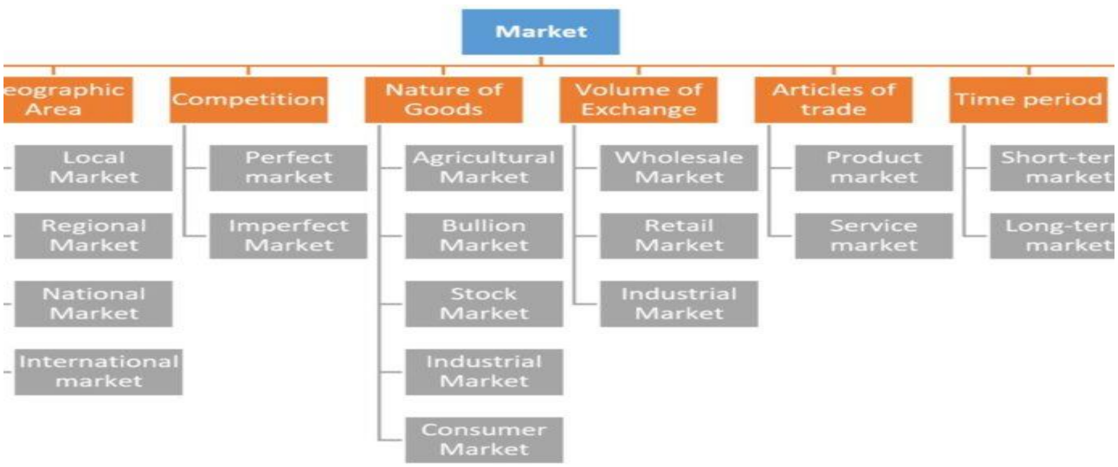
UNIT-III

Market structure and competition- definition, classification of markets, Perfect competition-features of perfect competition. Monopoly- features of monopoly, Monopoly power, types of price discrimination- imperfect competition -Monopolistic competition, features of monopolistic competition. oligopoly- definition, Characteristics of oligopoly. Duopoly -Monopsony.

Definition

Market structure refers to the nature and degree of competition in the market for goods and services. The structures of market both for goods market and service (factor) market are determined by the nature of competition prevailing in a particular market.



Source:https://www.google.com/url?sa=i&url=https%3A%2F%2Fbbamantra.com%2Ftag%2Fclassification-of-markets%2F&psig=AOvVaw0HePZs8DgJx3o8w1meMwgt&ust=1604125005065000&source=images&cd=vfe&ved=2ahUKEwjHnYu61dvsAhWGXn0KHaggAcAQr4kDegUIARC2AQ

Classification of Markets

Broadly there are two classifications of markets – the product market and the factor market. The factor market refers to the market for the buying and selling of factors of production like land, capital, labor, etc. The other classification of markets are as follows,

On the Basis of Geographic Location

- **Local Markets:** In such a market the buyers and sellers are limited to the local region or area. They usually sell perishable goods of daily use since the transport of such goods can be expensive.
- **Regional Markets:** These markets cover a wider are than local markets like a district, or a cluster of few smaller states
- **National Market:** This is when the demand for the goods is limited to one specific country. Or the government may not allow the trade of such goods outside national boundaries.
- **International Market:** When the demand for the product is international and the goods are also traded internationally in bulk quantities, we call it an international market.

On the Basis of Time

- **Very Short Period Market:** This is when the supply of the goods is fixed, and so it cannot be changed instantaneously. Say for example the market for flowers, vegetables. Fruits etc. The price of goods will depend on demand.
- **Short Period Market**: The market is slightly longer than the previous one. Here the supply can be slightly adjusted.
- **Long Period Market**: Here the supply can be changed easily by scaling production. So it can change according to the demand of the market. So the market will determine its equilibrium price in time.

On the Basis of Nature of Transaction

- **Spot Market:** This is where spot transactions occur, that is the money is paid immediately. There is no system of credit
- **Future Market**: This is where the transactions are credit transactions. There is a promise to pay the consideration sometime in the future.

On the Basis of Regulation

- **Regulated Market**: In such a market there is some oversight by appropriate government authorities. This is to ensure there are no unfair trade practices in the market. Such markets may refer to a product or even a group of products. For example, the stock market is a highly regulated market.
- **Unregulated Market**: This is an absolutely free market. There is no oversight or regulation, the market forces decide everything

Source:https://www.toppr.com/guides/business-economics/meaning-and-types-of-markets/market-meaning-and-classification/

Perfect Competition Market:

A perfectly competitive market is one in which the number of buyers and sellers is very large, all engaged in buying and selling a homogeneous product without any artificial restrictions and possessing perfect knowledge of market at a time. According to R.G. Lipsey, “Perfect competition is a market structure in which all firms in an industry are price- takers and in which there is freedom of entry into, and exit from, industry.”

Characteristics of Perfect Competition:

The following are the conditions for the existence of perfect competition:

(1) Large Number of Buyers and Sellers:

The first condition is that the number of buyers and sellers must be so large that none of them individually is in a position to influence the price and output of the industry as a whole. The demand of individual buyer relative to the total demand is so small that he cannot influence the price of the product by his individual action.the individual seller is unable to influence the price of the product by increasing or decreasing its supply.Rather, he adjusts his supply to the price of the product.

