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**B.Com.LL.B,
B.B.A.LL.B,
B.C.A.LL.B**

PRINCIPLES OF ECONOMICS

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MESSAGE

Knowledge is power. Legal Knowledge is a potential power. It can be exercised effectively everywhere. Of all the domains of reality, it is Legal Knowledge, which deals with rights and liabilities, commissions and omissions, etc., empower the holder of such knowledge to have prominence over the rest. Law Schools and Law Colleges that offer Legal Education vary in their stature on the basis of their ability in imparting the quality Legal Education to the students. Of all the Law Schools and Colleges, only those that educate their students to understand the nuances of law effectively and to facilitate them to think originally, excel. School of Excellence in Law aims to be in top of such institutions.

The revolution in Information and Communication Technology dump lot of information in the virtual world. Some of the information are mischievous and dangerous. Some others are spoiling the young minds and eating away their time. Students are in puzzle and in dilemma to find out the right information and data. They do not know how to select the right from the wrong, so as to understand, internalise and assimilate into knowledge. Hence in the present scenario, the role of teachers gains much more importance in guiding the students to select the reliable, valid, relevant and suitable information from the most complicated, perplexed and unreliable data.

The teachers of the School of Excellence in Law have made a maiden attempt select, compile and present a comprehensive book to guide the students in various subjects of law. The students can use such materials as guidance and travel further in their pursuit of legal knowledge. Guidance cannot be a complete source of information. It is a source that facilitates the students to search further source of information and enrich their knowledge. Read the materials, refer relevant text books and case laws and widen the knowledge.

Dr.P.Vanangamudi

Vice-Chancellor

PREFACE

Economics is a study of men as they live and move and think in the ordinary business of life. But it concerns itself chiefly with those motives which affect, most powerfully and most steadily, man's conduct in the business part of his life. Everyone who is worth anything carries his higher nature with him into business; and, there as elsewhere, he is influenced by his personal affections, by his conceptions of duty and his reverence for high ideals. And it is true that the best energies of the ablest inventors and organizers of improved methods and appliances are stimulated by a noble emulation more than by any love of wealth for its own sake. But, for all that, the steadiest motive to ordinary business work is the desire for the pay which is the material reward of work. The pay may be on its way to be spent selfishly or unselfishly, for noble or base ends; and here the variety of human nature comes into play. But the motive is supplied by a definite amount of money: and it is this definite and exact money measurement of the steadiest motives in business life, which has enabled economics far to outrun every other branch of the study of man. Just as the chemist's fine balance has made chemistry more exact than most other physical sciences; so this economist's balance, rough and imperfect as it is, has made economics more exact than any other branch of social science. The basic objective of this course is to make the students to understand the various advance economic principles as well as their applications. In addition to that this course also enables the students to understand sectors specific and they are impact in shaping trends in economic indicators in India.

PRINCIPLES OF ECONOMICS

5 YEAR B.B.A / B.C.A.LL.B (HONS.) COURSE

ECONOMICS

UNIT-I:

MICRO ECONOMIC CONCEPTS

MEANING OF ECONOMICS

The word 'Economics' was derived from two Greek words, *oikos* (a house) and *nemein* (to manage) which would mean 'managing an household' using the limited funds available, in the most satisfactory manner possible. Economics is the science that deals with human wants and their satisfaction. It studies about man's efforts to make a living first, and then a better living.

The central focus of economics is on scarcity of resources and choices among their alternative uses. The resources or inputs available to produce goods are limited or scarce. This scarcity induces people to make choices among alternatives, and the knowledge of economics is used to compare the alternatives for choosing the best among them.

SUBJECT MATTER OF ECONOMICS

Two major factors are responsible for the emergence of economic problems. They are: i) the existence of unlimited human wants and ii) the scarcity of available resources. The numerous human wants are to be satisfied through the scarce resources available in nature. Economics deals with how the numerous human wants are to be satisfied with limited resources. Thus, the science of economics centre's on want - effort - satisfaction.



Economics not only covers the decision making behaviour of individuals but also the macro variables of economies like national income, public finance, international trade and so on.

DEFINITIONS OF ECONOMICS

Several economists have defined economics taking different aspects into account.

WEALTH DEFINITION

Adam smith (1723 - 1790), in his book "An Inquiry into Nature and Causes of Wealth of Nations" (1776) defined economics as the science of wealth. He explained how a nation's wealth is created. He consid-

ered that the individual in the society wants to promote only his own gain and in this, he is led by an “invisible hand” to promote the interests of the society though he has no real intention to promote the society’s interests.

Criticism: Smith defined economics only in terms of wealth and not in terms of human welfare. Ruskin and Carlyle condemned economics as a ‘dismal science’, as it taught selfishness which was against ethics. However, now, wealth is considered only to be a mean to end, the end being the human welfare. Hence, wealth definition was rejected and the emphasis was shifted from ‘wealth’ to ‘welfare’.

WELFARE DEFINITION

Alfred Marshall (1842 - 1924) wrote a book “Principles of Economics” (1890) in which he defined “Political Economy” or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well being”. The important features of Marshall’s definition are as follows:

According to Marshall, economics is a study of mankind in the ordinary business of life, i.e., economic aspect of human life.

Economics studies both individual and social actions aimed at promoting economic welfare of people.

Marshall makes a distinction between two types of things, viz. material things and immaterial things. Material things are those that can be seen, felt and touched, (E.g.) book, rice etc.

Immaterial things are those that cannot be seen, felt and touched. (E.g.) skill in the operation of a thrasher, a tractor etc., cultivation of hybrid cotton variety and so on. In his definition, Marshall considered only the material things that are capable of promoting welfare of people.

Criticism: a) Marshall considered only material things. But immaterial things, such as the services of a doctor, a teacher and so on, also promote welfare of the people. Marshall makes a distinction between (i) those things that are capable of promoting welfare of people and (ii) those things that are not capable of promoting welfare of people. But anything, (E.g.) liquor, that is not capable of promoting welfare but commands a price, comes under the purview of economics.

Marshall’s definition is based on the concept of welfare. But there is no clear-cut definition of welfare. The meaning of welfare varies from person to person, country to country and one period to another. However, generally, welfare means happiness or comfortable living conditions of an individual or group of people. The welfare of an individual or nation is dependent not only on the stock of wealth possessed but also on political, social and cultural activities of the nation.

SCARCITY DEFINITION

Lionel Robbins published a book “An Essay on the Nature and Significance of Economic Science” in 1932. According to him, “economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”. The major features of Robbins’ definition are as follows:

- ❖ Ends refer to human wants. Human beings have unlimited number of wants.
- ❖ Resources or means, on the other hand, are limited or scarce in supply. There is scarcity of a commodity, if its demand is greater than its supply.
- ❖ The scarce means are capable of having alternative uses. Hence, anyone will choose the resource that will satisfy his particular want. Thus, economics, according to Robbins, is a science of choice.

Criticism: a) Robbins does not make any distinction between goods conducive to human welfare and goods that are not conducive to human welfare. In the production of rice and alcoholic drink, scarce resources are used. But the production of rice promotes human welfare while production of alcoholic drinks is not conducive to human welfare. However, Robbins concludes that economics is neutral between ends.

In economics, we not only study the micro economic aspects like how resources are allocated and how price is determined, but we also study the macroeconomic aspect like how national income is generated. But, Robbins has reduced economics merely to theory of resource allocation. Robbins definition does not cover the theory of economic growth and development.

GROWTH DEFINITION

Prof. Paul Samuelson defined economics as “the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time, and distribute them for consumption, now and in the future among various people and groups of society”.

The major implications of this definition are as follows:

Samuelson has made his definition dynamic by including the element of time in it. Therefore, it covers the theory of economic growth. Samuelson stressed

The problem of scarcity of means in relation to unlimited ends. Not only the means are scarce, but they could also be put to alternative uses.

The definition covers various aspects like production, distribution and consumption.

Of all the definitions discussed above, the ‘growth’ definition stated by Samuelson appears to be the most satisfactory. However, in modern economics, the subject matter of economics is divided into main parts, viz., i) Micro Economics and ii) Macro Economics.

Economics is, therefore, rightly considered as the study of allocation of scarce resources (in relation to unlimited ends) and of determinants of income, output, employment and economic growth.

SCOPE OF ECONOMICS

Scope means province or field of study. In discussing the scope of economics, we have to indicate whether it is a science or an art and a positive science or a normative science. It also covers the subject matter of economics.

Economics is a science

Science is a systematized body of knowledge that traces the relationship between cause and effect. Another attribute of science is that its phenomena should be amenable to measurement. Applying these characteristics, we find that economics is a branch of knowledge where the various facts relevant to it have been systematically collected, classified and analyzed. Economics investigates the Possibility of deducing generalizations as regards the economic motives of human beings. The motives of individuals and business firms can be very easily measured in terms of money. Thus, economics is a science.

NATURE OF ECONOMICS

Positive and Normative Economics

Economics is both positive and normative science.

i. **Positive science:** It only describes what it is and normative science prescribes what it ought to be. Positive science does not indicate what is good or what is bad to the society. It will simply provide results of economic analysis of a problem.

ii. **Normative science:** It makes distinction between good and bad. It prescribes what should be done to promote human welfare. A positive statement is based on facts. A normative statement involves ethical values.

Scope of Economics

The study of economics divided into two.i.e., micro economics and macro economics.

a. **Microeconomics** analyses the economic behaviour of any particular decision making unit such as a household or a firm. Microeconomics studies the flow of economic resources or factors of production from the households or resource owners to business firms and flow of goods and services from business firms to households. It studies the behaviour of individual decision making unit with regard to fixation of price and output and its reactions to the changes in demand and supply conditions. Hence, microeconomics is also called price theory.

b. **Macroeconomics** studies the behaviour of the economic system as a whole or all the decision-making units put together. Macroeconomics deals with the behaviour of aggregates like total employment, gross national product (GNP), national income, general price level, etc. So, macroeconomics is also known as income theory.

Microeconomics cannot give an idea of the functioning of the economy as a whole. Similarly, macroeconomics ignores the individual's preference and welfare. What is true of a part or individual may not be true of the whole and what is true of the whole may not apply to the parts or individual decision-making units. By studying about a single small-farmer, generalization cannot be made about all small farmers, say in Tamil Nadu state. Similarly, the general nature of all small farmers in the state need not be true in case of a particular small farmer. Hence, the study of both micro and macroeconomics is essential to understand the whole system of economic activities

Methods of Economic Analysis

Economics as a science adopts two methods for the discovery of its laws and principles, viz., (1) deductive method and (2) inductive method.

1. Deductive method: Here, we descend from the general to particular, i.e., we start from certain principles that are self-evident or based on strict observations. Then, we carry them down as a process of pure reasoning to the consequences that they implicitly contain. For instance, traders earn profit in their businesses is a general statement which is accepted even without verifying it with the traders. The deductive method is useful in analyzing complex economic phenomenon where cause and effect are inextricably mixed up. However, the deductive method is useful only if certain assumptions are valid. (Traders earn profit, if the demand for the commodity is more).

2. Inductive method: This method mounts up from particular to general, i.e., we begin with the observation of particular facts and then proceed with the help of reasoning founded on experience so as to formulate laws and theorems on the basis of observed facts. E.g. Data on consumption of poor, middle and rich income groups of people are collected, classified, analyzed and important conclusions are drawn out from the results.

In deductive method, we start from certain principles that are either indisputable or based on strict observations and draw inferences about individual cases. In inductive method, a particular case is examined to establish a general or universal fact. Both deductive and inductive methods are useful in economic analysis.

SUB-DIVISION OF ECONOMICS

1. Consumption: The satisfaction of human wants through the use of goods and services is called consumption.

2. Production: Goods that satisfy human wants are viewed as "bundles of utility". Hence production would mean creation of utility or producing (or creating) things for satisfying human wants. For production, the resources like land, labour, capital and organization are needed.

3. Exchange: Goods are produced not only for self-consumption, but also for sales. They are sold to buyers in markets. The process of buying and selling constitutes exchange.

4. Distribution: The production of any agricultural commodity requires four factors, viz., land,

labour, capital and organization. These four factors of production are to be rewarded for their services rendered in the process of production. The land owner gets rent, the labourer earns wage, the capitalist is given with interest and the entrepreneur is rewarded with profit. The process of determining rent, wage, interest and profit is called distribution.

5. Public finance: It studies how the government gets money and how it spends it. Thus, in public finance, we study about public revenue and public expenditure.

BASIC ECONOMIC PROBLEMS

America's first Nobel Prize winner for economics, the late Paul Samuelson is often credited with providing the first clear and simple explanation of the economic problem - namely, that in order to solve the problem of scarcity all societies, no matter how big or small, developed or not, must endeavour to answer three basic question

1. What to Produce?
2. How to Produce?
3. For Whom to Produce?

LAW OF DEMAND

In economics, demand for a commodity refers to the desire backed by the necessary purchasing power. (Desire, decision, purchasing power of party).

Marshall defined the law of demand thus, "the greater amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers".

The inverse relationship between price and quantity demanded, when the price level increases at the same time the quantity of demanded also decreases. If the price level fall at the same time the quantity of demand also raise. If other thing remaining same.

