UPSC
NCERT Summary
An Introduction- 3

Social Market

Some proponents of market economies believe that government should intervene to prevent market failure while preserving the general character of a market economy. It seeks an alternative economic system other than socialism and laissez-faire economy, combining private enterprise with measures of the state to establish fair competition, low inflation, low levels of unemployment, good working conditions, and social welfare.

Co-relation between Market Economy and Poverty

Free market economists argue that planned economies and Welfare will not solve poverty problems but only make them worse. They believe that the only way to solve poverty is by creating new wealth. They believe that this is most efficiently achieved through low levels of government regulation and interference, free trade, and tax reform and reduction. Open economy, competition and innovation generate growth and employment. Advocates of the third way -social market solutions to poverty- believe that there is a legitimate role the government can 'play in fighting poverty. They believe this can be achieved through the creation of social safety nets such as social security and workers compensation.
Most modern industrialized nations today are not typically representative of Laissez-faire principles, as they usually involve significant amounts of government intervention in the economy. This intervention includes minimum wages to increase the standard of living, antimonopoly regulation to prevent monopolies, progressive income taxes, welfare programs to provide a safety net for those without the capacity to find work, disability assistance, subsidy programs for businesses and agricultural products to stabilize prices -protect jobs within a country, government ownership of some industry, regulation of market. competition to ensure fair standards and practices to protect the consumer and worker, and economic trade barriers in the form of protective tariffs - quotas on imports - or internal regulation favoring domestic industry.

Differencies Between - Market Failure and Government Failure

The inability of an unregulated market to achieve allocative efficiency is known as market failure. The main types of market failure are: monopoly, steep inequality, pollution etc. The western economic recession since 2008 is the result of market failure where excessive speculation and borrowings have disoriented the economies with huge human and economic cost. Government failure is the public sector analogy to market failure and occurs when government does not efficiently allocate goods and/or resources consumers. Just as with market failures, there are many different kinds of government failures. Inefficient use of resources, wastage and retarded economic growth due to government monopolies and regulation are the results of government failure. Often, the performance of the public sector in India is cited to exemplify government failure.

Structural Composition of the Economy

The three-sector hypothesis is an economic theory which divides economies into three sectors of activity: extraction of raw materials (primary), manufacturing (secondary), and services (tertiary). According to the theory the main focus of an economy's activity shifts from the primary, through the secondary and finally to the tertiary sector. The increase in quality of life, social security, blossoming of education and culture and avoidance of unemployment with reduction of poverty are the effects of such transition. Countries with a low per capita income are in an early state of development; the main part of their national income is achieved through production in the primary sector. Countries in a more advanced state of development, with a medium national income, generate their income mostly in the secondary sector. In highly developed countries with a high income, the tertiary sector dominates the total output of the economy.

The primary sector of the economy involves changing natural resources into primary products. Most products from this sector are considered raw materials for other industries. Major businesses in this sector include agriculture, fishing, forestry and all mining and quarrying industries. Primary industry is a larger sector in developing countries; for instance, animal husbandry is more common in Africa than in Japan. The secondary sector of the economy includes those economic sectors that create a finished, usable product: manufacturing and construction. This sector generally takes the output of the primary sector and manufactures finished goods or where they are suitable for use by other businesses, for export, or sale to domestic consumers.

This sector is often divided into light industry and heavy industry. Light industry is usually less capital intensive than heavy industry, and is more consumer-oriented than business-oriented (i.e., most light industry products are produced for end users rather than as intermediates for use by other - industries). Examples of light industries include the manufacture of clothes, shoes, furniture and household items (e.g. consumer electronics). Heavy industry means products which are either heavy in weight or in the processes leading to their production. Examples are heavy

machinery, big factories, chemical plants, production of construction equipment such as cranes and bulldozers. Alternatively, heavy industry projects can be generalized as more capital intensive or as requiring greater or more advanced resources, facilities or management.
The tertiary sector of economy (also known as the service sector) is defined by exclusion of the two other sectors. Services are defined in conventional economic literature as "intangible or invisible goods". The tertiary sector of economy involves the provision of services to businesses as well as final consumers. Services may involve-the transport, distribution and sale of goods from producer to a consumer as may happen in wholesaling and retailing, or may involve the provision of a service, such as or entertainment. The service sector consists of the "soft" parts of the economy such as insurance, government, tourism, banking, retail, education, and social services. Examples of service may include retail, insurance, and government.
The quaternary sector of the economy is an extension of the three-sector hypothesis. It principally concerns the intellectual services: information generation, information sharing, consultation and research and development. It is sometimes incorporated into the tertiary sector but many argue that intellectual services are distinct enough to warrant a separate sector. The quaternary sector can be seen-as the sector in which companies invest in order to ensure further expansion. Research will be directed into cutting costs, tapping into markets, producing innovative ideas, new production methods and methods of manufacture, amongst others. To many industries, such as the pharmaceutical industry, the sector is the most valuable because it creates future branded products which the company will profit from. This sector evolves in well developed countries and requires a highly educated workforce. The quinary sector of the economy is the sector suggested by some economists as comprising health, education, culture, research, police, fire service, and other government industries not intended to make a profit. The quinary sector also includes domestic activities such as those performed by stay-at-home parents or homemakers. These activities are not measured by monetary amounts but make a considerable contribution to the economy.

Developing Country

A developing country is a country that has not reached the Western-style standards of democratic governments, free market economies, industrialization, social programs, and human rights guarantees for their citizens. Countries with more advanced economies than other developing nations, but which have not yet fully demonstrated the signs of a developed country, are grouped under the term newly industrialized countries.