(2) Freedom of Entry or Exit of Firms:

The next condition is that the firms should be free to enter or leave the industry. It implies that whenever the industry is earning excess profits, attracted by these profits some new firms enter the industry. In case of loss being sustained by the industry, some firms leave it.

(3) Homogeneous Product:

Each firm produces and sells a homogeneous product so that no buyer has any preference for the product of any individual seller over others. This is only possible if units of the same product produced by different sellers are perfect substitutes. No seller has an independent price policy. Commodities like salt, wheat, cotton and coal are homogeneous in nature. He cannot raise the price of his product.

(4) Absence of Artificial Restrictions:

The next condition is that there is complete openness in buying and selling of goods. Sellers are free to sell their goods to any buyers and the buyers are free to buy from any sellers. In other words, there is no discrimination on the part of buyers or sellers.Moreover, prices are liable to change freely in response to demand-supply conditions. There are no efforts on the part of the producers, the government and other agencies to control the supply, demand or price of the products. The movement of prices is unfettered.

(5) Profit Maximisation Goal:

Every firm has only one goal of maximising its profits.

(6) Perfect Mobility of Goods and Factors:

Another requirement of perfect competition is the perfect mobility of goods and factors between industries. Goods are free to move to those places where they can fetch the highest price. Factors can also move from a low-paid to a high-paid industry.

(7) Perfect Knowledge of Market Conditions:

Buyers and sellers possess complete knowledge about the prices at which goods are being bought and sold, and of the prices at which others are prepared to buy and sell. perfect knowledge of market conditions forces the sellers to sell their product at the prevailing market price and the buyers to buy at that price.

(8) Absence of Transport Costs:

Another condition is that there are no transport costs in carrying of product from one place to another. This condition is essential for the existence of perfect competition which requires that a commodity must have the same price everywhere at any time. If transport costs are added to the price of the product, even a homogeneous commodity will have different prices depending upon transport costs from the place of supply.

(9) Absence of Selling Costs:

Under perfect competition, the costs of advertising, sales-promotion, etc. do not arise because all firms produce a homogeneous product.

Source: https://www.yourarticlelibrary.com/economics/market/market-structure-meaning-characteristics-and-forms-economics/28736

(Source: BusinessJargons)

Monopoly

"Monopoly is a market situation in which there is a single seller. There are no close substitutes of the commodity it produces, there are barriers to entry". -Koutsoyiannis

Characteristics of a Monopoly

A monopoly can be recognized by certain characteristics that set it aside from the other market structures:

- **Profit maximizer:** a monopoly maximizes profits. Due to the lack of competition a firm can charge a set price above what would be charged in a competitive market, thereby maximizing its revenue.
- **Price maker:** the monopoly decides the price of the good or product being sold. The price is set by determining the quantity in order to demand the price desired by the firm (maximizes revenue).
- **High barriers to entry:** other sellers are unable to enter the market of the monopoly.
- **Single seller:** in a monopoly one seller produces all of the output for a good or service. The entire market is served by a single firm. For practical purposes the firm is the same as the industry.
- **Price discrimination:** in a monopoly the firm can change the price and quantity of the good or service. In an elastic market the firm will sell a high quantity of the good if the price is less. If the price is high, the firm will sell a reduced quantity in an elastic market.

Source: https://courses.lumenlearning.com/

Monopoly Power

Monopoly power occurs when a firm has a dominant position in the market

the Monopoly control or power enjoyed will be Limited and partial

Monopoly power is ensured due to many factors:

1. power given by the government:

Monopoly power to produce a commodity or service can be given by the government through it statutes.

2.Legal power:

Partial Monopoly through Trademark patent rights copyrights extra is enjoyed by the producers or traders as they are protected by legal rights.

3. Technical Power:

In certain cases, Monopoly power may be enjoyed due to technical reasons technical knowledge superior and special know- how scientific secrets of formula may enable traders to produce a commodity which may not have close substitute.

4.Combinations

Combinations of different form producing the same commodity will result in single control trusts,syndicatesetc.,

Types of Price Discrimination

The price discrimination may be

1. personal discrimination
2. place discrimination
3. under trade discrimination

- **Personal Discrimination**

The monopolist will charge different prices for different customer on the basis of their ability to pay rich customer will be asked to pay more and poor customers to pay less

- **Place Discrimination**

Price discrimination is adapted by monopolist having Markets and different places for the same commodity the locality in which the market is situated will be the Criterion in fixing of the price

- **Under Trade Discrimination**

Trade discrimination can also be called use discrimination by this monopolist will charge different prices for different types of use of the same commodity example electricity will be sold at a cheaper rate for industrial establishment while it will be charged at a higher rate for domestic consumption

Imperfect Competition

Imperfect competition is a competitive market situation where there are many sellers, but they are selling heterogeneous (dissimilar) goods as opposed to the perfect competitive market scenario. As the name suggests, competitive markets that are imperfect in nature.

If a seller is selling a non identical good in the market, then he can raise the prices and earn profits. High profits attract other sellers to enter the market and sellers, who are incurring losses, can very easily exit the market.