FUNCTIONS OF DEMAND:

$$D_x = f(P_x, P_s, Y, T, W, P_p, V_e, W_e)$$

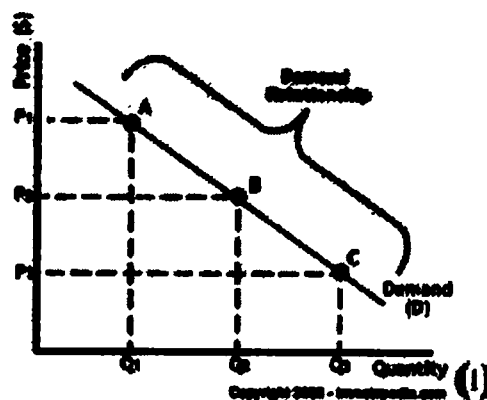
Here,

- D_x = Demand for commodity
- f = Function
- P_x = Price of commodity x
- P_s = Price of substitute goods
- Y = Income
- T = Taste and preference
- W = Wealth
- P_p = Population
- V_e = Veblen effect
- W_e = Weather conditions

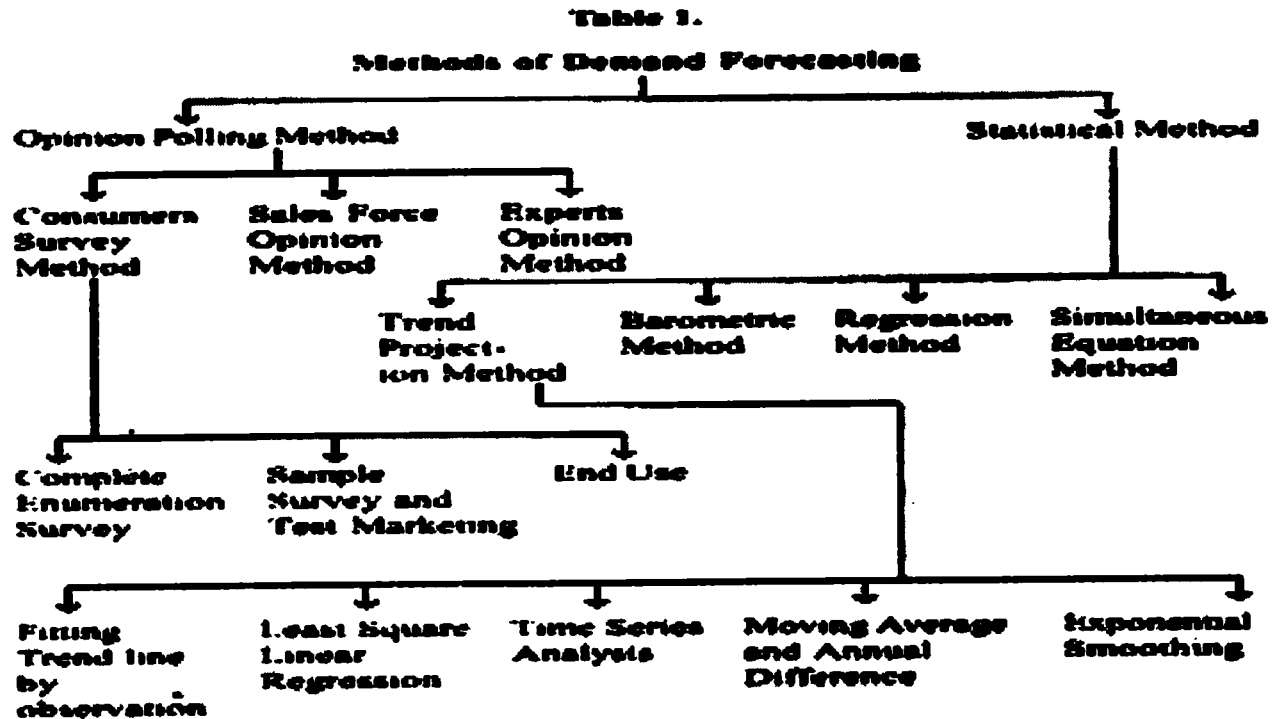
ELASTICITY OF DEMAND

Elasticity of demand refers to the degree of responsiveness of change in quantity demanded and change in price.

Types of Elasticity of Demand



(i) Price elasticity (ii) Income elasticity (iii) Cross elasticity
Demand Forecasting



CARDINAL UTILITY THEORY

Utility means want satisfying power of a commodity.

Cardinal Utility

The exponents of marginal utility analysis regard utility to be a cardinal concept. In other words, they hold the view that utility is a measurable and quantifiable entity. According to them, a person can express the utility or satisfaction he derives from the goods in quantitative terms.

Assumptions

1. Consumer is rational
2. Cardinal Measurability of Utility
3. Independent Utilities
4. Constancy of the Marginal Utility of Money
5. Introspective Method.

LAW OF CARDINAL MARGINAL UTILITY ANALYSIS

With the above basic premises, the founders of cardinal utility analysis have developed two laws which occupy an important place in economic theory and have several applications and uses. These two laws:

1. Law of Diminishing Marginal Utility and
2. Law of Equi-Marginal Utility.

CRITICAL EVALUATION OF CARDINAL MARGINAL UTILITY ANALYSIS

1. Hedonistic premises of utility analysis challenged
2. Cardinal measurability of utility is unrealistic
3. Hypothesis of independent utilities is wrong
4. Assumption of constant marginal utility of money is not valid
5. Marshallian demand theorem cannot genuinely be derived except in a one commodity case
6. Cardinal utility analysis does not split up the price effect into substitution and income effect
7. Marshall could not explain Giffen Paradox
8. Marshallian utility analysis assumes too much and explain little.

Indifference curve Approach (Edgeworth)

- ❖ Ordinal Measurement of Utility
- ❖ Preference Hypothesis of Indifference Curve Approach
- ❖ Weak-ordering Preference Hypothesis

Indifference Curve and Indifference Map

The basic tool of Hicks-Allen ordinal analysis of demand is the indifference curve which represents all those combination of goods which give same satisfaction to the consumer.

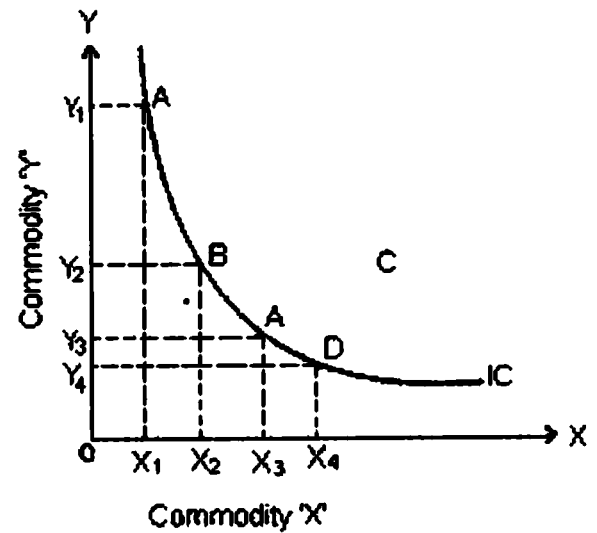
Assumptions of Nature of Consumer Preferences

1. Complete Ranking
2. Transitivity
3. Non-Satiation

INDIFFERENCE CURVE SCHEDULE AND MAP

I		II	
Good X	Good Y	Good X	Good Y
1	12	2	14
2	8	3	10
3	5	4	7
4	3	5	5
5	2	6	4

A complete description of consumer's taste and preferences can be shown by an indifference map which consists of a set of indifference curves.

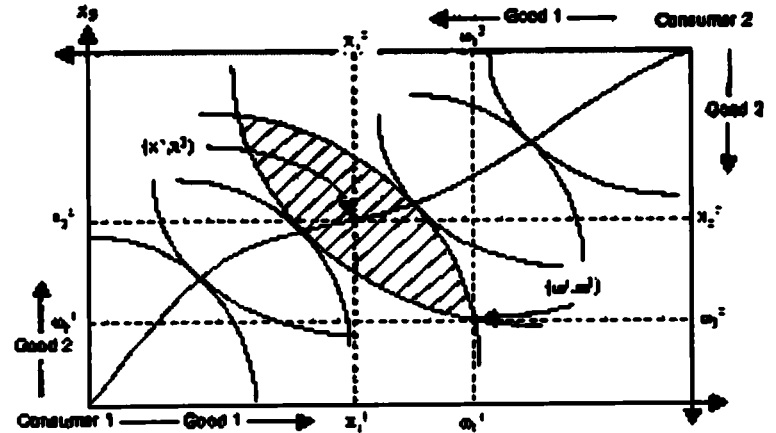


PROPERTIES OF INDIFFERENCE CURVE

1. Indifference curves slope downward to the right
2. Indifference curves are convex to the origin
3. Indifference curves cannot intersect each other
4. A higher Indifference curves represents a higher level of satisfaction than the lower Indifference curves.

APPLICATION AND USES OF INDIFFERENCE CURVE

Edgeworth Box Diagram



CONSUMER'S EQUILIBRIUM

A consumer is said to be in equilibrium when he is buying such combination of goods as leaves him with no tendency to rearrange his purchases of goods. Consumer is assumed to be rational in the sense that he aims at maximizing his satisfaction.

Assumption

1. The consumer has a given indifference map exhibiting his scale of preferences for various combinations of two goods, X and Y.
2. He has a fixed amount of money to spend on the two goods. He has to spend whole of his given money on the two goods.
3. Prices of the goods are given and constant for him. He cannot influence the prices of the goods by buying more or less of them.
4. Goods are homogeneous and divisible.

$$\frac{MRS_{xy}}{\text{Price of good X}} = \frac{\text{Price of good Y}}{P_x} = \frac{P_y}{P_x}$$

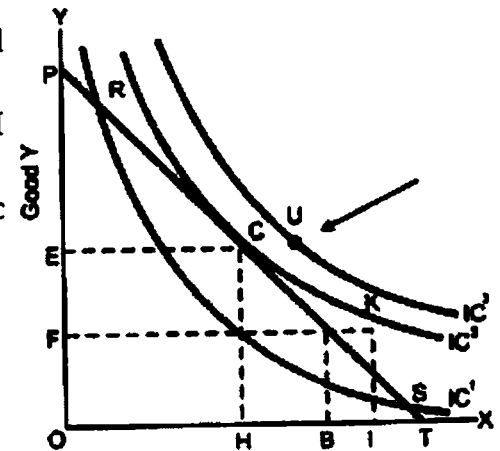


Fig. 3.11: Consumer's equilibrium through Indifference Curves

THE RELATIONSHIP BETWEEN NORMAL GOODS AND GIFFEN GOOD:

Goods or items used by us are classified by economists based upon our behavior. If the consumption of a good increases when our income levels increase, it is said to be a normal good, on the other hand, if its consumption goes down, it is classified as an inferior good. This dichotomy is still not clear, so let us take a closer look through examples.

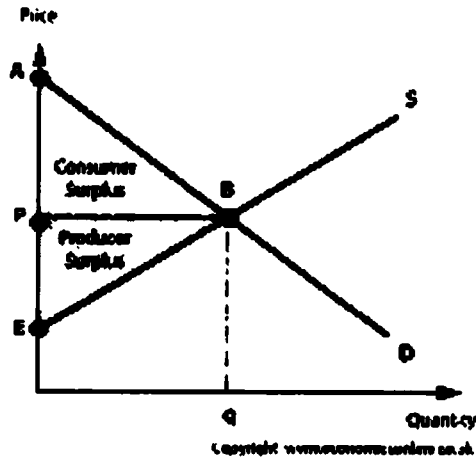
In the normal course, one would expect consumption of goods to increase with increasing income levels. This is a positive correlation between quantity and income, and suggests an increase in demand when the income of an individual increases. A good is normal if the coefficient of elasticity of demand is positive and less than one. One example that reflects this phenomenon is the demand for luxury cars. Luxury cars are liked by everyone. But, as they are very expensive, they are bought, only when the income levels of an individual rises.

However, there are circumstances when opposite of this tendency takes place. Demand of certain goods and service is negatively affected when income levels rise. For example, a person might be traveling through bus or other forms of public transport, but as soon as he buys his own motorcycle or car, he stops using public transport. In such a case, public transport is classified as an inferior good, though in reality it might not be so. The demand for such goods goes down with the increase in income. There is nothing to suggest that the quality of good is inferior, but the classification by economists is such that it makes people confused. A classic example of inferior goods is noodles that are prepared instantly. Though, there is nothing to suggest that noodles are of inferior quality, they are consumed less as income levels rise and are consumed mostly by students.

However, there are goods that cannot be classified as either normal or inferior as their demand or use shows no appreciable change with the increase in income levels. Soap used in the bathroom or the dishwashing detergent in the kitchen do not get increased in quantity when income levels rise nor their use is lessened in any way. Thus, these types of goods are neither normal nor inferior

CONSUMER SURPLUS

Consumer Surplus = Potential price - Actual price



UNIT-II:

THEORY OF SUPPLY AND MARKET

(A).LAW OF SUPPLY AND THEORIES OF PRODUCTION

Law of Supply

Supply is defined as how much of goods will be offered for sale at a given time and give price level. There is positive relationship between price and quantity of supply.

$$S_x = f(P_x, P_s, I, e, W, G_x, W_e, T_e)$$

Here,

S_x = Supply of commodity

F = Function

P_x = Price of commodity

P_s = Price of substitute goods

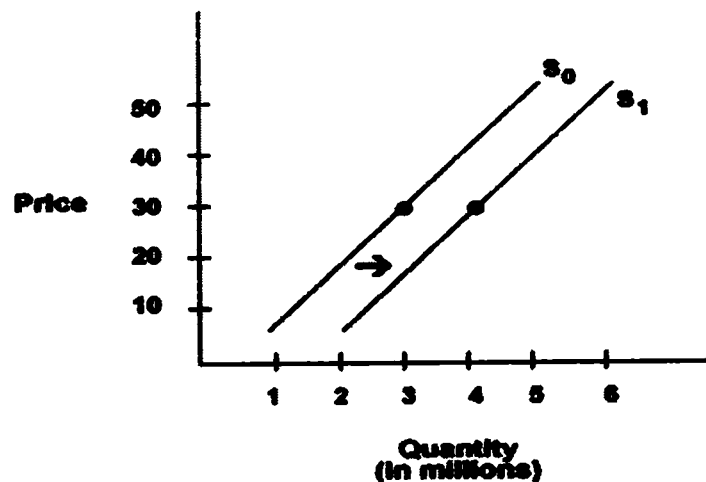
I = Investment

e = Rate of interest

G_x = Government taxation

W_e = Weather conditions

T_e = Technology



ACTORS OF PRODUCTION

In traditional production theory resources used for the production of a product are known as factors of production. Factors of production are now termed as inputs which may mean the use of the services of land, labour, capital and organization in the process of production. The term output refers to the commodity produced by the various inputs.

Production theory concerns itself with the problems of combining various inputs, given the state of technology, in order to produce a stipulated output. The technological relationships between inputs and outputs are known as production functions.

PRODUCTION:

Production in economic terms is generally understood as the transformation of inputs into outputs. The inputs are what the firm buys, namely productive resources, and outputs are what it sells. Production is not the creation of matter but it is the creation of value. Production is also defined as producing goods which satisfy some human want. Production is a sequence of technical processes requiring either directly or indirectly the mental and physical skill of craftsman and consists of changing the shape, size and properties of materials and ultimately converting them into more useful articles.

METHODS OF PRODUCTION:

There are three methods of production:

- a) Unit production
- b) Mass production
- c) Batch production

The unit production is otherwise known as job-order production. This type of production is used for things which cannot be produced on large scale, things of high artistic nature, i.e.

production of exclusive goods. This is a method to meet the individual requirements of customers. This type of production requires lot of flexibility in operation.

Mass production uses mechanical aids for material handling. This type of production requires specially planned layout, special purpose machines, jigs and fixtures, automatic machines, etc. Mass production is continuous production, i.e. it does not have any non-producing time.

Batch production is generally adopted in medium size enterprises. It is a stage in-between unit production and mass production. It is bigger in scale than unit production while it is smaller than mass production. In this type of production, variety of products is manufactured in lots at regular interval. Therefore, this is known as batch production. The theory of production centres round the concept of production function which we explain now.

PRODUCTION FUNCTION

The production function expresses a functional relationship between quantities of inputs and outputs. It shows how and to what extent output changes with variations in inputs during a specified period of time. In the words of Stigler, "The production function is the name given to the relationship between rates of input of productive services and the rate of output of product.

