limited purpose in a simple economy. As manufacturing expanded in volume, value, and complexity, the barter system lost its historical relevance almost entirely. Currently, barter is used only when money loses its value when the prices rise astronomically. The barter system enjoys restricted use in international trade when countries exchange goods and services. It is known as counter trade.



> ***FACT CHECK***
>
> *Goods and services may either be exchanged for other goods and services (barter)—as it used to happen as a practice in primitive economies—or they are exchanged for money, which is the practice adopted by contemporary economies in the world.*

Barter system have many limitations: As said by Yuval Noah Harari: There is a shoe maker who has shoes to sell and there is an apple seller. What happens if the shoemaker doesn't like apples and really wants a lawyer for divorce? True, the farmer could look for a lawyer who likes apples and set up a three-way deal. But what if the lawyer is full up on apples but really needs a haircut?

The social activity where people come together to produce, stock, distribute, trade, and facilitate consumption of goods and services is known as economy. This entire activity, that is, for buying and selling, is meant for the market.

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# 2023

PART-2

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# CHAPTER - 26

# Fintech in India

## PROMISE, PROGRESS, INNOVATION, AND REGULATION

**Chapter Highlights**

1. Fintech In India
2. Institutional Innovation And Regulation
3. Reserve Bank Of India (RBI) And FI-Index
4. Account Aggregator (AA) Framework

## INTRODUCTION

FinTech, or financial technology, is a term that refers to technologically enabled financial advancements. It is a comparatively new industry that uses technology to improve financial activities. Startups and established financial institutions, as well as technology organizations trying to replace or improve the use of existing financial services, are all examples of financial technology firms. Fintech aims to provide end consumers with flexible, efficient, and unique experiences.

Fintech has the potential to alter the financial industry by allowing consumers to choose from a wider range of products at cheaper rates, while financial institutions can increase efficiency by lowering operational expenses. This is a watershed moment for us as a country committed to achieving universal financial inclusion at a reasonable cost.

***SNIPPETS***

*Mobile banking, investing, borrowing services, and cryptocurrencies are all examples of innovations aimed at making financial services more accessible to the general population.*

## FINTECH IN INDIA

India has been at the vanguard of this transformation. India is one of the world's fastest growing FinTech marketplaces. India, along with China, has the world's highest FinTech adoption rate. The $65 billion in digital payments in 2019 is predicted to grow at a CAGR of 20% until 2023. The whole transaction value in India's FinTech market is expected to increase from $65 billion in 2019 to $140 billion in 2023.

The industry's total value is estimated to be between $50 and $60 billion. According to a forecast released in March 2021 by the Boston Consulting Group, Indian fintech companies will be valued at US$150-160 billion by 2025, increasing threefold in five years.

financial incentives to select private sector initiatives to improve financial viability through tax breaks, etc. The exact nature of funding (equity, loan and grant) will depend on the viability or attractiveness of the segment, and to some extent, the type of player (for-profit private, non-profit industry association or non-profit NGO). Over time, the NSDC aspires to create strong viable business models and reduce its grant-making role.

• **Enabling Support Services:** A skill development institute requires a number of inputs or support services such as curriculum, faculty training standards, quality assurance, technology platforms, student placement mechanisms and so on. NSDC plays a significant enabling role in these support services, most importantly in setting up standards and accreditation systems in partnership with industry associations.

• **Shaping/Creating:** In the near term, the NSDC will proactively seed and provide momentum for large-scale participation by private players in skill development. NSDC will identify critical skill groups, develop models for skill development and attract potential private players and provide support to these efforts.

**PRADHAN MANTRI KAUSHAL VIKAS YOJANA (PMKY)**

This is the new Ministry of Skill Development and Entrepreneurship's flagship plan for youth skill training, which will be administered through the National Skill Development Corporation (NSDC). During the years 2016–2020, the programme will benefit 10 million young people.

• The government pays for all training and assessment expenses under this programme.

• Skill training would be based on industry-led standards and the National Skill Qualification Framework (NSQF).

• Any candidate of Indian nationality who is jobless or has dropped out of college or school is eligible for the initiative.



**key components**

• **Short Term Training:** Apart from offering training in accordance with the National Skills Qualification Framework (NSQF), PMKVY Training Centres (TCs) will also provide training in soft skills, entrepreneurship, financial literacy, and digital literacy. Candidates will receive placement help from training partners after successfully completing their assessment (TPs). The government pays for all training and assessment costs under PMKVY.