There are four types of imperfect markets:
- Monopoly (only one seller) - Oligopoly (few sellers of goods) - Monopolistic competition (many sellers with highly differentiated product) - Monopsony (only one buyer of a product)

Source: https://economictimes.indiatimes.com/definition/imperfect-competition

Monopolistic Competition

Monopolistic competition is a market structure which combines elements of monopoly and competitive markets. Essentially a monopolistic competitive market is one with freedom of entry and exit, but firms can differentiate their products.

Features of Monopolistic Competition

1. *Large number of sellers*: In a market with monopolistic competition, there are a large number of sellers who have a small share of the market.

2. *Product differentiation*: In monopolistic competition, all brands try to create product differentiation to add an element of monopoly over the competing products. This ensures that the product offered by the brand does not have a perfect substitute. Therefore, the manufacturer can raise the price of the product without having to worry about losing all its customers to other brands. However, in such a market, while all brands are not perfect substitutes, they are close substitutes for each other. Hence, the seller might lose at least some customers to his competitors.

3. *Freedom of entry or exit*: Like in perfect competition, firms can enter and exit the market freely.

4. *Non-price competition*: In monopolistic competition, sellers compete on factors other than price. These factors include aggressive advertising, product development, better distribution, after sale services, etc. Sellers don't cut the price of their products but incur high costs for the promotion of their goods. If the firms indulge in price-wars, which is the possibility under perfect competition, some firms might get thrown out of the market.

Source:https://www.toppr.com/guides/business-economics/determination-of-prices/monopolistic-competition/

Oligopoly

An oligopoly is a **market structure** in which a few firms dominate.

Characteristics of Oligopoly

- **Few firms**

Under Oligopoly, there are a few large firms although the exact number of firms is undefined. Also, there is severe competition since each firm produces a significant portion of the total output.

- **Barriers to Entry**

  Under Oligopoly, a firm can earn super-normal profits in the long run as there are barriers to entry like patents, licenses, control over crucial raw materials, etc. These barriers prevent the entry of new firms into the industry.

- **Non-Price Competition**

  Firms try to avoid price competition due to the fear of price wars in Oligopoly and hence depend on non-price methods like advertising, after sales services, warranties, etc. This ensures that firms can influence demand and build brand recognition.

- **Interdependence**

  Under Oligopoly, since a few firms hold a significant share in the total output of the industry, each firm is affected by the price and output decisions of rival firms. Therefore, there is a lot of interdependence among firms in an oligopoly. Hence, a firm takes into account the action and reaction of its competing firms while determining its price and output levels.

- **Nature of the Product**

  Under oligopoly, the products of the firms are either homogeneous or differentiated.

- **Selling Costs**

  Since firms try to avoid price competition and there is a huge interdependence among firms, selling costs are highly important for competing against rival firms for a larger market share.

- **No unique pattern of pricing behavior**

  Under Oligopoly, firms want to act independently and earn maximum profits on one hand and cooperate with rivals to remove uncertainty on the other hand.Depending on their motives, situations in real-life can vary making predicting the pattern of pricing behavior among firms impossible. The firms can compete or collude with other firms which can lead to different pricing situations.

- **Indeterminateness of the Demand Curve**

  Unlike other market structures, under Oligopoly, it is not possible to determine the demand curve of a firm. This is because on one hand, there is a huge interdependence among rivals. And on the other hand there is uncertainty regarding the reaction of the rivals. The rivals can react in different ways when a firm changes its price and that makes the demand curve indeterminate**.**

Duopoly

A **duopoly** is a **market** in which two firms sell a product to a large number of consumers

Monopsony

A monopsony is a market condition in which there is only one buyer, the monopsonist. Like a monopoly, a monopsony also has imperfect market conditions. The difference between a monopoly and monopsony is primarily in the difference between the controlling entities. A single buyer dominates a monopsonized market while an individual seller controls a monopolized market. Monosonists are common to areas where they supply most or all of the region's jobs.

Market Structure	Characteristics				
	Number of Sellers	**Number of Buyers**	**Barriers to Entry**	**Entry and Exit Activity**	**Homogeneous or Differentiated Product?**
Pure Competition	Many firms	Many buyers	None	Yes, firms have the freedom to enter and exit	Homogeneous product, all goods are perfect substitutes for consumers
Monopolistic Competition	Many firms with *non-interdependent* pricing and quantity decisions	Many buyers	Very low	Yes, firms have the freedom to enter and exit	Differentiated products, but close substitutes for consumers so their demand curves are elastic
Oligopoly	Few firms with *interdependent* pricing and quantity decision	Unspecified	High	Difficult entry (often due to economies of scale)	Products can be either differentiated or non-differentiated
Pure Monopoly	Single seller	Unspecified	Complete	entry blocked	A single, homogeneous product with no close substitutes

Source: http://itech.fgcu.edu/faculty/bhobbs/market_structure_chart.htm

Questions:

1. Define market.
2. State perfect competition.
3. Define monopoly.
4. What is duopoly.
5. Write short note on monopsony.
6. Discuss the classification of markets.
7. Write the features of perfect competition.
8. Explain the types of price discrimination.
9. Write the features of imperfect competition.
10. Describe the characteristic of oligopoly.