It is the economist's summary of technical knowledge." Basically, the production function is a technological or engineering concept which can be expressed in the form of a table, graph and equation showing the amount of output obtained from various combinations of inputs used in production, given the state of technology. Algebraically, it may be expressed in the form of an equation as

$$Q = f(L, M, N, \hat{E}, T) \dots \dots \dots (1)$$

where Q stands for the output of a good per unit of time, L for labour, M for management (or organisation), N for land (or natural resources), \hat{E} for capital and T for given technology, and refers to the functional relationship.

The production function with many inputs cannot be depicted on a diagram. Moreover, given the specific values of the various inputs, it becomes difficult to solve such a production function mathematically. Economists, therefore, use a two-input production function. If we take two inputs, labour and capital, the production function assumes the form

$$Q = f(L, K) \dots (2)$$

The production function as determined by technical conditions of production is of two types: It may be rigid or flexible. The former relates to the short run and the latter to the long - run.

THE NATURE OF PRODUCTION FUNCTION:

The production function depends upon the following factors:

- (a) The quantities of inputs to be used.
- (b) The state of technical knowledge.
- (c) The possible processes of production.

- (d) The size of the firm.
- (e) The prices of inputs.

Now if these factors change the production function automatically changes.

ATTRIBUTES OF PRODUCTION FUNCTION:

The following are the important attributes of production function:

- i. The production function is a flow concept.
- ii. A production function is a technical relationship between inputs and outputs expressed in physical terms.
- iii The production function of a firm depends on the state of technology and inputs.
- iv. From the economic point of view, a rational firm is interested not in all the numerous possible levels of output but only in that combination which yields maximum outputs.
- v. The short run production function pertains to the given scale of production. The long run production function pertains to the changing scale of production.

THE SHORT-RUN PRODUCTION FUNCTION:

In the short run, the technical conditions of production are rigid so that the various inputs used to produce a given output are in fixed proportions. However, in the short run, it is possible to increase the quantities of one input while keeping the quantities of other inputs constant in order to have more output. This aspect of the production function is known as the Law of Variable Proportions. The short-run production function in the case of two inputs, labour and capital, with capital as fixed and labour as the variable input can be expressed as

$$Q=f(L,K) \text{ where } K \text{ refers to the fixed input. ... (3)}$$

THE LONG-RUN PRODUCTION FUNCTION:

In the long run, all inputs are variable. Production can be increased by changing one or more of the inputs. The firm can change its plants or scale of production. Equations (1) and (2) represent the long-run production function. Given the level of technology, a combination of the quantities of labour and capital produces a specified level of output.

In the long run, it is possible for a firm to change all inputs up or down in accordance with its scale. This is known as returns to scale. The returns to scale are constant when output increases in the same proportion as the increase in the quantities of inputs. The returns to scale are increasing when the increase in output is more than proportional to the increase in inputs. They are decreasing if the increase in output is less than proportional to the increase in inputs.

THUS A PRODUCTION FUNCTION IS OF TWO TYPES:

- (i) Linear homogeneous of the first degree in which the output would change in exactly the same proportion as the change in inputs. Doubling the inputs would exactly double the output, and vice versa. Such a production function expresses constant returns to scale,
- (ii) Non-homogeneous production function of a degree greater or less than one. The former relates to increasing returns to scale and the latter to decreasing returns to scale.

CONCLUSION:

The production function exhibits technological relationships between physical inputs and outputs and is thus said to belong to the domain of engineering. Prof. Stigler does not agree with this commonly held view. The function of management is to sort out the right type of combination of inputs for the quantity of output he desires.

THE LAW OF VARIABLE PROPORTIONS:

If one input is variable and all other inputs are fixed the firm's production function exhibits the law of variable proportions. If the number of units of a variable factor is increased, keeping other factors constant, how output changes is the concern of this law. Suppose land, plant and equipment are the fixed factors, and labour the variable factor.

When the number of labourers is increased successively to have larger output, the proportion between fixed and variable factors is altered and the law of variable proportions sets in. The law states that as the quantity of a variable input is increased by equal doses keeping the quantities of other inputs constant, total product will increase, but after a point at a diminishing rate.

THIS PRINCIPLE CAN ALSO BE DEFINED THUS:

When more and more units of the variable factor are used, holding the quantities of fixed factors constant, a point is reached beyond which the marginal product, then the average and finally the total product will diminish. The law of variable proportions (or the law of non-proportional returns) is also known as the law of diminishing returns. But, as we shall see below, the law of diminishing returns is only one phase of the more comprehensive law of variable proportions.

Assumption:

The law of diminishing returns is based on the following assumptions:

- (1) Only one factor is variable while others are held constant.
- (2) All units of the variable factor are homogeneous.
- (3) There is no change in technology.
- (4) It is possible to vary the proportions in which different inputs are combined.
- (5) It assumes a short-run situation, for in the long-run all factors are variable.
- (6) The product is measured in physical units, i.e., in quintals, tonnes, etc.

The use of money in measuring the product may show increasing rather than decreasing returns if the price of the product rises, even though the output might have declined.

EXPLANATION:

Given these assumptions, let us illustrate the law with the help of Table , where on the fixed input land of 4 acres, units of the variable input labour are employed and the resultant output is obtained. The production function is revealed in the first two columns. The average product and marginal product columns are derived from the total product column.

Table. 1: Output of Wheat in Physical Units (Quintals)

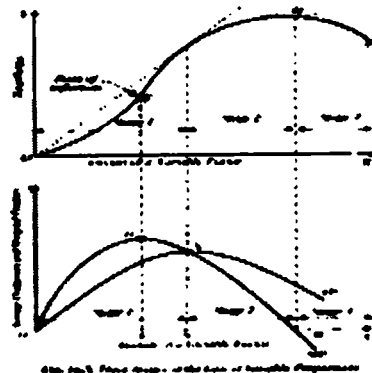
(1) <i>No of Workers</i>	(2) <i>Total Product</i>	(3) <i>Average Product</i>	(4) <i>Marginal Product</i>	
1	8	8	8	} Stage I
2	20	10	12	
3	36	12	16	
4	48	12	12	} Stage II
5	55	11	7	
6	60	10	5	
7	60	8.6	0	} Stage III
8	56	7	-4	

The average product per worker is obtained by dividing column (2) by a corresponding unit in column (1). The marginal product is the addition to total product by employing an extra worker. 3 workers produce 36 units and 4 produce 48 units. Thus the marginal product is 12 i.e., (48-36) units.

An analysis of the Table shows that the total, average and marginal products increase at first, reach a maximum and then start declining. The total product reaches its maximum when 7 units of labour are used and then it declines. The average product continues to rise till the 4th unit while the marginal product reaches its maximum at the 3rd unit of labour, then they also fall. It should be noted that the point of falling output is not the same for total, average and marginal product.

The marginal product starts declining first, the average product following it and the total product is the last to fall. This observation points out that the tendency to diminishing returns is ultimately found in the three productivity concepts.

The law of variable proportions is presented diagrammatically. The TP curve first rises at an increasing rate up to point A where its slope is the highest. From point A upwards, the total product increases at a diminishing rate till it reaches its highest point N and then it starts falling.



THREE STAGES OF PRODUCTION:

Stage-I: Increasing Returns:

In stage I the average product reaches the maximum and equals the marginal product when 4 workers are employed. This stage is portrayed in the figure from the origin to point E where the MP curve reaches its maximum and the AP curve is still rising. In this stage, the TP curve also increases rapidly.

Thus this stage relates to increasing returns. Here land is too much in relation to the workers employed. It is, therefore, profitable for a producer to increase more workers to produce more and more output. It becomes cheaper to produce the additional output. Consequently, it would be foolish to stop producing more in this stage. Thus the producer will always expand through this stage I.

Causes of Increasing Returns:

1. The main reason for increasing returns in the first stage is that in the beginning the fixed factors are larger in quantity than the variable factor. When more units of the variable factor are applied to a fixed factor, the fixed factor is used more intensively and production increases rapidly.

2. In the beginning, the fixed factor cannot be put to the maximum use due to the non-applicability of sufficient units of the variable factor. But when units of the variable factor are applied in sufficient quantities, division of labour and specialization lead to per unit increase in production and the law of increasing returns operates.

3. Another reason for increasing returns is that the fixed factors are indivisible which means that they must be used in a fixed minimum size. When more units of the variable factor are applied on such a fixed factor, production increases more than proportionately. This points towards the law of increasing returns.

Stage-II: Diminishing Returns:

It is the most important stage of production. Stage II starts when at point E where the MP curve intersects the AP curve which is at the maximum. Then both continue to decline with AP above MP and the TP curve begins to increase at a decreasing rate till it reaches point C. At this point the MP curve becomes negative when the TP curve begins to decline.

Thus the total product increases at a diminishing rate and the average and marginal product decline. This is the only stage in which production is feasible and profitable because in this stage the marginal productivity of labour, though positive, is diminishing but is non-negative.

Stage-III: Negative Marginal Returns:

Production cannot take place in stage III either. For in this stage, total product starts declining and the marginal product becomes negative. Here the workers are too many in relation to the available land, making it absolutely impossible to cultivate it.

The Law of Returns to Scale:

The law of returns to scale describes the relationship between outputs and scale of inputs in the long-run when all the inputs are increased in the same proportion. In the words of Prof.

Roger Miller, "Returns to scale refer to the relationship between changes in output and proportionate changes in all factors of production. To meet a long-run change in demand, the firm increases its scale of production by using more space, more machines and labourers in the factory'.

ASSUMPTIONS:

- (1) All factors (inputs) are variable but enterprise is fixed.
- (2) A worker works with given tools and implements.
- (3) Technological changes are absent.
- (4) There is perfect competition.
- (5) The product is measured in quantities.

Explanation:

Given these assumptions, when all inputs are increased in unchanged proportions and the scale of production is expanded, the effect on output shows three stages: increasing returns to scale, constant returns to scale and diminishing returns to scale.

Table 2 : Returns to Scale in Physical Units

<i>Unit</i>	<i>Scale of Production</i>	<i>Total Returns</i>	<i>Marginal Returns Returns</i>	
1	1 Worker + 2 Acres Land	8	}	Increasing Returns
2	2 Worker + 4 Acres Land	17		
3	3 Worker + 6 Acres Land	27		
4	4 Worker + 8 Acres Land	38	}	Constant Return
5	5 Worker + 10 Acres Land	49		
6	6 Worker + 12 Acres Land	59	}	Diminishing Return
7	7 Worker + 14 Acres Land	68		
8	8 Worker + 16 Acres Land	76		

1. INCREASING RETURNS TO SCALE:

Returns to scale increase because the increase in total output is more than proportional to the increase in all inputs.

Causes of Increasing Returns to Scale:

Returns to scale increase due to the following reasons:

(i) Indivisibility of Factors:

Returns to scale increase because of the indivisibility of the factors of production. Indivisibility means that machines, management, labour, finance, etc. cannot be available in very small sizes. They are available only in certain minimum sizes. When a business unit expands, the returns to scale increase because the indivisible factors are employed to their maximum capacity.

ii) Specialisation and Division of Labour:

Increasing returns to scale also result from specialisation and division of labour. When the scale of the firm is expanded there is wide scope of specialization and division of labour. Work can be divided into small tasks and workers can be concentrated to narrower range of processes. For this, specialised equipment can be installed. Thus with specialisation, efficiency increases and increasing returns to scale follow.

(iii) Internal Economies:

As the firm expands, it enjoys internal economies of production. It may be able to install better machines, sell its products more easily, borrow money cheaply, procure the services of more efficient manager and workers, etc. All these economies help in increasing the returns to scale more than proportionately.

(iv) External Economies:

A firm also enjoys increasing returns to scale due to external economies. When the industry itself expands to meet the increased long-run demand for its product, external economies appear which are shared by all the firms in the industry.

When a large number of firms are concentrated at one place, skilled labour, credit and transport facilities are easily available. Subsidiary industries crop up to help the main industry. Trade journals, research and training centres appear which help in increasing the productive efficiency of the firms. Thus these external economies are also the cause of increasing returns to scale.

2. CONSTANT RETURNS TO SCALE:

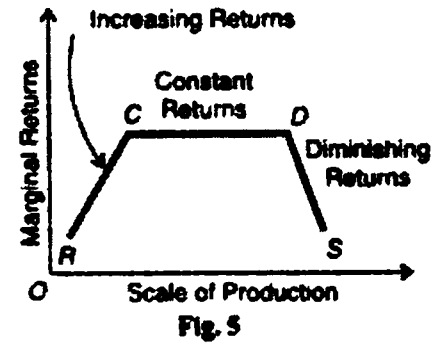
Returns to scale become constant as the increase in total output is in exact proportion to the increase in inputs. If the scale of production is increased further, total returns will increase in such a way that the marginal returns become constant. In the table, for the 4th and 5th units of the scale of production, marginal returns are 11, i.e., returns to scale are constant. In the figure, the portion from \tilde{N} to D of the RS curve is horizontal which depicts constant returns to scale. It means that increments of each input are constant at all levels of output.

CAUSES OF CONSTANT RETURNS TO SCALE:

Returns to scale are constant due to:

(i) Internal Economies and Diseconomies:

But increasing returns to scale do not continue indefinitely. As the firm expands further, internal economies are counterbalanced by internal diseconomies. Returns increase in the same proportion so that there are constant returns to scale over a large range of output.



(ii) External Economies and Diseconomies:

The returns to scale are constant when external diseconomies and economies are neutralised and output increases in the same proportion.

(iii) Divisible Factors. When factors of production are perfectly divisible, substitutable, and homogeneous with perfectly elastic supplies at given prices, returns to scale are constant.

3. DIMINISHING RETURNS TO SCALE:

Returns to scale diminish because the increase in output is less than proportional to the increase in inputs. The table shows that when output is increased from the 6th, 7th and 8th units, the total returns increase at a lower rate than before so that the marginal returns start diminishing successively to 10, 9 and 8. In the figure, the portion from D to S of the RS curve shows diminishing returns.

CAUSES OF DIMINISHING RETURNS TO SCALE:

Constant returns to scale is only a passing phase, for ultimately returns to scale start diminishing. Indivisible factors may become inefficient and less productive. Business may become unwieldy and produce problems of supervision and coordination. Large management creates difficulties of control and rigidities. To these internal diseconomies are added external diseconomies of scale.

These arise from higher factor prices or from diminishing productivities of the factors. As the industry continues to expand, the demand for skilled labour, land, capital, etc. rises. There being perfect competition, intensive bidding raises wages, rent and interest. Prices of raw materials also go up. Transport and marketing difficulties emerge. All these factors tend to raise costs and the expansion of the firms leads to diminishing returns to scale so that doubling the scale would not lead to doubling the output.

CONCLUSION:

For the management increasing, decreasing or constant returns to scale reflect changes in production efficiency that result from scaling up productive inputs. But returns to scale is strictly a production and cost concept. Management's decision on what to produce and how much to produce must be based upon the demand for the product. Therefore, demand and other factors must also be considered in decision making.

