

# 15

# **Understanding Economic Activities**

# **Economic activities**

People around us do different kinds of activities to fulfill their needs. Some activities involve producing



Figure 15.1: An example of economic services

1. Farmers growing and selling crops.

- 2. Making and selling clay pots.
- 3. Traders purchasing manufactured goods and selling them in the market.
- 4. Teachers teaching children in school.
- 5. Setting up a shop to sell biscuits and savouries.
- 6. Carpenters making and selling furniture.
- 7. Factories manufacturing and selling paper.
- 8. Gathering honey from the forest and selling it.
- 9. Spinning thread from silk to weave saris and selling them.

goods, like making baskets from bamboo, weaving cloth, growing crops in fields, manufacturing cement in factories, and so on.

Some other kinds of activities provide services to people. For example, shopkeepers sell goods, bus drivers transport people, and barbers give haircuts. They do not provide these services free out of a sense of charity. We pay them for the services. Just like we buy goods, we pay money for these services.

Both kinds of activities – producing goods and providing services – are called economic activities. Most economic activities are activities in which money is exchanged. Goods and services are part of the production process. We pay money to buy them. However there are some economic activities, where production of goods and services takes place but they are not exchanged for money. We'll study this in the last section of the chapter.

Study the economic activities listed in the table below:



Figure 15.2: Various economic activities

#### 10. Culturing and selling fish.

11. A company mining bauxite and selling it to another company

Based on your experience, add more economic activities to the list. Remember, economic activities are goods and services produced and exchanged for money.

 12.

 13.

 14.

 15.

 16.

 17.

 18.

 19.

 20.

The list shows that people do different kinds of economic activities to fulfil their needs.

So all activities to produce goods and services, which are exchanged for money to fulfill our various needs, are the major part of economic activities.

Separate the activities to produce goods from the activities to provide services listed in Table 1.

What are economic activities? Explain with examples.

Make a list of economic activities that:

- a) continue throughout the year,
- b) continue for a few days or months.

**Project work:** Many activities that are important for our social and community life take place in your home and your neighbourhood. But we don't spend any money on them – no payment is made for them. Can you think of any such there is production of a good or service. Make a list of these activities.

# Sectors of the economy

The different kinds of economic activities occur in some sector or the other. They can be classified

into specific sectors on the basis of their production. These sectors are the agricultural sector, the industrial sector and the service sector. Such sector-wise classification makes it easy to calculate the share of each sector in the total production of the Indian economy.

### 1. Agriculture and allied sector

The process of production in this sector depends primarily on nature. It uses natural processes and resources. Various crops such as rice, wheat, corn, millet, maize, cotton etc are produced. Forestry is an



Figure 15.3: Agricultural work in progress

allied sector to agriculture. Forest produce includes flowers, herbs, fruits, glue, honey etc. Other allied sectors are animal husbandry, fishery (pisciculture) etc.

# 2. Industrial sector

In this sector, goods are manufactured by using machines/tools and human labour - for example, using bamboo to manufacture baskets, sugarcane to manufacture jaggery, leather to manufacture shoes, limestone to manufacture cement, etc.



Figure 15.4: Steel rolling mill

Industries are classified into cottage industry (micro industry), smallscale industry, and medium or large industry. Goods produced on a very small scale in the household, mostly by family members, are classified as cottage industry.

Small scale industry requires more capital and labour compared to cottage industry. Production is done using small or medium-sized machines. Examples include rice

mill, printing press, brick kiln, and small components factory. They are classified as small-scale industry.

Large-scale industry requires much higher capital and resources than small-scale industry. Goods are manufactured in large factories with a large labour force. Cement and steel factories are examples of large-scale industry.

Explain the role of nature in agricultural production.

Make a list of the different enterprises in your area and classify them into cottage industry, small-scale industry and large-scale industry in the table below.

S No	Cottage industry	Small-scale Industry	Large-scale Industry
1	Name of enterprise	Name of enterprise	Name of enterprise
2	List of raw materials required	List of raw materials required	List of raw materials required
3	Where the raw materials are sourced from	Where the raw materials are sourced from	Where the raw materials are sourced from
4	Finished product	Finished product	Finished product

Table 1.1

# 3. Service sector

This sector covers special services provided by professionals. Examples include medical treatment, nursing, legal practice, teaching, etc. Also included are services that support the production process, such as transporting goods to distant markets by tractors or trucks, banking services, communication services etc. All government services fall within this category.

Classify the economic activities listed in Table 1.1 into the sectors given in the table below:

S No	Agricultural and allied sector	Industrial sector	Service sector
1	Production of grain by farmers	Making baskets	Teacher teaching
	and its sale in the market	from bamboo	students
2			
3			
4			

#### Table 1.2

#### How do transportation and communication services help in the production of goods?

**Project work:** Visit your local market and list the different kinds of activities that are in the services sector - such as loading and unloading trucks and vans, transporting people to various places, selling goods, repairing shops etc.