UNIT-IV

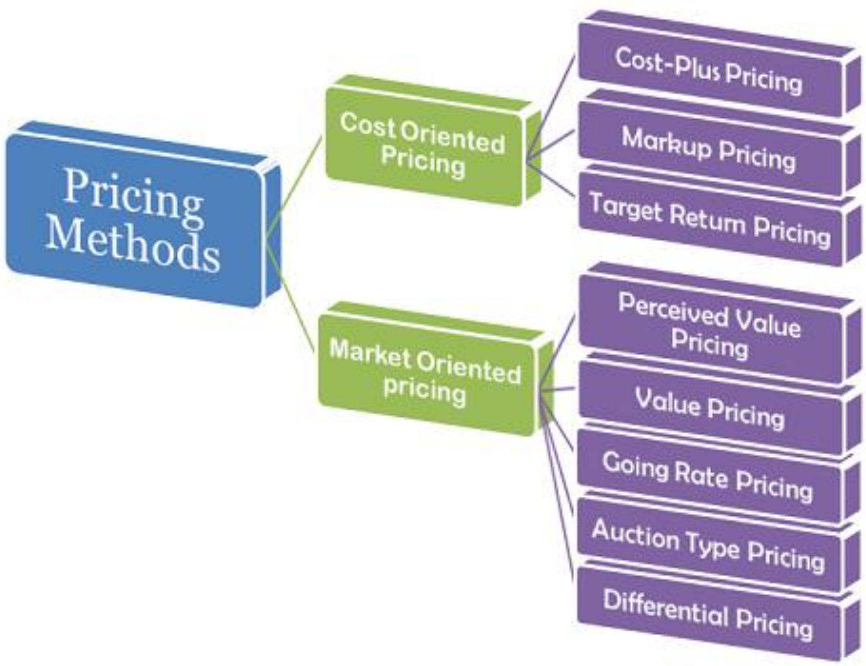
Pricing Methods. Cost Concepts and classifications, Demand forecasting techniques-Profiteering and profit earning-Break even analysis.

Pricing Methods

An organization has various options for selecting a pricing method. Prices are based on three dimensions that are cost, demand, and competition.

The pricing methods can be broadly classified into two parts:

1. Cost Oriented Pricing Method
2. Market Oriented Pricing Method



Cost-Oriented Pricing Method: Many firms consider the **Cost of Production** as a base for calculating the price of the finished goods. Cost-oriented pricing method covers the following ways of pricing:

- **Cost-Plus Pricing:** It is one of the simplest pricing method wherein the manufacturer calculates the cost of production incurred and add a certain percentage of markup to it to realize the selling price. The markup is the percentage of profit calculated on total cost i.e. fixed and variable cost.

E.g. If the Cost of Production of product-A is Rs 500 with a markup of 25% on total cost, the selling price will be calculated as*Selling Price= cost of production + Cost of Production x Markup Percentage/100 Selling Price=500+500 x 0.25= 625 Thus, a firm earns a profit of Rs 125 (Profit=Selling price- Cost price)*

- **Markup pricing-** This pricing method is the variation of cost plus pricing wherein the percentage of markup is calculated on the selling price.**E.g.** If the unit cost of a chocolate is Rs 16 and producer wants to earn the markup of 20% on sales then mark up price will be:

  Markup Price= Unit Cost/ 1-desired return on sales Markup Price= 16/1-0.20 = 20 Thus, the producer will charge Rs 20 for one chocolate and will earn a profit of Rs 4 per unit.

- **Target-Return pricing**– In this kind of pricing method the firm set the price to yield a required Rate of Return on Investment (ROI) from the sale of goods and services.**E.g.** If soap manufacturer invested Rs 1,00,000 in the business and expects 20% ROI i.e. Rs 20,000, the target return price is given by:

  Target return price= Unit Cost + (Desired Return x capital invested)/ unit salesTarget Return Price=16 + (0.20 x 100000)/5000Target Return Price= Rs 20

  Thus, Manufacturer will earn 20% ROI provided that unit cost and sale unit is accurate. In case the sales do not reach 50,000 units then the manufacturer should prepare the break-even chart wherein different ROI's can be calculated at different sales unit.

Market-Oriented Pricing Method: Under this method price is calculated on the basis of market conditions. Following are the methods under this group:

- **Perceived-Value Pricing:** In this pricing method, the manufacturer decides the price on the basis of customer's perception of the goods and services taking into consideration all the elements such as advertising, promotional tools, additional benefits, product quality, the channel of distribution, etc. that influence the customer's perception.

  E.g. Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.

- **Value Pricing**: Under this pricing method companies design the low priced products and maintain the high-quality offering. Here the prices are not kept low, but the product is re-engineered to reduce the cost of production and maintain the quality simultaneously.

E.g. Tata Nano is the best example of value pricing, despite several Tata cars, the company designed a car with necessary features at a low price and lived up to its quality.

- **Going-Rate Pricing-** In this pricing method, the firms consider the competitor's price as a base in determining the price of its own offerings. Generally, the prices are more or less same as that of the competitor and the price war gets over among the firms.