(B) THEORY OF MARKET:

MARKET STRUCTURE

i. On the basis of Place

- a. Local Market
- b. Regional Market
- c. National Market
- d. Global Market

ii. On the basis of Time

- a. Very Short Period Market
- b. Short Period Market
- c. Long Period Market

iii. On the basis of Competition

- a. Perfect Competitive Market
- b. Imperfect Competitive Market

- ❖ Monopoly Market
- ❖ Duopoly Market
- ❖ Oligopoly Market
- ❖ Monopolistic Competitive Market

Market forces - Demand and supply Conditions of Firms equilibrium,

- (i) $MC = MR$
- ii) MC curve must cut MR curve from the below.

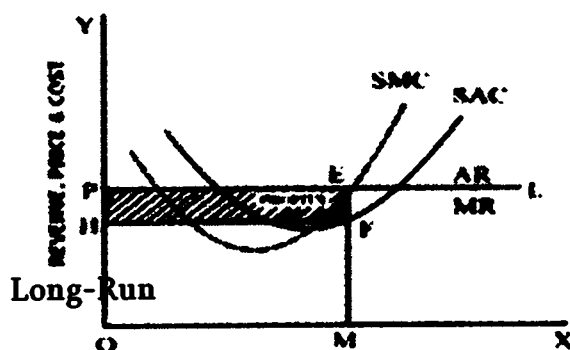
PERFECT COMPETITIVE MARKET

Perfect competition describes a market structure where competition is at its greatest possible level. To make it more clear, a market which exhibits the following characteristics in its structure is said to show perfect competition.

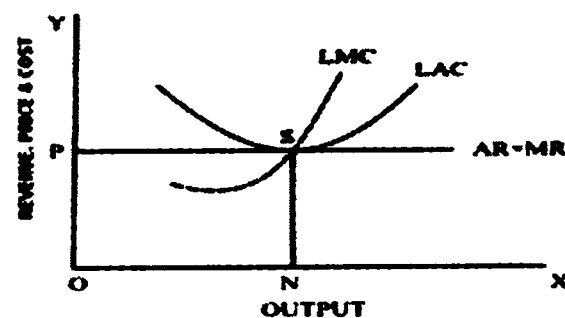
1. Large number of buyers and sellers
2. Homogenous product is produced by every firm
3. Free entry and exit of firms
4. Zero advertising cost
5. Consumers have perfect knowledge about the market and are well aware of any changes in the market.
6. Consumers indulge in rational decision making.
7. All the factors of production, viz. labour, capital, etc, have perfect mobility in the market and are not hindered by any market factors or market forces.
8. No government intervention
9. No transportation costs
10. Each firm earns normal profits and no firms can earn super-normal profits
11. Every firm is a price taker. It takes the price as decided by the forces of demand and supply. No firm can influence the price of the product.

PRICE AND OUTPUT DETERMINATION UNDER PERFECT COMPETITIVE MARKET

Short-run equilibrium with super-normal profits



Long run equilibrium of the firm



Description: Ideally, perfect competition is a hypothetical situation which cannot possibly exist in a market. However, perfect competition is used as a base to compare with other forms of market structure. No industry exhibits perfect competition in India.

MONOPOLY

MONOPOLY REFERS TO SINGLE SELLER MARKET.

Characteristics of Monopoly Market

1. *Profit Maximizer*: Maximizes profits.
2. *Price Maker*: Decides the price of the good or product to be sold, but does so by determining the quantity in order to demand the price desired by the firm.
3. *High Barriers*: Other sellers are unable to enter the market of the monopoly.
4. *Single seller*: In a monopoly, there is one seller of the good that produces all the output. Therefore, the whole market is being served by a single company, and for practical purposes, the company is the same as the industry.
5. *Price Discrimination*: A monopolist can change the price and quality of the product. He or she sells higher quantities, charging a lower price for the product, in a very elastic market and sells lower quantities, charging a higher price, in a less elastic market

CAUSES OF MONOPOLY

❖ *Economic barriers*: Economic barriers include economies of scale, capital requirements, cost advantages and technological superiority.

❖ *Economies of scale*: Monopolies are characterized by decreasing costs for a relatively large range of production. Decreasing costs coupled with large initial costs give monopolies an advantage over would-be competitors. Monopolies are often in a position to reduce prices below a new entrant's operating costs and thereby prevent them from continuing to compete. Furthermore, the size of the industry relative to the minimum efficient scale may limit the number of companies that can effectively compete within the industry. If for example the industry is large enough to support one company of minimum efficient scale then other companies entering the industry will operate at a size that is less than MES, meaning that these companies cannot produce at an average cost that is competitive with the dominant company. Finally, if long-term average cost is constantly decreasing, the least cost method to provide a good or service is by a single company.

❖ *Capital requirements*: Production processes that require large investments of capital, or large research and development costs or substantial sunk costs limit the number of companies in an industry. Large fixed costs also make it difficult for a small company to enter an industry and expand.

❖ *Technological superiority*: A monopoly may be better able to acquire, integrate and use the best possible technology in producing its goods while entrants do not have the size or finances to use the best available technology. One large company can sometimes produce goods cheaper than several small companies.

❖ *No substitute goods*: A monopoly sells a good for which there is no close substitute. The absence of substitutes makes the demand for the good relatively inelastic enabling monopolies to extract positive profits.

❖ *Control of natural resources*: A prime source of monopoly power is the control of resources that are critical to the production of a final good.

❖ *Network externalities*: The use of a product by a person can affect the value of that product to other people. This is the network effect. There is a direct relationship between the proportion of people using a product and the demand for that product. In other words the more people who are using a product the greater the probability of any individual starting to use the product. This effect accounts for fads, fashion trends, social networks etc. It also can play a crucial role in the development or acquisition of market power. The most famous current example is the market dominance of the Microsoft office suite and operating system in personal computers.

❖ **Legal barriers:** Legal rights can provide opportunity to monopolise the market of a good. Intellectual property rights, including patents and copyrights, give a monopolist exclusive control of the production and selling of certain goods. Property rights may give a company exclusive control of the materials necessary to produce a good.

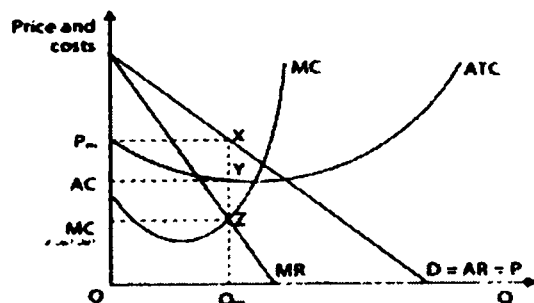
❖ **Deliberate actions:** A company wanting to monopolise a market may engage in various types of deliberate action to exclude competitors or eliminate competition. Such actions include collusion, lobbying governmental authorities, and force

❖ In addition to barriers to entry and competition, barriers to exit may be a source of market power. Barriers to exit are market conditions that make it difficult or expensive for a company to end its involvement with a market. Great liquidation costs are a primary barrier for exiting. Market exit and shutdown are separate events. The decision whether to shut down or operate is not affected by exit barriers. A company will shut down if price falls below minimum average variable costs

PRICE AND OUTPUT DETERMINATION UNDER MONOPOLY MARKET

PRICE DISCRIMINATION UNDER MONOPOLY MARKET

PRICE AND OUTPUT DETERMINATION UNDER MONOPOLY MARKET



PRICE DISCRIMINATION UNDER MONOPOLY MARKET

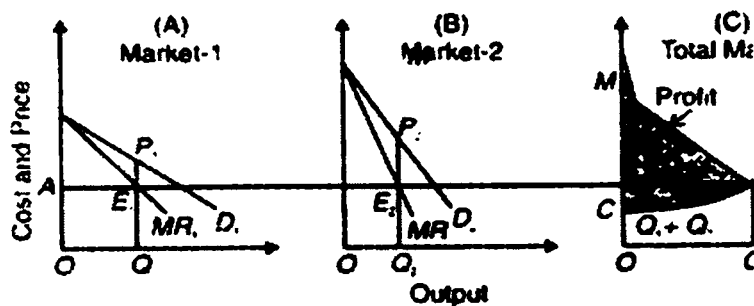


Fig. 1

DUOPOLY MARKET

Duopoly the word derived from the Greek-duo-two, and poly- to sell. This kind of imperfect competition is characterized by having only two firms in the market producing a homogeneous good. For simplicity purposes, oligopolies are normally studied by analysing duopolies. What strategies firms follow and their interactions are a key feature of this market structure.

In duopolies there are two variables of interest: the prices set by each firm and the quantity produced by each firm. Several models have been developed through time, from which we must highlight the Cournot, Stackelberg, Bertrand and the Edgeworth solution.

The first two models seek the optimum quantity a firm should produce. Both have different conclusions as they have a different initial assumption. With time, and as the next two models proved, the focus changed to target the optimum price a firm should set in order to maximise profits. There are also different perspectives in the analysis of duopolies, which deal with game theory. While the models by Antoine Cournot and Joseph Bertrand occur under a basis of simultaneous games, Heinrich von Stackelberg's model depends on sequential games.

In the real world, firms interact with each other and have to consider the potential negative effects a price war

may report in the long-run. Edward Chamberlin suggested that in an oligopolistic market, firms would soon recognise their interdependence and hold monopolistic prices without the implications of collusion, but that would give the same equilibrium point. Collusion equilibrium will be maintained for as long as a firm finds it more beneficial to do so. The moment a firm thinks it can achieve higher profits by deviating from it, it will do so.

OLIGOPOLY MARKET

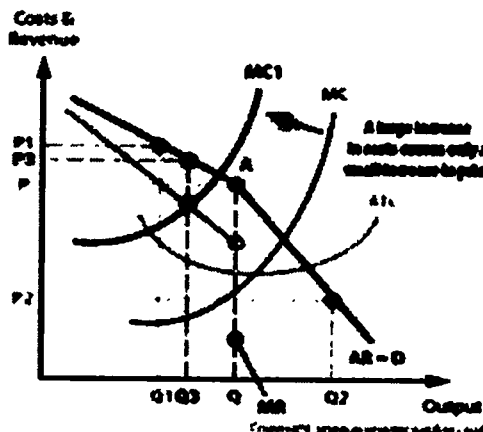
It simply refers to a few seller market. (Example. Pepsi and Coca-Cola soft drinks).

Main Features of Oligopoly:

- (a) Small number of large sellers.
- (b) Interdependence.
- (c) Presence of monopoly element—so long products are differentiated, the firms enjoy some monopoly power, as each product will have some loyal customers.
- (d) Existence of price rigidity.
- (e) Advertising—Given high Gross elasticity demand for products and price rigidity in oligopoly the only way open to oligopolist is to raise his sales volume by either advertising or improving the quality.

Kinked Demand Curve: Price and Output Determination under Monopoly Market

Advertisement expenditure is aimed primarily at shifting the demand in favour of the product.



MONOPOLISTIC COMPETITION:

Monopolistic competition refers to the market situation in which many producers produce goods which are close substitutes of one another.

Features of Monopolistic Competition:

Two important distinguishing features of monopolistic competition are:

1. Product differentiation, and
2. Existence of many firms supplying the market.
3. Selling cost outley

a. **Product Differentiation:** In contrary to perfect competition where there is only one homogeneous commodity, in monopolistic competition there is differentiation of products. In monopolistic competition, products are not homogenous nor are they only remote substitutes. These are the products produced by competing monopolists that have separate identity, brand, logos, patents, quality and such other product features. Product differentiation does not mean that goods are completely different. Rather it means that products are different in some ways, but not altogether so. These imaginary differences are created through advertising, marketing, packaging and the use of trademarks and brand names.

b. **Existence of Many Firms:** Under monopolistic competition, there is fairly large number of sellers, let say 25 to 70. Each individual firm has relatively small part of the total market so that each has a very limited control over the price of the product. And each firm determines its own price-output policy without considering the reactions of rival firms.

c. In monopolistic competition, in the long run, there is freedom of entry and exit.

d. The commodity sold in a monopolistic competitive market is not a standardised product but a differentiated product. Hence competition is no longer exclusive on price basis. Buyers are buying a combination of physical product and the services which go with it.

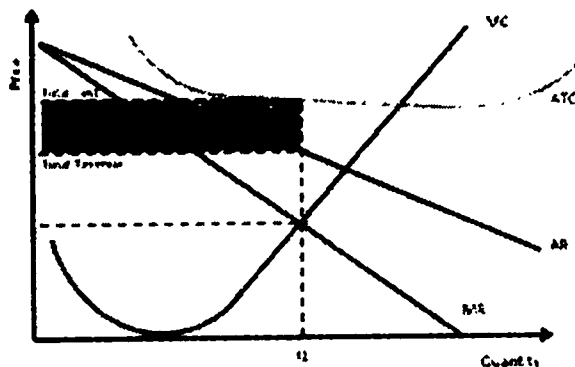
e. Because of consumers' attachment to a particular brand, the seller acquires a monopolistic influence on the market. Thus, the demand curve facing a firm under monopolistic competition is a downward sloping curve, i.e., if he wants to sell more, he has to lower his price. The demand curve or AR curve under monopoly also slopes downwards, but there is a difference between demand curves facing under monopolistic competition and pure monopoly. The demand curve faced by a 'competing monopolist' is more elastic than the demand curve faced by the 'monopolist', because there are no close substitutes available for the monopolist commodity.

PRICE DETERMINATION UNDER MONOPOLISTIC COMPETITION:

Under monopolistic competition, the firm will be in equilibrium position when marginal revenue is equal to marginal cost. So long the marginal revenue is greater than marginal cost, the seller will find it profitable to expand his output, and if the MR is less than MC, it is obvious he will reduce his output where the MR is equal to MC. In short run, therefore, the firm will be in equilibrium when it is maximising profits, i.e., when $MR = MC$.

(a) Short Run Equilibrium: Short run equilibrium is illustrated in the following diagram:

Loss Portion



(b) Long Run Equilibrium: Under monopolistic competition, the supernormal profit in the long run is disappeared as new firms are entered into the industry. As the new firms are entered into the industry, the demand curve or AR curve will shift to the left, and therefore, the supernormal profit will be competed away and the firms will be earning normal profits. If in the short run firms are suffering from losses, then in the long run some firms will leave the industry so that remaining firms are earning normal profits.

The AR curve in the long run will be more elastic, since a large number of substitutes will be available in the long run. Therefore, in the long run, equilibrium is established when firms are earning only normal profits. Now profits are normal only when $AR = AC$.