# Calculating the production of goods and services: how and why?

People engage in different kinds of economic activities to produce a large variety of goods and services. If we want to know the total production of any country, we have to add all the goods and services produced in that country.

But adding all these goods and services is a difficult and complicated task. We could make a list of all the goods but it will still be difficult to calculate their total quantity because we use different units to measure different goods and services.

To solve this problem, money is used as the unit of measurement. We find the money value of all the goods and services. If 500kg of sugar is sold at Rs30 per kg, the total value of sugar is Rs15,000. Similarly, the value of 100 litres of milk at Rs30 per litre is Rs3,000. If a doctor charges Rs5,000 for an eye operation, the value of 10 operations will be Rs50,000.

To calculate the total value of these three goods and services, complete the table given below:

S No	Name of good/service	Quantity	Rate	Total value	
1.	Sugar	500kg	Rs30 per kg	Rs 15,000	
2.	Milk		Rs30 per litre	Rs 3,000	
3.	Eye operation	10			
	TOTAL Rs 68,000				

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Figure 15.5: A rice millFigure

In this example, we added the value of the three goods and services to calculate the total production. But how do we add the value of all goods and services to calculate the total production of a country? In some cases, the goods are used to produce other goods. So it is not necessary to calculate the value of all the goods and services that are produced and sold. We need to calculate the value of only the final goods and services that we use or consume. The following example illustrates how this is done:

A farmer sells 100kg of paddy to a rice mill at the rate of Rs10 per kg. The total selling price of the paddy is Rs1,000. The farmer uses his own seeds to grow the paddy. The rice mill produces 60kg of



15.6: A shopkeeper making puffed rice

rice from the 100kg of paddy. It sells this rice to a shopkeeper at the rate of Rs20 per kg, so the total value of the rice is Rs1,200. The shopkeeper produces 55kg of puffed rice (*murmura*) and sells it at Rs50 per kg to his customers.

In this example, the paddy is converted to puffed rice, which is the final product that reaches the end customer. Paddy and rice are, therefore, the **intermediate** goods for the shopkeeper.

The value of intermediate goods is included in the value of the final product. The value of the puffed rice – the final product - is Rs2,750.

The value of the intermediate goods is Rs1,000 for paddy and Rs1,200 for rice. These values are already included in the price of the final product. So it is not correct to add the values of paddy, rice and puffed rice. Adding the values of the same thing in different forms would be double counting.

### **Discuss with your teacher**

Intermediate goods are used to produce the final goods and services. We use or consume the final goods and services as customers. The final product is not used again in a production process. So the production process ends with the final product.

# Calculating total production by the value added method

We can calculate the total value of production in the above example in another way. To understand this method, write the example in the form of the table given below:

S No	Goods	Total value (in Rs)	Value of intermediate goods purchased (in Rs)	Value added at each stage (in Rs)
1.	Paddy	1,000	0	1,000 - 0 = 1,000
2.	Rice	1,200	1,000	1,200 - 1,000 = 200
3.	Puffed rice	2,750	1,200	2,750 - 1,200 = 1,550
	Total value of production			1,000 + 200 + 1,550 = 2,750

#### Table 1.4

In this table, the value is added at each stage. In the first stage, the value added to paddy is Rs1,000 since the farmer owns the seeds and does not have to buy them. In the second stage, the rice mill paid Rs1,000 for the paddy and sold the rice for Rs1,200. In this stage, the value added is Rs200. In the third stage, the shopkeeper bought the rice for Rs1,200 and sold the puffed rice for Rs2,750, the value added being Rs1,550. In this way, some value is added to things at every stage of production. This is called **value addition**. This method avoids double counting to calculate the value of total production.

Project work: Calculate the total value of the goods and services purchased in your home in a month.

What are the intermediate goods required to produce a motorcycle? Discuss in class.

Can anything be a final product in one case and an intermediate good in another case? Explain with an example.

Explain the concept of value addition with an example.

# **Gross Domestic Product (GDP)**

The total production of a country in a financial year is the total value of all the final goods and services produced in all sectors of the economy. All this production must occur within the geographical boundaries of the country. The total value of this production in a financial year is called the Gross Domestic Product or GDP. Domestic means the production takes place within the country.

The central government's Ministry of Statistics calculates the annual GDP. The ministry seeks the support of different central and state government departments to calculate the total quantity of final goods and services produced. It determines the market value of this production to estimate the country's GDP.

Field	2004-05	%	2014-15	%
Agricultural and allied sector	10,519	22	18,727	
Industrial sector	21,221	44	42,282	
Service sector	16,482	34	39,833	
Total	47,862	100	1,00,842	100

**Gross Domestic Product of Chhattisgarh (in Rs crores)** 

The graph clearly shows that Chhattisgarh's GDP has increased consistently from 2004-05 to 2013-14.