  E.g. In Oligopolistic Industry such as steel, paper, fertilizer, etc. the price charged is same.

- **Auction Type pricing**: This type of pricing method is growing popular with the more usage of internet. Several online sites such as eBay, Quikr, OLX, etc. provides a platform to customers where they buy or sell the commodities. *There are three types of auctions:*

  1. English Auctions-There is one seller and many buyers. The seller puts the item on sites such as Yahoo and bidders raise the price until the top best price is reached.

  2. ***Dutch Auctions***– There may be one seller and many buyers or one buyer and many sellers. In the first case, the top best price is announced and then slowly it comes down that suit the bidder whereas in the second kind buyer announces the product he wants to buy then potential sellers competes by offering the lowest price.

  3. ***Sealed-Bid Auctions***: This kind of method is very common in the case of Government or industrial purchases, wherein tenders are floated in the market, and potential suppliers submit their bids in a closed envelope, not disclosing the bid to anyone.

- **Differential Pricing**: This pricing method is adopted when different prices have to be charged from the different group of customers. The prices can also vary with respect to time, area, and product form.

  E.g. The best example of differential pricing is Mineral Water.The price of Mineral Water varies in hotels, railway stations, retail stores.

Thus, the companies can adopt either of these pricing methods depending on the type of a product it is offering and the ultimate objective for which the pricing is being done.

Source: https://businessjargons.com/pricing-methods.html

Cost Concepts and classifications

In order to understand the general concept of costs, it is important to know the following types of costs:

1. Accounting costs and Economic costs
2. Outlay costs and Opportunity costs
3. Direct/Traceable costs and Indirect/Untraceable costs

4. Incremental costs and Sunk costs
5. Private costs and Social costs
6. Fixed costs and Variable costs

Concept of Costs in terms of Treatment

1. Accounting costs

Accounting costs are those for which the entrepreneur pays direct cash for procuring resources for production. These include costs of the price paid for raw materials and machines, wages paid to workers, electricity charges, the cost incurred in hiring or purchasing a building or plot, etc. Accounting costs are treated as expenses. Chartered accountants record them in financial statements.

2. Economic costs

There are certain costs that accounting costs disregard. These include money which the entrepreneur forgoes but would have earned had he invested his time, efforts and investments in other ventures. For example, the entrepreneur would have earned an income had he sold his services to others instead of working on his own business

Similarly, potential returns on the capital he employed in his business instead of giving it to others, the output generated by his resources which he could have used for others' benefits, etc. are other examples of economic costs.

Economic costs help the entrepreneur calculate supernormal profits, i.e. profits he would earn above the normal profits by investing in ventures other than his.

Concept of Costs in terms of the Nature of Expenses

1. Outlay costs

The actual expenses incurred by the entrepreneur in employing inputs are called outlay costs. These include costs on payment of wages, rent, electricity or fuel charges, raw materials, etc. We have to treat them are general expenses for the business.

2. Opportunity costs

Opportunity costs are incomes from the next best alternative that is foregone when the entrepreneur makes certain choices.

For example, the entrepreneur could have earned a salary had he worked for others instead of spending time on his own business. These costs calculate the missed opportunity and calculate income that we can earn by following some other policy.

Concept of Costs in terms of Traceability

1. Direct costs

Direct costs are related to a specific process or product. They are also called traceable costs as we can directly trace them to a particular activity, product or process.

They can vary with changes in the activity or product. Examples of direct costs include manufacturing costs relating to production, customer acquisition costs pertaining to sales, etc.

2. Indirect costs

Indirect costs, or untraceable costs, are those which do not directly relate to a specific activity or component of the business. For example, an increase in charges of electricity or taxes payable on income. Although we cannot trace indirect costs, they are important because they affect overall profitability.

Concept of Costs in terms of the Purpose

1. Incremental costs

These costs are incurred when the business makes a policy decision. For example, change of product line, acquisition of new customers, upgrade of machinery to increase output are incremental costs.

2. Sunk costs

Suck costs are costs which the entrepreneur has already incurred and he cannot recover them again now. These include money spent on advertising, conducting research, and acquiring machinery.

Concept of Costs in terms of Payers

1. Private costs

These costs are incurred by the business in furtherance of its own objectives. Entrepreneurs spend them for their own private and business interests. For example, costs of manufacturing, production, sale, advertising, etc.

2. Social costs

As the name suggests, it is the society that bears social costs for private interests and expenses of the business. These include social resources for which the firm does not incur expenses, like atmosphere, water resources and environmental pollution.

Concept of Costs in terms of Variability

1. Fixed costs

Fixed costs are those which do not change with the volume of output. The business incurs them regardless of their level of production. Examples of these include payment of rent, taxes, interest on a loan, etc.

2. Variable costs

These costs will vary depending upon the output that the business generates. Less production will cost fewer expenses, and vice versa, the business will pay more when its production is greater. Expenses on the purchase of raw material and payment of wages are examples of variable costs.