Managerial Decisions

This figures describes the six step managerial decision-making process: The six step managerial decision-making process consists of the following six steps:

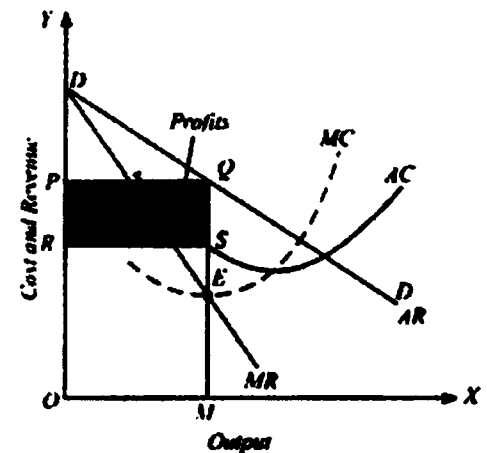
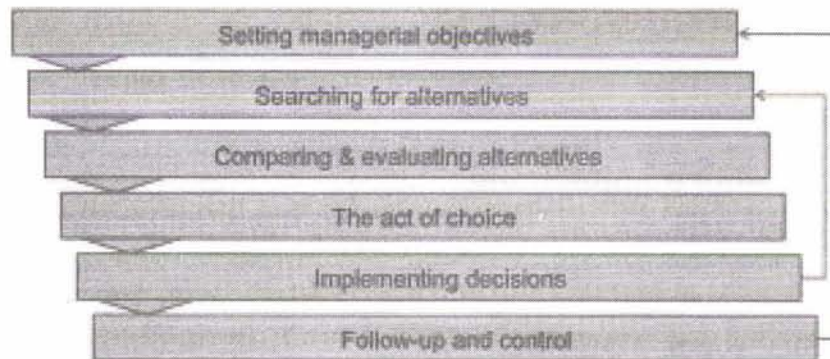


Fig. 28.3. Individual Firm's Equilibrium under Monopolistic Competition (with Profits)

In the side diagram, the short run average cost is MT and short run average revenue is MP. Since the AR curve is above the AC curve, therefore, the profit is shown as PT. PT is the supernormal profit per unit of output. Total supernormal profit will be measured by multiplying the supernormal profit to the total output, i.e. $PT \times OM$ or $PTTP'$. The firm may also incur losses in the short run if it is facing AR curve below the AC curve.



Step 1: Setting Managerial Objectives

The managerial objectives are the ends for the means of decision making and constitute the foundation for rational decision making. How you attain the objective is the measure of decision success.

Step 2: Searching for Alternatives

Searching alternatives is limited by time and money. You need to balance the rising cost of attaining additional information with the declining value of this piece of information. You need to stop the search in the zone of cost effectiveness where the cost of additional alternatives is lower than the value of the alternative. The search result are usually three to five alternatives, with one alternative of doing nothing.

Step 3: Comparing and Evaluating Alternatives

The alternatives from step 2 are evaluated using criteria derived from the objective from step 1. The evaluation includes an anticipation of the likely outcome for each alternative and also anticipate obstacles or difficulties during implementation.

Step 4: The Act of Choice

The choice is the culmination of the process, not all of it. This step confronts the decision maker with discernible constraints. The choice is the alternative most likely to result in the achievement of the objective.

Step 5: Implementing Decisions

The decision success is a function of decision quality and decision implementation taking into consideration the operating constraints, the influence of the decision maker and the involvement of decision implementers without a conflict of interest.

Step 6: Follow-Up and Control

The “Follow-up and Control” step is essential to ensure that an implemented decision meets its objective. The performance is measured by observing the implemented decision in relation to its standard derived from the objective. Unacceptable variance from standard performance should elicit timely and appropriate corrective actions. Corrective actions may result in the implementation of another alternative, which, if not successful, may result in a revision of the original objective.

The process is another six step process with mostly action descriptions, the one voiced as a noun is using the noun “act”. So this is a real process and it includes feedback loops within the process to improve the decision making, if the straight forward step process is not leading to the right results.

In the high level description, the first step is good, but nowhere the decision is really defined so the searching for alternatives can be looking at the wrong alternatives. The description in the front end of the process is good and gives general guidance on how to perform some of the steps. The step “Act of Choice” is overrated in my opinion, the description for implementing decisions (why, by the way, are there multiple decisions implemented?) is not describing the process but how to measure the success. The feedback and control step is a major step to help check for the quality of decision.

THE MARKUP PRICING THEORY

The profit-maximizing price is related to the elasticity of demand and to marginal cost. These are the two critical ingredients of the pricing decision.

Firms should set the price as a markup over marginal cost:

This expression comes from combining the formula for marginal revenue and the condition that marginal revenue equals marginal cost. See the toolkit for more details.

Price = $(1 + \text{markup}) \times \text{Marginal Cost}$ and $\text{Markup} = 1/(\text{elasticity of demand}) - 1$.

There are three facts about markup:

1. Markup is greater than or equal to zero—that is, the firm never sets a price below marginal cost.
2. Markup is smaller when demand is more elastic.
3. Markup is zero when the demand curve is perfectly elastic: $(\text{elasticity of demand}) = \infty$.

A PRICING ALGORITHM

To summarize, a manager needs two key pieces of information when determining price:

2. **Marginal cost.** We have shown that the profit-maximizing price is a markup over the marginal cost of production. If a manager does not know the magnitude of marginal cost, she is missing a critical piece of information for the pricing decision.

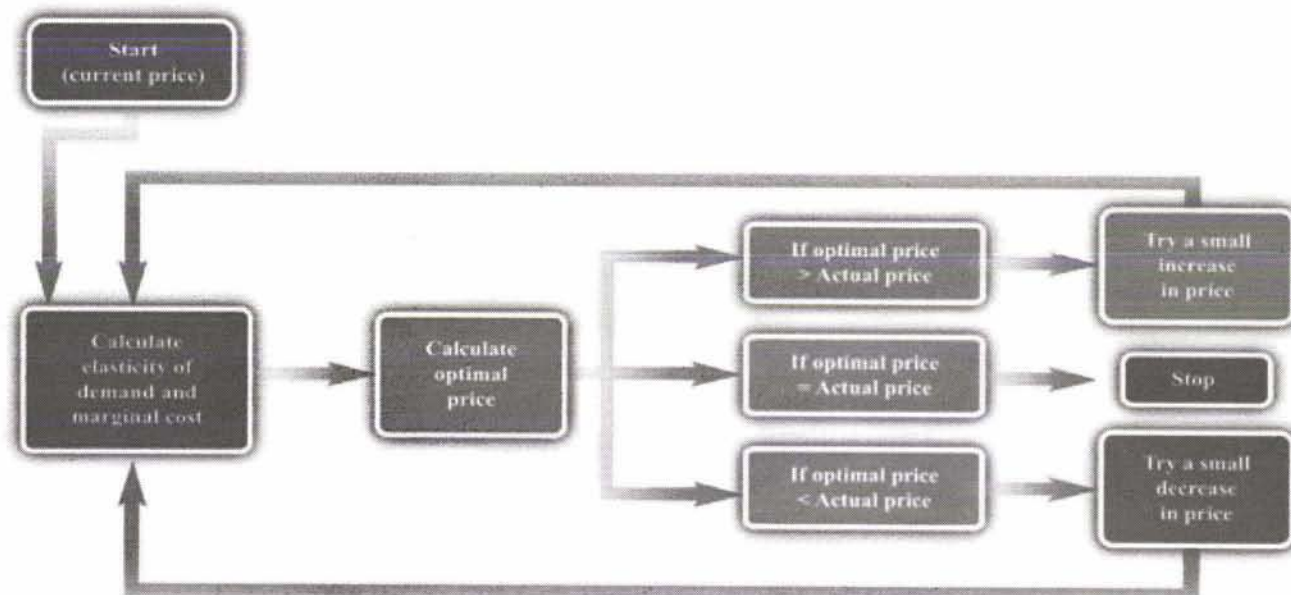
3. **Elasticity of demand.** Once a manager knows marginal cost, she should then set the price as a markup over marginal cost. But this should not be done in an ad hoc manner; the markup must be based on information about the elasticity of demand.

Given these two pieces of information, a manager can then use the markup formula to determine the optimal price. Be careful, though. The markup formula looks deceptively simple, as if it can be used in a “plug-and-play” manner—given marginal cost and the elasticity of demand, plug them into the formula and calculate the optimum price. But if you change the price, both marginal cost and the elasticity of demand are also likely to change. A more reliable way of using this formula is in the algorithm which is based on our earlier idea that you should find your way to the top of the profit hill.

THE FIVE STEPS ARE AS FOLLOWS:

1. At your current price, estimate marginal cost and the elasticity of demand.
2. Calculate the optimal price based on those values.
3. If the optimal price is greater than your actual price, increase your price. Then estimate marginal cost and the elasticity again and repeat the process.
4. If the optimal price is less than your actual price, decrease your price. Then estimate marginal cost and the elasticity again and repeat the process.
5. If the current price is equal to this optimal price, leave your price unchanged.

A PRICING ALGORITHM



SHIFTS IN THE DEMAND CURVE FACING A FIRM

So far we have looked only at *movements along* the demand curve—that is, we have looked at how changes in price lead to changes in the quantity that customers will buy. Firms also need to understand what factors might cause their demand curve to shift. Among the most important are the following:

- ❖ **Changes in household tastes.** Starting around 2004 or so, low-carbohydrate diets started to become very popular in the United States and elsewhere. For some companies, this was a boon; for others it was a problem. For example, companies like Einstein Bros.

Bagels or Dunkin' Donuts sell products that are relatively high in carbohydrates. As more and more customers started looking for low-carb alternatives, these firms saw their demand curve shift inward.

- ❖ **Business cycle.** Consider Lexus, a manufacturer of high-end automobiles. When the economy is booming, sales are likely to be very good. In boom times, people feel richer and more secure and are more likely to purchase a luxury car. But if the economy goes into recession, potential car buyers will start looking at cheaper cars or may decide to defer their purchase altogether. Many companies sell products that are sensitive to the state of the business cycle. Their demand curves shift as the economy moves from boom to recession.

- ❖ **Changes in competitors' prices.** In a business setting, this is a critical concern. If a competitor decreases its price, this means that the demand curve you face will shift inward. For example, suppose that British Airways decides to decrease its price for flights from New York to London. American Airlines will find that its demand curve for that route has shifted inward. Ellie certainly has to worry about this because her company's product has only a small number of competitors. A change in price of a competing blood pressure drug might make a big difference in the sales and profits of Ellie's product.

If the demand curve shifts, should a firm change its price? The answer is *yes if the shift in the demand curve also leads to a change in the elasticity of demand*. In practice, this is likely to be the case, although it is certainly possible for a demand curve to shift without a change in the elasticity of demand. The correct response to a shift in the demand curve is to reestimate the elasticity of demand and then decide if a change in price is appropriate.

COMPLICATIONS

Pricing is a difficult and delicate job, and there are many factors that we have not yet considered: We address some of them in other chapters of the book; others are topics for more advanced classes in economics and business strategy.

❖ By far the most important problem that we have neglected is as follows: When making pricing decisions, *firms may need to take into account how other firms will respond to their decisions*. For example, a manager might estimate her firm's elasticity of demand and marginal cost and determine that she could make more money by decreasing price. That calculation presumes that competing firms keep their prices unchanged. In markets with a small number of competitors, it is instead quite likely that other firms would respond by decreasing their prices. This would cause a firm's demand curve to shift inward and probably leave it worse off than before.

❖ We have assumed throughout that a firm has to charge the same price for every unit that it sells. In many cases, this is an accurate description of pricing behavior. When a grocery store posts a price, that price holds for every unit on the shelf. But sometimes firms charge different prices for different units—by either charging different prices to different customers or offering individual units at different prices to the same customer. You have undoubtedly encountered examples. Firms sometimes offer quantity discounts, so the price is lower if you buy more units. Sometimes they offer discounts to certain groups of customers, such as cheap movie tickets for students. We could easily fill an entire chapter with other examples—some of which are remarkably sophisticated.

❖ Firms can have pricing strategies that call for the price to change over time. For example, firms sometimes engage in a strategy known as penetration pricing, whereby they start off by charging a low price in an attempt to develop or expand the market. Imagine that

Kellogg's develops a new breakfast cereal. It might decide to offer the cereal at a low price to induce people to try the product. Only after it has developed a group of loyal customers would it start setting their prices according to the markup principle.

❖ Pricing plays a role in the overall marketing and branding strategy of a firm. Some firms position themselves in the marketplace as suppliers of high-end offerings. They may choose to set high prices for their products to ensure that customers perceive them appropriately. Consider a luxury hotel that is contemplating setting a very low price in the off-season. Even though such a strategy might make sense in terms of its profits at that time, it might do long-term damage to the hotel's reputation. For various reasons, customers often use the price of a product as an indicator of that product's quality, so a low price can adversely affect a firm's image.

❖ We have focused our attention on the market power of firms as sellers, as reflected in the downward-sloping demand curves they face. Firms can also have market power as buyers. Walmart is such an important customer for many of its suppliers that it can use its position to negotiate lower prices for the goods it buys. Governments are also often powerful buyers and may be able to influence the prices they pay for goods and services. For example, government-run health-care systems may be able to negotiate favorable prices with pharmaceutical companies.

UNIT-III: MACRO ECONOMICS PRINCIPLES

NATIONAL INCOME

According to Marshall: "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend." In this definition, the word 'net' refers to deductions from the gross national income in respect of depreciation and wearing out of machines. And to this, must be added

income from abroad.

Concepts of National Income

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Gross National Product (GNP) 2. Gross Domestic Product (GDP) 3. GNP at Market Prices 4. NNP at Market Prices | <ul style="list-style-type: none"> = Gross National Expenditure (GNE) = GNP – Net Income from abroad. = GNP at Factor Cost + Indirect Taxes – Subsidies = GNP at Market Prices – Depreciation or Capital Consumption Allowance |
| <ol style="list-style-type: none"> 5. Net Domestic Product (NDP) at Market Prices | <ul style="list-style-type: none"> = NNP at Market Prices – Net Factor Income from abroad |
| <ol style="list-style-type: none"> 6. NNP at Factor Cost or National Income or National Product 7. NDP at Factor Cost or Domestic Income or Domestic Product 8. Private Income | <ul style="list-style-type: none"> = NNP at Market Prices – Indirect Taxes + Subsidies = National Income – Net Factor Income from abroad = NNP at Factor Cost + Government and Business Transfer Payments + Current Transfers from abroad in the form of Gifts and Remittances + Windfall Gains + Net Factor Income from abroad + Interest on Public Debt and Consumer Interest – Social Security Contribution – Income from Government Departments and property – Profits and Surpluses of Public Corporations (or Undertakings) Or = Income from Domestic Product accruing to Private Sector + Interest on Public Debt + Net Factor Income from abroad + Transfer Payments + Current Transfers from the rest of the world (or abroad) |
| <ol style="list-style-type: none"> 9. Income from Domestic Product accruing to Private Sector | <ul style="list-style-type: none"> NDP at Factor Cost – Income from Domestic Product accruing to Government Departments – Saving of Non-Departmental Enterprises. |
| <ol style="list-style-type: none"> 10. Personal Income | <ul style="list-style-type: none"> = Private Income – Saving of Private Corporate Sector (or Undistributed Corporate Profits) – Corporation Tax (or Profit Taxes) |
| <ol style="list-style-type: none"> 11. Personal Disposable Income or Disposable Income | <ul style="list-style-type: none"> = Personal Income – Direct Taxes paid by Households (or Direct Personal Taxes) and Miscellaneous Fees, Fines, etc. Or = NDP at Factor Cost + Transfer Payments + Net Factor |
| | <p>Income from abroad – Corporation Tax – Undistributed Corporate Profits – Social Security Payments – Direct Personal Taxes</p> <p>Or</p> <ul style="list-style-type: none"> = National Income at Factor Cost + Transfer Payments + Net Income from abroad – Corporate Tax – undistributed Corporate Profits – Social Security payments – Direct Personal Taxes – Indirect Taxes + Subsidies. |

NATIONAL INCOME ACCOUNTING

The term social accounting was first introduced into economics by J.R.Hicks in 1942. In his words, it means 'nothing else but the accounting of the whole community or nation, just as private accounting is the accounting of the individual firm'. Social accounting also known as national income accounting, is a method to present statistically the inter-relationships between the different sectors of the economy for a thorough understanding of the economic condition of the economy.