• **Recognition of Prior Learning:** The Recognition of Prior Learning (RPL) component of the programme will examine and certify individuals with prior learning experience or abilities. RPL attempts to match the country's unregulated workforce's competencies with the NSQF.

• **Special Projects:** Special projects are those that necessitate some deviance from the rules and conditions of PMKVY's Short Term Training. A proposed stakeholder can be either a federal or state government institution, an

In a similar manner, government wants to provide subsidies to the poor and destitute. It may mean more loans, and therefore some fiscal excess. But this addresses poverty and hence political stability is ensued. Hence, fiscal prudence might be traded off, to some extent, in pursuit of welfare.

***SNIPPETS***

*Public investment is critical, and so is the need to limit government loans. Striking the right balance between the two involves a trade off.*

Fiscal Responsibility and Budget Management (FRBM) Act laid down 3% of annual central government loans, where infrastructure investment is eased even as government finances are partly strained. Compensation for the land owners is increased to balance the interests of the farmers and industrialists in the land acquisition law. Investment may abate the process, but social justice gets addressed. Land is to be attained for manufacturing and the consent of the land owner may be conditionally dispensed within public interest, i.e., the tradeoff.

## OPPORTUNITY COSTS

Opportunity costs is related to the concept of trade offs. Resources like money or land can be put to multiple uses. We have to choose as to what is the optimal way to use resources. The choice made is preferred over others. The best course of action is chosen among the competing choices and others are discarded. Opportunity cost is the cost of discarding the second best choice. In a literal sense, it is the cost of the second best opportunity that is not chosen. For instance, money can be deposited in a bank earning interest or invested in stock market. If the latter is preferred, what is foregone, the interest that the money would have generated in a bank is the opportunity cost. The concept is relevant in government finance. For example, the opportunity cost of government expenditure on health is what it could not spend on education or roads and the benefits missed in the process.

If there is land owned by the government in a city and it can be used in many ways, the work of the economist is to choose from the following:

• Build hospital or school

• Build a municipal park

• Give it to a private investor free of cost who will build a hospital or school and provide free services to poor and low-income groups

• Sell it to the highest bidder in an auction

The choice made depends on many factors, such as government's financial position, level of literacy, need for recreation facilities, etc. The choice made will have an opportunity cost.

## MACRO, MICRO AND MESOECONOMICS

Macroeconomics includes the entire economy of a given unit, province, nation or the world itself. For instance, variables like the size of the economy in the form of national income, economic growth rate, inflation, employment, foreign trade, poverty, and inequality are phenomena that characterize the economy as a whole, although with regional variations.

On the other hand, microeconomics studies the units of the economy and the behavior of consumers, sellers, business firms, etc.

Interest rates although are a macroeconomic feature, but they impact the consumers, traders, and firms. Taxes impact prices and thus consumption and investment decisions. Consumer and business confidence are dependent on the state of economy. Consumer confidence or sentiment is the optimism of the consumer about the economy and their financial position. It is reflected in purchases and sales if they are confident, and thus economic growth. In a similar manner, business confidence helps in investment and growth picking up. Thus, micro and macro factors support each other.

Mesoeconomics studies the intermediate level of economic organization in between the micro and the macroeconomics like study of a sector of economics, like auto, infrastructure may be considered mesoeconomics while the study of each unit may fall under micro.



***SNIPPETS***

*Macroeconomics and microeconomics belong to the same economic system and influence each other.*

## DIFFERENT SCHOOLS OF THOUGHT

There are many schools of thought and approaches in the field of economics based essentially on the relation between State and markets. Recently, concerns related to sustainability, welfare, and behaviour are also emerging as centres of theory.

## EVOLUTION OF THE DISCIPLINE

As mentioned earlier, the discipline of economics started with focus on growth, which may also be understood as wealth generation. Adam Smith, the Father of Economics and the author of the classic 'An Inquiry into the Nature and Causes of the Wealth of Nations' defined economics in two ways. One corresponds to the title of his book—as the science of wealth. The other definition one is about markets being the best means of creation of wealth: the science relating to the laws of production, distribution, and exchange. Although he called economics a science, it is debatable: the urge to make it science is appreciated as policy becomes evidence-based and personal biases are drastically reduced.