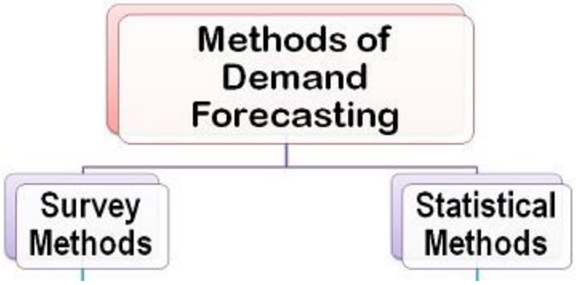
Source: https://www.toppr.com/guides/business-economics/laws-of-production/concept-of-costs/

Demand Forecasting Techniques

Demand Forecasting is a systematic and scientific estimation of future demand for a product. Simply, estimating the sales proceeds or demand for a product in the future is called as demand forecasting.

There are several methods of demand forecasting applied in terms of; the purpose of forecasting, data required, data availability and the time frame within which the demand is to be forecasted. Each method varies from one another and hence the forecaster must select that method which best suits the requirement.

The methods of forecasting can be classified into two broad categories:



1. **Survey Methods:** Under the survey method, the consumers are contacted directly and are asked about their intentions for a product and their future purchase plans. This method is often used when the forecasting of a demand is to be done for a short period of time. **The survey method includes**:

2. **Statistical Methods:** The statistical methods are often used when the forecasting of demand is to be done for a longer period. The statistical methods utilize the time-series (historical) and cross-sectional data to estimate the long-term demand for a product. The statistical methods are used more often and are considered superior than the other techniques of demand forecasting due to the following reasons:

    - There is a minimum element of subjectivity in the statistical methods.
    - The estimation method is scientific and depends on the relationship between the dependent and independent variables.
    - The estimates are more reliable
    - Also, the cost involved in the estimation of demand is the minimum.

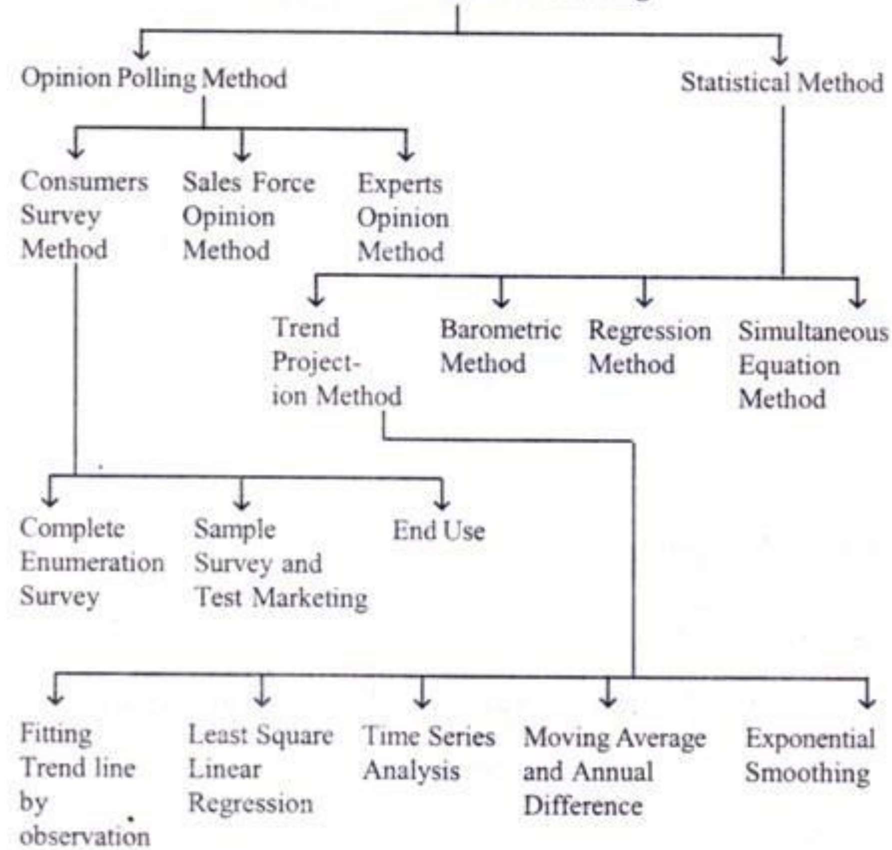
Source: https://businessjargons.com/methods-of-demand-forecasting.html

The more commonly used methods of demand forecasting are discussed below:

The various methods of demand forecasting can be summarised in the form of a chart as shown in Table 1.

Table 1.

Methods of Demand Forecasting



1. Opinion Polling Method:
In this method, the opinion of the buyers, sales force and experts could be gathered to determine the emerging trend in the market.

The opinion polling methods of demand forecasting are of three kinds:
(a) Consumer's Survey Method or Survey of Buyer's Intentions:
In this method, the consumers are directly approached to disclose their future purchase plans. I his is done by interviewing all consumers or a selected group of consumers out of the relevant population. This is the direct method of estimating demand in the short run. Here the burden of forecasting is shifted to the buyer. The firm may go in for complete enumeration or for sample surveys. If the commodity under consideration is an intermediate product then the industries using it as an end product are surveyed.