DEFINITION

According to Edey, Peacock and Cooper, Social accounting is concerned with the statistical classification of the activities of human being and human institution in ways which help us to understand the operation of the economy as a whole.

COMPONENTS OF SOCIAL ACCOUNTING

1. Production Account
2. Consumption Account
3. Government Account
4. Capital Account
5. Foreign Account

IMPORTANCE OF SOCIAL ACCOUNTING

It is a key to the evaluation and formation of government policies both in the present and future. The uses of social accounting are as follows;

1. In Classifying Transaction
2. In understanding Economic Structure
3. In understanding Different Sectors and Flows
4. In Clarifying Relations between Concepts
5. In Guiding the Investigator
6. In Explaining Trends in Income Distribution
7. In Explaining Movement in GNP
8. Provide a Picture of the Working Economy
9. In Estimating Effects of Government Policies
10. Helpful in Big Business Organizations

DIFFICULTIES OF SOCIAL ACCOUNTING

1. Imputation
2. Double Counting
3. Public Services
4. Inventory Adjustments
5. Depreciation.

INPUT-OUTPUT ACCOUNTING

The input-output analysis tells us that there are industrial inter-relationship and inter-dependencies in the economic system as a whole. The inputs of one industry are the outputs of another industry and vice versa, so that ultimately their mutual relationships lead to equilibrium between supply and demand in the economy as a whole. The national income accounts are related to an economy's final product.

CIRCULAR FLOW OF INCOME

The circular flow of income and expenditure refers to the process whereby the national income and expenditure of an economy flow in a circular manner continuously through time. The various components of national income and expenditure such as saving, investment, taxation, government expenditure, exports, imports, etc.,

$$Y=C+I+G \text{ and } Y=C+S$$

Therefore ,

$$Y=C+I+G+X-M$$

MARGINAL PRODUCTIVITY THEORY OF DISTRIBUTION

According to this theory, the reward of a factor equals its marginal product. Marginal product, also known as marginal physical product, is the increment made to the total output by employing an additional unit of a factor, keeping all other factors constant.

RENT

The word rent is used to denote payments for the use of land, a house or a shop. It is often taken to mean payments received by owners of all kinds of private property that is leased for a fixed sum.

DEFINITION

According to Ricardo, "rent as that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil".

ASSUMPTIONS

1. There is perfect competition in the economy
2. The supply of land is limited
3. The Law of Diminishing Returns applies
4. Rent accrues from land alone
5. Rent arise in the long-run
6. Land and Capital are single factors
7. Rent is price determined
8. Land is cultivated in historical sequence, i.e., first the best land, then the less fertile and in this order.

QUASI –RENT

According to Marshall, "the income derived from machines and other appliances made by man". There are certain durable factors whose supply cannot be increased or decreased during the short period. Machine, ship, houses and even human ability like land are fixed in supply but only in the short-run. When the demand for them increases, their supply being fixed, they earn a surplus which is not rent but is like rent as their supply can be increased in the long-run. Marshall preferred to call it quasi-rent.

WAGES

Alfred Marshall defines labour as "The use or exertion of body or mind, partially or wholly, with a view to secure an income apart from the pleasure derived from the work".

Wages are simply the reward for labour. The term "wage" includes salary, allowances, compensation etc.,

Labour lawyers defined "wage" under the Section 2(vi) of the Payment of Wages Act, 1936 (Act No. IV of 1936) of India.

KINDS OF WAGES

There are two kinds of wages (1) Money wages (2) Real wages.

The Supreme Court of India classified "wages" into three categories. They are:

1. The Living Wages - Article 43
2. The Fair Wage; and
3. The Minimum Wage - 1948 Section 2(h)

THEORIES OF WAGES

Theories of wages are (1) The subsistence theories of wages; (2) The standard of living theory (3) The wage fund theory (4) The residual claimant theory (5) Marginal productivity theory of wages (6) The market theory of wages (7) The bargaining theory of wages.

INTEREST

In common parlance, interest is a payment made by a borrower to the lender for the money borrowed and is expressed as a rate percent per year. In economics, interest has been defined in a variety of ways. Commonly, interest is regarded as the payment of the use or service of capital.

As Carver said, "interest is the remuneration for mere abstinence".

Marshall substituted the word "waiting" for abstinence and interest is then the reward for waiting to him.

Keynes regarded interest as a purely monetary phenomenon, payment for the use of money. It is the reward for parting with the liquidity of money.

Gross Interest = Net interest + reward for risk taking + reward for inconvenience + reward for Management.

Net Interest = Gross Interest - (reward for risk taking + reward for inconvenience + reward for Management).

THEORIES OF INTEREST

1. The Time Preference Theory,
2. The Classical Theory of Interest,
3. The Loanable Funds Theory of Interest,
4. Keynes Liquidity Theory of Interest,

PROFITS

In ordinary language, profit is the surplus of income over expenses of production according to a businessman. According to Prof. Knight, "Perhaps no term or concept in economic discussion is used with a more bewildering variety of well-established meaning than profit".

According to Clark, Knight and Schumpeter, "it is an income which arises out of change, uncertainty and friction inherent in a dynamic world, and which the belated operation of competitive forces tends to eliminate".

An Economist's profit is quite distinct from a businessman's profit. The former is concerned with net profit which is arrived at by deducting from the businessman's gross profit the remuneration for the latter's own land, labour, and capital.

We may write in equation form;

Gross Profit = Net profit + implicit rent + implicit interest + implicit wages + depreciation and insurance charges.

Net Profit = Gross profit - (implicit rent + implicit interest + implicit wages + depreciation and insurance charges).

THEORIES OF PROFITS

- The Dynamic theory of profit –Prof.J.B.Clark
- The Innovative theory of profit –Prof.Schumpeter
- The Risk theory of profit –F.B.Hawley
- The Uncertainty-bearing theory of profit –Prof.Frank H.Knight
- Marginal Productivity theory of profit –Edgeworth, Chapman, Stigler, Stonier and Hague.
- Rent theory of profit- Francis L.Walker
- The wage theory of profit -Prof.Taussing

CONSUMPTION, SAVINGS AND INVESTMENT:

Consumption means using up of goods and services (or) destruction of utility, it is called consumption. The concepts of consumption, saving and investment are mainly determined by income, output and employment.

The term consumption function explains the relationship between income and consumption.

$$C = f(y)$$

C = Consumption, f = Function, y = Income

KEYNESIAN PSYCHOLOGICAL LAW OF CONSUMPTION FUNCTION

Keynes has defined fundamental psychological law of consumption are, "Men are disposed as a rule on the average to increase their consumption as their income increases, but not by as much as the increase in their income.

The consumption law is based on the following assumptions:

- Consumption depends on income alone. So other factors will not influence consumption.
- The consumption habits of the people will not change.
- The Government need not control consumption.

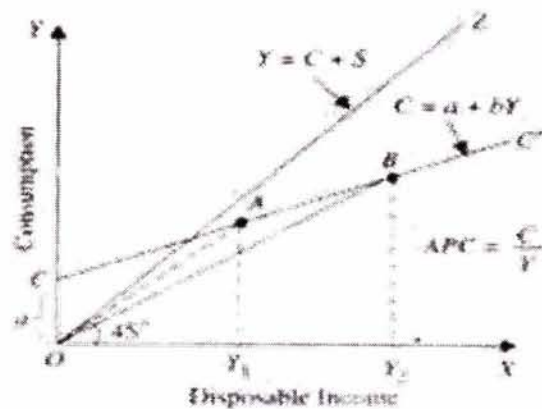


Fig. 6.7. Keynes Consumption Function: Falling Average Propensity to Consume

PROPOSITIONS:

- When income increases, consumption also increase but not in the same proportion.
- When income increases, the extra income is divided between consumption and saving.
- When income increases both consumption and saving increase.

FACTORS DETERMINING CONSUMPTION FUNCTION:

There are two types of factors determining consumption other than income.

i. Subjective factor: Motives of precaution, foresight, calculation, improvement, independence, enterprise.

ii. Objective factors: Money income, real income, distribution of income, fiscal policy, financial policy of corporations, liquid assets, rate of interest, expectation of future charges, windfall gain and huge losses.

SAVINGS FUNCTION

Saving is that part of income not used in consumption and it is the excess of income over consumption expenditure.

$$S = f(y)$$

TYPES OF SAVINGS

There are different types of savings.

- ❖ Personal savings
- ❖ Business savings
- ❖ Government savings

Investment Function

$$I = f(R, MEC)$$

Investment are classified into two types.

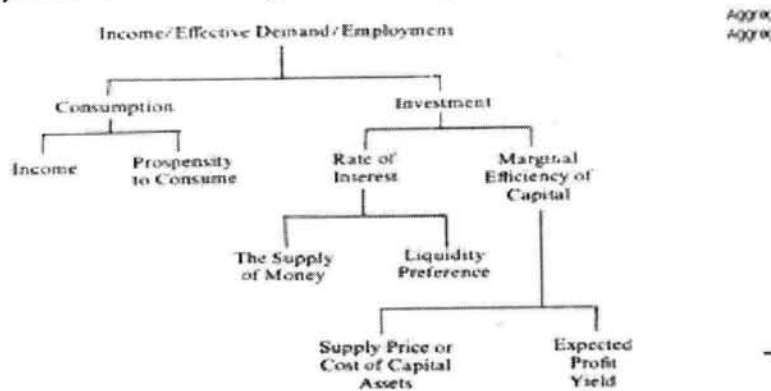
- (1) Induced investment and
- (2) Autonomous investment

Induced investments are income elastic while autonomous investment are inelastic

KEYNESIAN THEORY OF INCOME, OUTPUT AND EMPLOYMENT

John Maynard Keynes is often referred to as the father of macroeconomics. His pioneering work “*The General Theory of Employment, Interest and Money*” published in 1936, provided a completely new approach to the modern study of macroeconomics. It served as a guide for both macroeconomic theory and macroeconomic policy making during the Great Depression and the period later. *The General Theory* was a beginning of a new school of thought in macroeconomics which was referred to in later period as *Keynesian Revolution* in macroeconomic analysis.

The notion of “effective demand” and its influence on economic activity was the central theme in Keynes’s Theory of Effective Demand. While refuting the Classical theory which believed in strong general tendency of market mechanism to move output and employment towards full employment, Keynes explained that, in some situations, no strong automatic mechanism moves output and employment towards full employment levels. Keynes was the first economist to advocate the role of government especially fiscal policy, as the primary means of stabilizing the economy.



Keynes’s theory of the determination of equilibrium income and employment focuses on the relationship between aggregate demand (AD) and aggregate supply (AS). According to him equilibrium employment (income) is determined by the level of aggregate demand (AD) in the economy, given the level of aggregate supply (AS). Thus, the equilibrium level of employment is the level at which aggregate supply is consistent with the current level of aggregate demand. The theory believes that “demand creates its own supply” rather than the Classical claim of “supply creates its own demand”

$$AD = C + I + G$$

TRADE CYCLE

A trade cycle is composed of periods of Good Trade, characterized by rising prices and low unemployment percentages, shifting with periods of bad trade characterized by falling prices and high unemployment percentages.

FEATURES OF TRADE CYCLE

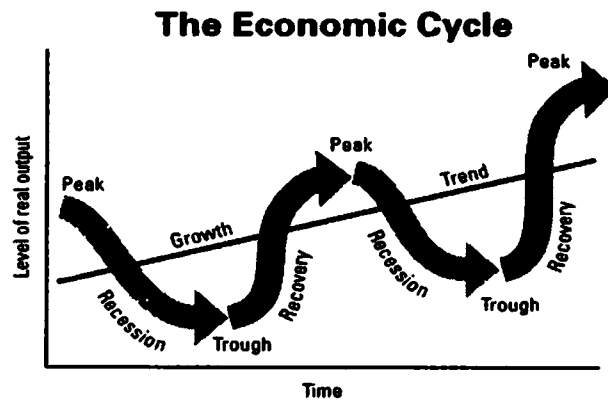
The characteristics or features of trade cycle are :-

1. **Movement in Economic Activity:** A trade cycle is a wave-like movement in economic activity showing an upward and downward movement in the economy.
2. **Periodical:** Trade cycles occur periodically but they do not show the same regularity.
3. **Different Phases:** Trade cycles have different phases such as Prosperity, Recession, Depression and Recovery.
4. **Different Types:** There are minor and major trade cycles. Minor trade cycles operate for 3-4 years, while major trade cycles operate for 4-8 years or more. Though trade cycles differ in timing, they have a common pattern of sequential phases.
5. **Duration:** The duration of trade cycles may vary from a minimum of 2 years to a maximum of 12 years.
6. **Dynamic:** Business cycles cause changes in all sectors of the economy. Fluctuations occur not only in production and income but also in other variables like employment, investment, consumption, rate of interest, price level, etc.
7. **Phases are Cumulative:** Expansion and contraction in a trade cycle are cumulative, in effect, i.e. increasing or decreasing progressively.
8. **Uncertainty to businessmen:** There is uncertainty in the economy, especially for the businessmen as profits fluctuate more than any other type of income.
9. **International Nature:** Trade Cycles are international in character. For e.g. Great Depression of 1930s

TYPES OF TRADE CYCLE

Dynamic forces operating in a capitalist economy create various kinds of economic fluctuations. These fluctuations can be classified as follows;

1. **Short-Time Cycle:** This trade cycle occur for a short period of time. It is also known as minor cycles. It lasts for about 3-4 years.
2. **Secular Trends:** This trade cycle occurs for a long period of time and is known as Long term cycle. It lasts for about 4-8 years or more. It is also known as major cycle.
3. **Seasonal Fluctuations:** This refers to trade cycles, which take place due to seasonal changes in the economy. For e.g. failure of monsoon can cause a downtrend in the economy which may be followed by a good monsoon and up to trend.
4. **Irregular or Random Fluctuations:** These trade cycles are unpredictable and occur during a period of strikes, war, etc., causing a shock to the economic system.
5. **Cyclic Fluctuation:** These fluctuations are wave-like changes in economic activity caused by recurring phases of expansion and contraction. There is an upswing from a trough (low point) to peak and downswing from the peak to trough caused due to economic changes in demand, or supply or various other factors.