Developed Country
Development entails a modem infrastructure (both physical and institutional), and a

move away from low value added sectors such as agriculture and natural resource extraction. Developed countries, in comparison, usually have economic systems based on economic growth in the secondary, tertiary and quaternary sectors and high standards of living.

Newly Industralized Country

The category of newly industrialized country (NIC) is a socioeconomic classification applied to several Countries around the world. NICs are countries whose economies have not yet reached first world status but have, in a macroeconomic sense, outpaced their developing counterparts Another characterization of NICs is that of nations undergoing rapid economic growth. Incipient or ongoing industrialization is an important indicator of a NIC. In many NICs, social upheaval can occur as primarily rural, agriculture populations migrate to the cities, where the growth of manufacturing concerns and factories can draw many thousands of laborers.
NICs usually share some other common features, including:

- A switch from agriculture to industrial economies, especially in the manufacturing sector.
- An increasingly open-market economy, allowing free trade with other nations in the world.
- Emerging MNCs
- Strong capital investment from foreign countries.

High-income Economy

A High-income economy is defined by the World Bank as a country with a GDP per capita of $11,456 or more. While the term high income may be used interchangeably with "First World" and "developed country," the technical definitions of these terms differ. The term "first world" commonly refers to those prosperous countries that aligned themselves with the U.S. and NATO during the cold war. Several institutions, such as International Monetary Fund (IMF) take factors other than high per capita income into account when classifying countries as "developed" Of "advanced economies" According to the United Nations, for example, some highincome countries may also be developing countries. The GCC (Persian Gulf States) Countries, for example, are classified as developing high income countries Thus, a highincome Country may be classified as either developed or developing.
The term developed country, or advanced country, is used to categorize countries that have achieved a high level of industrialization in which the tertiary and quaternary sectors of industry dominate. Countries not fitting this definition may referred to as developing countries. This level of economic development usually translates into a high income per capita and a high Human Development Index

(HDI) rating. Countries with high gross domestic product (GDP) per capita often fit the above description of a developed economy. However, anomalies exist when-determining "developed" status by the factor GDP per capita alone.

Least Development Countries

Least Developed Countries (LDCs or Fourth World countries) are countries which according to the United Nations exhibit the lowest indicators of socioeconomic development, with the lowest Human Development Index ratings of all countries in the world. A country is classified as a Least Developed Country if it meets three criteria based on:

- low-income (three-year average GDP per capita of less than US $750, which must exceed $900 to leave the list)
- human resource weakness (based on indicators of nutrition, health, education and adult literacy) economic vulnerability (based on instability, of agricultural production, instability of exports of goods and services and the percentage of population displaced-by natural disasters). The classification currently applies to 48 countries.

India's Initiatives for Green Acounting

India aims to factor the use of natural resources in its economic growth estimates by 2015 as we seek to underscore the actions it is taking to fight global warming. Government said the country would seek to make "green accounting" part of government policy on economic growth. The alternative GDP (Gross Domestic Product) estimates account for the consumption of natural resources as well. This would help find out how much of a natural resource is being consumed in the course of economic growth, how much being degraded and how much being replenished. It is expected that in future more and more economists are likely to focus their time and energies upon social investment accounting or green accounting ... so that GDP really becomes not gross domestic product but green domestic product.
Green gross domestic product, then or green GDP as outlined above, measures economic growth while factoring in the environmental consequences, or externalities (how those outside a transaction are affected), of that growth. There are methodological concerns — how do we monetize the loss of biodiversity? How can we measure the economic impacts of climate change due to green house gas emissions? While the green GDP has pot yet been perfected as a measure of environmental costs, many countries are working to strike a balance between - green GDP and the original GDP.

Sarkozy's Initiatives for GDP Alternative
The Commission on the measurement of economic performance and social progress was set up at the beginning of 2008 on French government's initiative. Increasing concerns have been raised since a long time about the adequacy of current measures of economic performance, in particular those based on GDP figures. Moreover, there are broader concerns, about the relevance of these figures as measures of societal well-being, as well as measures of economic, environmental, and social sustainability.
Reflecting these concerns, the former President Sarkozy has decided to create this Commission, to look at the entire range of issues, Its aim is to identify the limits of GDP as an indicator of economic performance and social progress, to consider additional information required for the production of a more relevant picture etc: The Commission is chaired by Professor Joseph E. Stiglitz. Amartya Sen and Bina Agarwal are also associated with it. The commission gave its report in 2009. The Stiglitz report recommends that economic indicators should stress well-being instead of production, and for non-market activities, such as domestic and charity work, to be taken into account, Indexes should integrate complex realities, such as crime, the environment and the efficiency of the health system, as well as income inequality. The report brings examples, such as traffic jams, to show that more production doesn't necessarily correspond with greater wellbeing. "We're living in one of those epochs where certitudes have vanished.., we have to reinvent, to reconstruct everything," Sarkozy said. "The central issue is [to pick] the way of development, the model of society, the civilization we want to live in."

Stiglitz explained: The big question concerns whether GDP provides a good measure of living standards. In many cases, GDP statistics seem to suggest-that-the economy is doing far better than most citizens' own perceptions. Moreover, the focus on GDP creates conflicts: political leaders are told to maximise it, but citizens also demand that attention be paid to enhancing security, reducing air, water, and noise pollution, and so forth — all of which might lower GDP growth. The fact that GDP may be a poor measure of well-being, or, even of market activity, has, of course, long been recognized. But changes in society and the economy may have heightened the problems, at the same time that advances in economics and statistical techniques may have provided opportunities to improve our metrics.

India GDP Base Year is changed
The Government changed the base year for calculating national income to 2004-05 as against 1999-2000 earlier. The Central Statistical Organisation (CSO) made the changes in early 2010.