(i) Complete Enumeration Survey:
Under the Complete Enumeration Survey, the firm has to go for a door to door survey for the forecast period by contacting all the households in the area. This method has an advantage of first hand, unbiased information, yet it has its share of disadvantages also. The major limitation of this method is that it requires lot of resources, manpower and time.In this method, consumers may be reluctant to reveal their purchase plans due to personal privacy or commercial secrecy. Moreover,

at times the consumers may not express their opinion properly or may deliberately misguide the investigators.

(ii) Sample Survey and Test Marketing:

Under this method some representative households are selected on random basis as samples and their opinion is taken as the generalised opinion. This method is based on the basic assumption that the sample truly represents the population. If the sample is the true representative, there is likely to be no significant difference in the results obtained by the survey. Apart from that, this method is less tedious and less costly.A variant of sample survey technique is test marketing. Product testing essentially involves placing the product with a number of users for a set period. Their reactions to the product are noted after a period of time and an estimate of likely demand is made from the result. These are suitable for new products or for radically modified old products for which no prior data exists. It is a more scientific method of estimating likely demand because it stimulates a national launch in a closely defined geographical area.

(iii) End Use Method or Input-Output Method:

This method is quite useful for industries which are mainly producer's goods. In this method, the sale of the product under consideration is projected as the basis of demand survey of the industries using this product as an intermediate product, that is, the demand for the final product is the end user demand of the intermediate product used in the production of this final product.The end user demand estimation of an intermediate product may involve many final good industries using this product at home and abroad. It helps us to understand inter-industry' relations. In input-output accounting two matrices used are the transaction matrix and the input co-efficient matrix. The major efforts required by this type are not in its operation but in the collection and presentation of data.

(b) Sales Force Opinion Method:

This is also known as collective opinion method. In this method, instead of consumers, the opinion of the salesmen is sought. It is sometimes referred as the "grass roots approach" as it is a bottom-up method that requires each sales person in the company to make an individual forecast for his or her particular sales territory.These individual forecasts are discussed and agreed with the sales manager. The composite of all forecasts then constitutes the sales forecast for the organisation. The advantages of this method are that it is easy and cheap. It does not involve any elaborate statistical treatment. The main merit of this method lies in the collective wisdom of salesmen. This method is more useful in forecasting sales of new products.

(c) Experts Opinion Method:

This method is also known as "Delphi Technique" of investigation. The Delphi method requires a panel of experts, who are interrogated through a sequence of questionnaires in which the responses to one questionnaire are used to produce the next questionnaire. Thus any information available to some experts and not to others is passed on, enabling all the experts to have access to all the information for forecasting.

The method is used for long term forecasting to estimate potential sales for new products. This method presumes two conditions: Firstly, the panellists must be rich in their expertise, possess wide range of knowledge and experience. Secondly, its conductors are objective in their job. This method has some exclusive advantages of saving time and other resources.

2. Statistical Method:

Statistical methods have proved to be immensely useful in demand forecasting. In order to maintain objectivity, that is, by consideration of all implications and viewing the problem from an external point of view, the statistical methods are used.

The important statistical methods are:

(i) Trend Projection Method:

A firm existing for a long time will have its own data regarding sales for past years. Such data when arranged chronologically yield what is referred to as 'time series'. Time series shows the past sales with effective demand for a particular product under normal conditions. Such data can be given in a tabular or graphic form for further analysis. This is the most popular method among business firms, partly because it is simple and inexpensive and partly because time series data often exhibit a persistent growth trend.

Time series has got four types of components namely, Secular Trend (T), Secular Variation (S), Cyclical Element (C), and an Irregular or Random Variation (I). These elements are expressed by the equation O = TSCI. Secular trend refers to the long run changes that occur as a result of general tendency.

Seasonal variations refer to changes in the short run weather pattern or social habits. Cyclical variations refer to the changes that occur in industry during depression and boom. Random variation refers to the factors which are generally able such as wars, strikes, flood, famine and so on.

When a forecast is made the seasonal, cyclical and random variations are removed from the observed data. Thus only the secular trend is left. This trend is then projected. Trend projection fits a trend line to a mathematical equation.

(ii) Barometric Technique:

A barometer is an instrument of measuring change. This method is based on the notion that "the future can be predicted from certain happenings in the present." In other words, barometric techniques are based on the idea that certain events of the present can be used to predict the directions of change in the future. This is accomplished by the use of economic and statistical indicators which serve as barometers of economic change.

Generally forecasters correlate a firm's sales with three series: Leading Series, Coincident or Concurrent Series and Lagging Series:

(a) The Leading Series:

The leading series comprise those factors which move up or down before the recession or recovery starts. They tend to reflect future market changes. For example, baby powder sales can be forecasted by examining the birth rate pattern five years earlier, because there is a correlation between the baby powder sales and children of five years of age and since baby powder sales today are correlated with birth rate five years earlier, it is called lagged correlation. Thus we can say that births lead to baby soaps sales.

(b) Coincident or Concurrent Series:
The coincident or concurrent series are those which move up or down simultaneously with the level of the economy. They are used in confirming or refuting the validity of the leading indicator used a few months afterwards. Common examples of coinciding indicators are G.N.P itself, industrial production, trading and the retail sector.