INFLATION

In economics inflation means, a rise in general level of prices of goods and services in a economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Thus, inflation results in loss of value of money. Another popular way of looking at inflation is "toomuch money chasing too few goods". The last definition attributes the cause of inflation to monetary growth relative to the output / availability of goods and services in the economy.

In case the price of say only one commodity rise sharply but prices of other commodities fall, it will not be termed as inflation. Similarly, in case due to rumors if the price of a commodity rise during the day itself, it will not be termed as inflation.

a. Demand - Pull Inflation: In this type of inflation prices increase results from an excess of demand over supply for the economy as a whole. Demand inflation occurs when supply cannot expand any more to meet demand; that is, when critical production factors are being fully utilized, also called Demand inflation.

b. Cost - Push Inflation: This type of inflation occurs when general price levels rise owing to rising input costs. In general, there are three factors that could contribute to Cost-Push inflation: rising wages, increases in corporate taxes, and imported inflation. [Imported raw or partly-finished goods may become expensive due to rise in international costs or as a result of depreciation of local currency]

UNIT-IV:

MACRO ECONOMIC POLICIES AND PUBLIC FINANCE

(A). MACRO-ECONOMIC POLICIES

Fiscal Policy: Fiscal policy is a powerful instrument of stabilization. "By fiscal policy we refer to Government actions affecting its receipts and expenditures which we ordinarily takes as measured by the Government's net receipts, its surplus or deficit".

Arthur Smithies defines fiscal policy as "a policy under which the Government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production of employment".

OBJECTIVES OF FISCAL POLICY IN AN ECONOMY ARE AS FOLLOWS:

1. To mobilize resources for financing the development programmes in the public sector.
2. To promote development in the private sector.
3. To bring about an optimum utilization of resources.
4. To restrain inflationary pressures in the economy to ensure economic stability.
5. To improve distribution of income and wealth in the community for lessening economic inequalities.
6. To obtain full employment and economic growth.
7. Capital formation

FUNCTIONS OF MONEY

According to Geoffery Crowther, "Money is anything that is generally acceptable as a means of exchange, i.e., as a means of setting debts and that at the same time acts as a measure and as a store of value".

PROF. WALKER SAID THAT, "MONEY IS WHAT MONEY DOES"

Functions of Money are;

- (1) Medium of exchange
- (2) Measure of value
- (3) Store of value
- (4) Standard of deferred payments.

MONETARY POLICY:

Monetary policy refers to the credit control measures adopted by the central bank of a country.

DEFINITION

Johnson defines monetary policy "as policy employing central bank's control of the supply of money as an instrument for achieving the objectives of general economic policy."

G.K. Shaw defines it as "any conscious action undertaken by the monetary authorities to change the quantity, availability or cost of money."

OBJECTIVES OR GOALS OF MONETARY POLICY:

The following are the principal objectives of monetary policy:

1. Full Employment:
2. Price Stability:

3. Economic Growth:

4. Balance of Payments:

Instruments of Monetary Policy:

The instruments of monetary policy are of two types: first, quantitative, general or indirect; and second, qualitative, selective or direct.

-Bank Rate Policy:

-Open Market Operations:

-Changes in Reserve Ratios:

Selective Credit Controls:

Selective credit controls are used to influence specific types of credit for particular purposes. They usually take the form of changing margin requirements to control speculative activities within the economy. When there is brisk speculative activity in the economy or in particular sectors in certain commodities and prices start rising, the central bank raises the margin requirement on them.

LABOUR REGULATION

- ❖ Minimum Wage Act, 1946
- ❖ Factories Act, 1881 - 1918
- ❖ Indian Mines Act, 1923 & 1952
- ❖ The Tea District Emigrant Labour (Repeal) Act, 1970
- ❖ The Plantation Labour Act, 1951 with Amendments
- ❖ Indian Railway Act, 1980 as amended in 1930
- ❖ Motor Transport Workers Act, 1961
- ❖ Industrial Statistics Act, 1942

SOCIAL SECURITY SCHEMES:

- ❖ Workmen's Compensation Act, 1923.
- ❖ The Employees State Insurance Act, 1948.
- ❖ The Maternity Benefit Act, 1961.
- ❖ Employees Provident Fund and Miscellaneous Provisions Act, 1952
- ❖ The Payment of Gratuity Act, 1972.
- ❖ The Employees Family Pension Scheme, 1971.
- ❖ The Employees Pension Scheme, 1995.
- ❖ Payment of Bonus Act, 1965

EXIM POLICY

Indian EXIM Policy contains various policy related decisions taken by the government in the sphere of Foreign Trade, i.e., with respect to imports and exports from the country and more especially export promotion measures, policies and procedures related thereto. Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). India's Export Import Policy also known as Foreign Trade Policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position.

Main objective of the Exim Policy :

1. To accelerate the economy from low level of economic activities to high level of economic activities

IMPACT OF CHANGES IN ECONOMIC POLICY

The factors and forces of business environment have lot of influence over the business. The common influence and impact of such changes in business and industry are explained below:

1. Increasing Competition:
2. More Demanding Customers:
3. Rapidly Changing Technological Environment:
4. Necessity for Change:
5. Need for Developing Human Resources:
6. Market Orientation:
7. Loss of Budgetary Support to Public Sector:
8. Export a Matter of Survival

B). Principles of Public Finance

Public Expenditure: Public Expenditure is the expenditure incurred by public authorities-Central, State and Local Governments-either for the satisfaction of collective needs of the citizens or for promoting their economic and social welfare.

Public expenditure can also be used to improve income distribution, to direct the allocation of resources in the desired lines and to influence the composition of national product. In the developing countries also, the role of public expenditure is highly significant.

In the developing countries, the variation in public expenditure is not only to ensure economic stability but also to generate and accelerate economic growth and to promote employment opportunities. The public expenditure policy in developing countries also plays a useful role in alleviating mass poverty existing in them and to reduce inequalities in income distribution. In what follows, we shall study the types of public expenditure, the causes of growth of public expenditure and its effects on production, distribution and economic growth in both the developed and the developing countries.

Classification of Public Expenditure:

- ❖ Revenue Expenditure and Capital Expenditure:
- ❖ Developmental and Non-Development Expenditure:

Growth of Public Expenditure:

- ❖ Wagner's Law of Increasing State Activity:
- ❖ Wiseman-Peacock Hypothesis:

The main factors responsible for growth in public expenditure with special reference to the Indian economy.

1. Defence:
2. Population Growth and Urbanisation:
3. Activities of a Welfare State:
4. Maintaining Economic Stability:
5. Economic Growth and Development:
6. Mounting Debt Service Charges:
7. Mounting Expenditure on Subsidies:
8. Anti-Poverty Schemes:

Prominent among these anti-poverty schemes in India are Jawahar Rozgar

Yojna, Prime Minister's Employment Scheme and IRDP and MGNREGA.

Expenditure on these schemes has greatly risen in recent years.

- ❖ Effects of Public Expenditure on Production and Distribution:
- ❖ Effect of Public Expenditure on Production:
- ❖ Effect of Public Expenditure on National Output at Times of Depression:

Effects of Public Expenditure on Distribution:

The following forms of public expenditure redistribute income in favour of the poor and thus reduce inequalities.

1. Social Security Measures:
2. Expenditure on Subsidies:
3. Expenditure on Social Infrastructure
4. Expenditure on Anti-Poverty Programmes:
5. Encouragement to Labour-intensive Industries:
6. Negative Income Tax to Achieve More Equal Distribution of Income:

PUBLIC REVENUE

The income of the government through all sources is called public income or public revenue.

According to Dalton, however, the term "Public Income" has two senses — wide and narrow. In its wider sense it includes all the incomes or receipts which a public authority may secure during any period of time. In its narrow sense, however, it includes only those sources of income of the public authority which are ordinarily known as "revenue resources." To avoid ambiguity, thus, the former is termed "public receipts" and the latter "public revenue."

As such, receipts from public borrowings (or public debt) and from the sale of public assets are mainly excluded from public revenue. For instance, the budget of the

Government of India is classified into "revenue" and "capital." "Heads of Revenue" include the heads of income under the capital budget are termed as "receipts." Thus, the term "receipts" includes sources of public income which are excluded from "revenue."

In a modern welfare state, public revenue is of two types, tax revenue and non-tax revenue.

Seligman defines a tax thus: "A tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all, without reference to specific benefits conferred.

Public finance is divided into public revenue and public expenditure, State receives public revenue through many sources, it is called Mobilization of resources. There are mainly four sources: (i) Taxes (ii) Fees (iii) Special assessment

(iv) Commercial sources.

Besides these resources the State can procure in other ways, like, Borrowing (internal and external), Deficit financing.

TAXATION

- 1 Direct Taxes - Income Tax, Wealth Tax, Gift Tax etc.
2. Indirect Taxes - Sales Tax, Central Sales Tax, Customs Duty etc.
3. Other different kind of taxation: Proportional, Progressive, Regressive and
4. Digressive taxes

FEE:

Court fee, Roads tax, Registration fee, Registration form fee, Licences, Arms and Explosives, Mines tax, Certified copies.

Special Assessment:

- ❖ Betterment charges (Particular new colony - construction of road, drainage, electricity)
- ❖ Irrigation projects

Commercial Sources of Revenue:

Insurance, Postal, Telephones, Railways, Electricity Board. (ii) The Role of Credit and Banking System:

Classification of Public Revenue:

Different economists have classified the sources of public revenue differently. A scientific classification enables us to know in what respects these various sources resemble one another and in what ways they differ. Of the various classifications of public revenue available in economic literature, we shall review a few important ones.

Seligman's Classification:

Seligman classifies public revenue into three groups:

- (i) Gratuitous revenue
- (ii) Contractual revenue
- (iii) Compulsory revenue

Taylor's Classification:

The most logical and scientifically based classification of public revenue is however provided by Taylor. He divides public revenue into four categories:

- (i) Grants and gifts
- (ii) Administrative revenues
- (iii) Commercial revenues
- (iv) Taxes
- (v) Grants and gifts:
- (vi) Commercial Revenues:

These are compulsory payments made to government without expecting a direct return of benefits. The taxes involve varying degrees of coercive powers.

Public Debt

Public Debt arises due to borrowing by the government.

Classification of Public Debt

- ❖ Internal and External Public Debt
- ❖ Productive and Unproductive Public Debt
- ❖ Redeemable and irredeemable Debts
- ❖ Funded and unfunded Debts
- ❖ Voluntary and Compulsory Loans.

.-Effects of Public Debts on production, consumption, distribution

TAXATION

According to Seligman, "Tax is a compulsory contribution from a person to the Government to defray the expenses incurred in the common interest of all, without reference to special benefit conferred".

Kinds of Taxation:

1. Direct Taxes - Income Tax, Wealth Tax, Gift Tax etc.
2. Indirect Taxes - Sales Tax, Central Sales Tax, Customs Duty etc.
3. Other different kind of taxation: Proportional, (ii) Progressive (iii) Regressive and (iv) Digressive.

Direct and Indirect Taxes are also classified as direct and indirect. A direct tax is one that is assessed upon the property, business, or income of the individual who is to pay the tax.

Conversely *indirect taxes* are taxes that are levied upon commodities before they reach the consumer who ultimately pays the taxes as part of the market price of the commodity.

ADAMSMITH'S CANON OF TAXATION : (WEALTH OF NATION)

The tax revenue is the most important source of public revenue. A tax is a compulsory payment levied by the government on individuals or companies to meet expenditure which is required for public welfare.

1. Canon of Equity
2. Canon of Certainty
3. Canon of Convenience
4. Canon of Economy

Additional Canon of Taxation

1. Canon of Productivity
2. Canon of flexibility
3. Canon of Simplicity
4. Canon of Elasticity
5. Canon of Diversity

Characteristics of a Good Tax System

1. Productivity or Fiscal Adequacy:
2. Elasticity of Taxation:
3. Diversity:
4. Taxation as an Instrument of Economic Growth: This it can do in the following two ways:
 - (a) Mobilisation of Economic Surplus:
 - (b) Increase in the Intermental Saving Ratio:
5. Taxation as an Instrument for Improving Income Distribution:
6. Taxation for Ensuring Economic Stability:

Effects of Taxation

Dalton discussed the economic effects under the following three heads;

1. Effects of Taxation on Production
2. Effects of Taxation on Distribution
3. Other Effects of Taxation.

DEFICIT FINANCING

Deficit financing is used to mean any Government expenditure which is in excess of its current revenue. In advanced countries, public borrowing is excluded in deficit financing. In under developed countries public borrowing is excluded in deficit financing.

In India, the deficit is financed in one or more of the following ways:

1. Borrowing from RBI
2. Withdrawal of cash balances by the Government
3. Borrowing from the commercial banks
4. Issue of new currency by the Government.

Role of Deficit Financing :

- (1) It promotes economic development of a country
- (2) It develops economic and social overheads
- (3) It increases the saving of the society
- (4) It increases employment output and income
- (5) It encourages entrepreneurial class
- (6) It combines both the fiscal and monetary policies

Taxes of Central and State Government

Central Government levies taxes on the following:

- ❖ **Income Tax:** Tax on income of a person
- ❖ **Customs duties:** Duties on import and export of goods
- ❖ **Central excise:** Taxes on Manufacturing of dutiable goods
- ❖ **Service tax:** Taxes on provision of services

State Governments can levy the following taxes:

❖ **Value Added Tax (VAT):** This is tax on sale of goods. While intra-state sale of goods are covered by the VAT Law of that state, inter-state sale of goods is covered by the Central Sales Tax Act. Even the revenue collected under Central Sales Tax Act is done so by the State Governments themselves and actually the Central Government has no role to play so.

❖ **Stamp duties and Land Revenue:** Since land is a matter on which only State Governments can govern, thus the Stamp duties on transfer of immovable properties are levied by State Governments.

- ❖ **State Excise on Liquor and certain agricultural goods.**

UNIT V: INDIAN ECONOMY

(A). INDIAN ECONOMIC PROBLEMS

The entire world economy has been broadly classified into two different groups: (a) Under developed (or) Developing Countries and (b) Developed Countries. This distinction between these two types of economy is more or less arbitrary. Moreover, it is not quite easy to define an under developed economy. Eugene Staley defined an under developed country as "A country characterized by

(i) mass poverty which is chronic and not the result of temporary misfortune, and (ii) obsolete methods of production and social organization which means that the poverty is not due to poor natural resources and hence could presumably be lessened by methods already proved in other countries".