Figure 15.7: Chhattisgarh's Gross Domestic Product

Explain the concept of Gross Domestic Product in your own words.

How has the share of each sector in total production changed in Chhattisgarh between 2004-05 and 2014-15? Discuss with your teacher.

Calculate the share of each sector in total production in 2014-15 and fill in the percentages in Table 5. Which sector has gained the most in the last 10 years?

# Understanding the concept of unpaid work and its Importance



Figure 15.8: Milking a cow

We learnt that the value of only the final product is taken to calculate the GDP. This means we calculate the GDP on the basis of the price at which the goods and services are bought or sold in the market. But we do many different kinds of activities in our daily lives for which we don't receive any payment. These activities, which are not bought or sold, or for which no money is paid, are very important in our life. Such activities are not taken into account when calculating the GDP because they are unpaid activities. As a result,



Figure 15.9: Sweeping and keeping the house clean

the GDP estimate is always less than what it actually should be. If these important but unpaid economic activities are taken into account, the GDP value would be much higher.

These activities have a special importance even if they find no place in any sector of the economy. They play a vital role in our family and our society. Women perform most of these activities. But they are not paid for doing such work, which includes cooking food for the family, looking after children etc.



Figure 15.10: The daily work chart of a female domestic worker

# Activity: Discuss in small groups and prepare a list of activities that you see at home or around you that produce something or provide a service but are not paid for.

There is a way to assess such unpaid activities. They can be assessed on the basis of the time spent in performing them. Some women are engaged in economic activities along with their household chores. For example, Figure 15.10 shows the daily work chart of a working woman. She does economic activities, for which she is paid, in addition to her normal household work, for which she receives no money. Women do many other kinds of work that are not included in the work chart, like cleaning and storing grain, beautifying their home, entertaining guests, taking care of aged and ailing members of the family, daily grocery shopping, looking after domestic animals, helping children with their homework, etc.

#### Make a list of unpaid work.

S No	Unpaid work
1.	
2.	
3.	
4.	

#### Table 1.6

The daily routine of people can be divided into three kinds of activities, based on the time spent doing them. They are:

Paid work: All activities for which a payment is made.

Unpaid work: All activities for which no payment is made.

Non-work activity: Leisure time activities, like watching TV, chatting, resting etc.

The Central Statistical Organization (CSO) conducted a survey in six states in 1998-99 to find out how much time is spent on different activities. The table below shows what percentage of their time men and women in the rural areas spend in doing the three kinds of activities listed above:

S No	Work	Men (rural)	Women (rural)
1.	Paid work	25%	20%
2.	Unpaid work	2%	14%
3.	Non-work activity	73%	66%

#### Table 1.7

#### Analysing the daily work routine of men and women in rural areas

Fill in the work percentages for women given in Figure 15.11 in the pie chart below:



Figure 15.11: Pie chart of work percentages of rural men and women

The pie chart clearly shows that women spend more time doing unpaid work, which is not included in the GDP calculations. It is necessary to understand these activities and include them in the GDP calculations. Many countries are trying to do this. We need to create awareness of and sensitivity towards such work in our society.

## EXERCISES

## 1. Choose the correct answer:

i) Education and health related work are included in

		a) agricultural sector	b) industrial see	ctor	
		c) services sector	d) none of thes	e	
	ii)	ii) In double counting, the total production is the actual produc			
		a) less than	b) more than		
		c) the same as	d) none of thes	e	
	iii)	Unpaid work is mostly done by			
		a) children	b) men		
		c) women	d) old people		
	iv)	<ul><li>v) The annual Gross Domestic Product take</li><li>a) all goods and services</li></ul>		kes into account the value of	
				b) all final goods and services	
		c) all intermediate good	ds and services	d) all intermediate and final goods and services	
2	Choose the odd one out among the following options and explain your choice				
	i)	farmer, basket maker, fisherman, goatherd cooking, playing, cleaning, looking after the aged			
	ii)				
	iii)	making paper, making cars, making fans, teaching		s, teaching	

- 3. What are the allied economic activities in the agricultural sector?
- 4. How does cottage industry help in reducing unemployment?

- 5. What are intermediate goods? Explain with suitable examples.
- 6. How is the service sector different from other sectors? Explain.
- 7. Explain the concept of value addition with suitable examples.
- 8. Explain the importance of unpaid work for the family and for society.
- 9. Women mostly do unpaid work. Do you think this work should be included in GDP calculations? Explain with reasons.
- 10. Make a list of the different kinds of work you see adults around you doing. How will you classify these activities?
- 11. Explain the following sentences with suitable examples
  - i) Household chores are invisible and unpaid work
  - ii) Household work requires physical labour

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