Basic characteristics of under developed economy:

- (1) Low per capita income
- (2) Heavy population pressure
- (3) Low rate of capital formation
- (4) Incidence of poverty
- (5) Mal-distribution of national income
- (6) Large number of people depends on agriculture
- (7) Disguised unemployment
- (8) Under utilization of resources
- (9) Low level of technology
- (10) Foreign trade orientation
- (11) Poor economic organization.

Population

Population refers to the number of people living in a defined are. India is a rich country but Indians are poor. India has 2.4% of the total land area of the world. India is the second largest country in the world. The rate of growth of population is 2.5% per year. India's population provisional list (2011) 1,21,01,93,422

Causes of Population: (1) Increase in birth rate (2) Declining death rate (3) Joint family planning (4) Lack of family planning (5) Child marriage (6) Poverty (7) Illiteracy (8) Weather condition, immigrations.

Effects of Population: (1) Shortage of food (2) Unemployment (3) Reduction of saving and investment (4) Ecological degradation (5) Declining national income. National population policy - 2000.

POVERTY

Poverty means those people who fail to reach a certain minimum level of consumption standard should be regarded as poor. According to planning commission, a person is below the poverty line if his daily consumption of calories is less than 2400 in rural areas and 2100 in urban areas.

Causes of Poverty

1. High rate of population
2. Low per capita income
3. Unemployment,

4. Inequality
5. Inflation
6. Predominance of Agriculture
7. Low technology
8. Lack of capital
9. Social factor.

Poverty Estimates

Agency	1993-94			2003-04			2011-12		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Planning Commission	37.3	32.4	36.0	28.3	25.7	27.5	-	-	-
Tendulkar Estimates	50	31.8	53.4	1.8	25.7	37.2	-	-	-
Rangarajan Estimates	-	-	-	-	-	-	30.9	26.4	29.5

Source: Report Of The Expert Group To Review The Methodology For Measurement Of Poverty, Government Of India, Planning Commission, June.2014.

Poverty Eradication Programme: Antyodaya Plan, SFDP, DADP, 20 Point Programme, Food for Work Programme, Minimum Needs Programme, IRDP, NREP, RLEGP, JGSY, TRYSEM, EAS, Family Planning, SJGSY, NSAP, IAY, PMGY, MGNREGP, SGRY, NRY, SEPUP, SEEUY, PMIUPEP.

Unemployment:

The word unemployment is used in a special sense "By unemployment we mean that state of affairs when in an economy there are large number of able bodied persons of working age, who are willing to work, able to work, but can not find employment at the current prevailing wage rate.

Types of Unemployment:

- (1) Seasonal unemployment
- (2) Structural unemployment
- (3) Frictional unemployment
- (4) Disguised unemployment
- (5) Technological unemployment.

Causes of unemployment:

- (1) Under development
- (2) Poor employment planning
- (3) Mass output of Graduates from Indian Universities
- (4) Lack of employment policy
- (5) Over population.

Employment Generation Schemes

SGSY, NFWP, SGSY, MGNREGA, IAY, PMGSY, DPAP, SJSRY, AAY, VAMBAY., IRDP, DWCR, TRYSEM, JRY, JGSY, MWS, MFDA, EAS.

Human Development Index

India ranks a low 134 among 187 countries in terms of the human development index (HDI), which assesses long-term progress in health, education and income indicators, said a UN report released on Wednesday. Although placed in the "medium" category, India's standing is way behind scores of economically less developed countries, including war-torn Iraq as well as the Philippines. India's ranking in 2010 was 119 out of 169 countries. According to the "UN Human Development Report 2011: Sustainability and Inequality", India's HDI is 0.5 compared to 0.3 in 2010.

India's Global Positions in human Development Report 2010

Country	HDI 2010	GNI Per capita (PPP 2008)	Life Expectancy at Birth(yrs)	Mean yrs. of Schooling 2010	Expected yrs. of Schooling
Norway	(0.938 1)	58,810	81.0	12.6	17.3
Australia	(0.937 2)	38,692	81.9	12	20.5
Russia	(0.719 65)	15,258	67.2	8.8	14.1
China	(0.663 89)	7,258	73.5	7.5	11.4
Sri Lanka	(0.658 91)	4,486	74.4	8.2	12.0
India	(0.519 119)	3,337	64.4	4.4	10.3
Pakistan	(0.490 125)	2,678	67.2	4.9	6.8
World	0.624	10,631	69.3	7.4	12.3

Source: HDR 2010, Figures Parentheses in column 2 give Ranking among 169 Countries

(B). Problems of Agricultural and Industry

Agriculture is the main occupation of its people. Population is growing at a high rate, techniques of production are backward, incidences of unemployment and poverty are high and there are wide spread income inequalities and soon.

If we observe growth of national income are raise, per capita income, occupational structure, capital base, social overhead also increases.

Problems of Agricultural Labour and Industrial Labour:

Agricultural labour is provided mostly by economically and socially backward sections. The Agricultural labour position are:

- (a) Landless labourers who are attached to the landlords;
- (b) Landless labourers who are personally independent but who work exclusively for others;
- (c) Petty farmers with tiny bits of land who devote most of their time working for others; and
- (d) Farmers who have economic holidays but who have one or more of their children and dependents working for other prosperous farmers. - Agricultural Labour Enquiry Committee - 1950-51.

- Minimum Wages Act, 1948.

-Abolition of Bonded Labour

Land Reforms:

Land reform refers to the reforming of a defective structure of the land holding. Land reform is a planned and institutional reorganization the relation between man and land.

Objectives of Reforms:

- (1) To increase the agricultural productivity
- (2) To create an egalitarian pattern of society
- (3) To make more national use of land
- (4) To eliminate the exploitation of labour
- (5) To promote the living conditions of the tillers
- (6) To bring about social justice.

Land Reforms Measures:

1. Abolition of Zamindari System (1960-1972) (Article - 31)
2. Tenancy Legislation
3. Land Ceilings
4. Co - operative Farming

Land reforms in India have mainly succeeded in breaking the feudalistic structure of agrarian society; but they have failed to provide adequate security tenure.

Green Revolution:

Green revolution in India refers to the technological breakthrough in Indian agriculture by the development and use of high yielding varieties of seeds, minor irrigation, use of fertilizers, regular plant protection and mechanization of agriculture.

GREEN REVOLUTION IMPLIES:

- (i) Well marked improvement in agricultural production in a short period, and
- (ii) The sustenance of a higher level of agricultural production over a fairly long period of time.

Agricultural Marketing:

Marketing is a process of bringing together the producer and the buyer and is essential to complete the process of production.

Features of Agricultural commodities in the market:

- (i) Bulk in nature and low in value
- (ii) Seasonal character of supply
- (iii) Price fluctuation
- (iv) Poor transport
- (v) Long chain of middle man
- (vi) Absence of storage facilities
- (vii) Lack of financial facilities.

Steps taken by the Government to improve Agriculture Marketing:

- (1) Berar Cotton and Grains Market Act, 1897
- (2) The Royal Commission on Agriculture, 1928
- (3) Commercial Crops Market Act, 1933, it was replaced The Madras Agricultural Produce Market Act, 1959.
- (4) Integrated Scheme for the Development of Regulated Market, 1933.
- (5) First Five Year Plan - 286 Market, 1998 - 7060 Markets.

Agricultural Credit:

“Indian farmers is born in debt, lives in debt, dies in debt and bequeaths debt”. Indebtedness is the only companion of the farmer from cradle to grave. An average farmer in India is poor and caught up in the vicious circle of poverty, he become indebted.

Credit is essential for any activity and agriculture is no exception, credit plays a vital role in agricultural progress.

SOURCES OF RURAL CREDIT:

A. Institutional Sources:

- (1) Government
- (2) Co-operative
- (3) Commercial Banks.

B. Non-Institutional Sources:

- (1) Money lenders
- (2) Traders
- (3) Relatives
- (4) Landlords and others.

Integrated Rural Development Programmes (IRDP):

Integrated Rural Development Programme was conceived in March 1976 in order to improve the economic and social life of the “poorest of the poor” living in the rural areas. IRDP was started and the Lok Sabha of India approved during the period of October 2, 1980, in all the 5,011 blocks of the country.

Objectives of IRDP

1. To help the poorest among the poor.
2. To raise the income of the poor families.
3. To create employment opportunities.
4. To eradicate poverty and illiteracy.
5. To promote all round development in rural areas
6. To meet the Minimum needs of the poor.

Industry Role of Industry in Economic Development:

The level of industrial development determines the level of economic development of a country. The term industrialization constitutes the development of the network of infrastructure like, transport, power, communication, and the starting of the key industries to produce capital goods. Therefore, the process of industrialization is essential for the achievement of economic development.

Role of industrial development : (i) increase in national income (ii) increase in export potentiality

(iii) increases employment opportunity (iv) preserves the value of goods, (v) achieves selfsufficiency (vi) useful for the nation's security.

INDUSTRIAL POLICY OF THE GOVERNMENT OF INDIA

Industrial policy reflects the attitude of the Government towards industrial development. The Government announces different policies with varying amounts of allocation from time to time.

i. The Industrial Policy of 1948. ii. The Industrial Policy of 1956. iii. The Dutt Committee, 1969.

iv. The Industrial Licensing Policy of 1970. v. The Industrial Policy of 1977.

vi. The Industrial Policy of 1980, vii. The Industrial Policy of 1984. viii. The New Industrial Policy, 1991.

Small Scale and Cottage Industries: Role and Government policy.

At present, units involving fixed capital investments less than Rs.25 lacks are included in the small scale sector. Small scale industries can be divided into two types viz., cottage industries and small-scale enterprises.

Advantages of small-scale industries: (1) Contributes more national income (2) It generates more employments (3) It requires only a small amount of capital (4) It needs less skill (5)

It requires less import of machines and equipments (6) It gives quick returns (7) It promotes better distribution of wealth.

Disadvantage of small-scale industries: (1) The procurement of raw material is a serious problem (2) The technique of production is backward (3) Marketing is big problem (4) Problem is to get finance.

The Government of India has adopted both positive and negative measures to help the small enterprises:

1. Industrial (Development and Regulation) Act, 1984.
2. National Small Industries Corporation (NSIC).
3. Deposit Insurance and Credit Guarantee Corporation (DICGC).
4. District Industries Centres (DICs), 1987.
5. National Institute for Entrepreneurship and Small Business Development (NIES BUD), 1983.
6. State Finance Corporation (SFC)
7. New Small Enterprises Policy, 1991.

Industrial Labour:

Industrial labour should stand for all labour engaged in large and small industrial establishments, including cottage industries.

Problems in industrial labour:

1. Most of the industrial workers have their roots in villages.
2. Industrial labour is largely uneducated.
3. Industrial labour in India is not united but is divided and sub-divided on the basis of region, religion, languages, and caste.
4. Indian workers do not remain in the same work for considerable amount of time.

TRADE UNIONS:

The Trade Union Act, 1926 defines trade union, "as any combination whether temporary or permanent formed primarily for the purpose of regulating the relations between workmen and employees, or between workmen and workmen or between employees and employees or for imposing restrictive conditions on the

conduct of any trade or business and includes and federation of two or more trade unions”.

- ❖ All India Trade Union Congress (AITUC) - 1920
- ❖ 1080 affiliated unions, 9.24 lakhs membership.
- ❖ Indian National Trade Union Congress (INTUC) -1947
- ❖ The Hindu Mazdoor Sabha (HMS) - 1948
- ❖ The United Trade Union Congress (UTUC) - 1949
- ❖ The Bharatiya Mazdoor Sangh (BMS) – 1948
- ❖ Centre of Indian Trade Unions (CITU) - 1970
- ❖ CPI(M)
- ❖ National Federation of Independent Trade Union (NFITU)

Industrial Disputes:

Concept of industrial disputes:

According to Section 2 (k) of the Industrial Disputes Act, 1947, the term ‘industrial dispute’ means “any dispute or difference between employers and employers or between employers and workmen, or between workmen and workmen, which is connected with the employment or non- employment or the terms of employment and conditions of employment of any person”.

The above definition is too broad and includes differences even between groups of workmen and employers engaged in an industry. However, in practice, industrial disputes mainly relate to the difference between the workmen and the employers.

Dispute differs from discipline and grievance. While discipline and grievance focus on individuals, dispute focuses on collectivity of individuals. In other words, the test of industrial dispute is that the interest of all or majority of workmen is involved in it.

Nature of an industrial dispute:

1. The dispute must affect a large number of workmen who have a community of interest and the rights of these workmen must be affected as a class.
2. The dispute must be taken up either by the industry union or by a substantial number of workmen.
3. The grievance turns from individual complaint into a general complaint.
4. There must be some nexus between the union and the dispute.
5. According to Section 2A of the Industrial Disputes Act, 1947, a workman has a right to raise an industrial dispute with regard to termination, discharge, dismissal, or retrenchment of his or her service, even though no other workman or any trade union of workman or any trade union of workmen raises it or is a party to the dispute.

Forms of Industrial Disputes:

The industrial disputes are manifested in the following forms:

Strikes:

(i) Primary Strikes:

These strikes are generally aimed against the employers with whom the dispute exists. They may include the form of a stay-away strike, stay-in, sit-down, pen-down or tools- down, go-slow and work-to-rule, token or protest strike, cat-call strike, picketing or boycott.

(ii) Secondary Strikes:

These strikes are also called the ‘sympathy strikes’. In this form of strike, the pressure is applied not

against the employer with whom the workmen have a dispute, but against the third person who has good trade relations with the employer.

However, these relations are severed and the employer incurs losses. This form of strike is popular in the USA but not in India. The reason being, in India, the third person is not believed to have any locus standi so far the dispute between workers and employer is concerned.

Types of Industrial Disputes:

The ILO' has classified the industrial disputes into two main types.

They are:

1. Interest Disputes
2. Grievance or Right Disputes.

Industrial Relations

Industrial relation refers to manifold contacts between the workers and employees in, about and around the work. These contracts arise from many reasons and in many forms. The conditions of service in respect of fixation and payment of wages, leave, bonus, hours of work, etc., the facilities for work in regard to tools, equipment etc.,

Industrial dispute is high in India. These disputes lead to all types of unpleasant consequences as, for instance, strikes, and go-slow tactics by the workers, lock-outs by the employers, etc.

a. Minimum Wage Act, 1946 b. Factories Act, 1881 - 1918 c. Indian Mines Act, 1923 & 1952

d. The Tea District Emigrant Labour (Repeal) Act, 1970 e. The Plantation Labour Act, 1951 with Amendments f. Indian Railway Act, 1980 as amended in 1930 g. Motor Transport Workers Act, 1961

h. Industrial Statistics Act, 1942.