(c) The Lagging Series:
The lagging series are those which take place after some time lag with respect to the business cycle. Examples of lagging series are, labour cost per unit of the manufacturing output, loans outstanding, leading rate of short term loans, etc.

(iii) Regression Analysis:
It attempts to assess the relationship between at least two variables (one or more independent and one dependent), the purpose being to predict the value of the dependent variable from the specific value of the independent variable. The basis of this prediction generally is historical data. This method starts from the assumption that a basic relationship exists between two variables. An interactive statistical analysis computer package is used to formulate the mathematical relationship which exists.

For example, one may build up the sales model as:
Quantum of Sales = a. price + b. advertising + c. price of the rival products + d. personal disposable income +u

Where a, b, c, d are the constants which show the effect of corresponding variables as sales. The constant u represents the effect of all the variables which have been left out in the equation but having effect on sales. In the above equation, quantum of sales is the dependent variable and the variables on the right hand side of the equation are independent variables. If the expected values of the independent variables are substituted in the equation, the quantum of sales will then be forecasted.

The regression equation can also be written in a multiplicative form as given below:
Quantum of Sales = $(\text{Price})^a$ + $(\text{Advertising})^b$+ $(\text{Price of the rival products})^c$ + (Personal disposable income Y + u
(iv) Econometric Models:
Econometric models are an extension of the regression technique whereby a system of independent regression equation is solved. The requirement for satisfactory use of the econometric model in forecasting is under three heads: variables, equations and data.

The appropriate procedure in forecasting by econometric methods is model building. Econometrics attempts to express economic theories in mathematical terms in such a way that they can be verified by statistical methods and to measure the impact of one economic variable upon another so as to be able to predict future events.

Source: https://www.yourarticlelibrary.com/economics/demand-forecasting-its-meaning-types-techniques-and-method-economics/28607

Profiteering and Profit Earning

The term profiteering is different from profit earning. The former connotes earnings which are excessive and beyond the socially desirable and acceptable limit by questionable methods. Profit earning on the other hand denotes making profits within socially desirable and acceptable limit. Profiteering is a deliberate attempt to earn extra profits at the cost of even business ethics.

Profit Earning

Profit describes the financial benefit realized when **revenue** generated from a business activity exceeds the expenses, costs, and taxes involved in sustaining the activity in question. Any **profits earned** funnel back to business owners, who choose to either pocket the cash or reinvest it back into the business

Break Even Analysis.

What is a Break-Even Analysis?

A break-even analysis is a financial tool which helps a company to determine the stage at which the company, or a new service or a product, will be profitable. In other words, it is a financial calculation for determining the number of products or services a company should sell or provide to cover its costs (particularly fixed costs). Break-even is a situation where an organisation is neither making money nor losing money, but all the costs have been covered. Break-even analysis is useful in studying the relation between the variable cost, fixed cost and revenue. Generally, a company with low fixed costs will have a low break-even point of sale. For example, say Happy Ltd has fixed costs of Rs. 10,000 vs Sad Ltd has fixed costs of Rs. 1,00,000 selling similar products, Happy Ltd will be able to break even with the sale of lesser products as compared to Sad Ltd.

Components of Break Even Analysis

Fixed costs

Fixed costs are also called overhead costs. These overhead costs occur after the decision to start an economic activity is taken and these costs are directly related to the level of production, but not the quantity of production. Fixed costs include (but are not limited to) interest, taxes, salaries, rent, depreciation costs, labour costs, energy costs etc. These costs are fixed rrespective of the production. In case of no production also the costs must be incurred.

Variable costs

Variable costs are costs that will increase or decrease in direct relation to the production volume. These costs include cost of raw material, packaging cost, fuel and other costs that are directly related to the production.

Calculation of Break-Even Analysis

The basic formula for break-even analysis is derived by dividing the total fixed costs of production by the contribution per unit (price per unit less the variable costs).

For an example:

Variable costs per unit: Rs. 400 Sale price per unit: Rs. 600 Desired profits: Rs. 4,00,000 Total fixed costs: Rs. 10,00,000 First we need to calculate the break-even point per unit, so we will divide the Rs.10,00,000 of fixed costs by the Rs. 200 which is the contribution per unit (Rs. 600 – Rs. 200). Break Even Point = Rs. 10,00,000/ Rs. 200 = 5000 units Next, this number of units can be shown in rupees by multiplying the 5,000 units with the selling price of Rs. 600 per unit. We get Break Even Sales at 5000 units x Rs. 600 = Rs. 30,00,000. (Break-even point in rupees)

Contribution Margin

Break-even analysis also deals with the contribution margin of a product. The excess between the selling price and total variable costs is known as contribution margin. For an example, if the price of a product is Rs.100, total variable costs are Rs. 60 per product and fixed cost is Rs. 25 per product, the contribution margin of the product is Rs. 40 (Rs. 100 – Rs. 60). This Rs. 40 represents the revenue collected to cover the fixed costs. In the calculation of the contribution margin, fixed costs are not considered.

When is Break even analysis used?

Starting a new business: To start a new business, a break-even analysis is a must. Not only it helps in deciding whether the idea of starting a new business is viable, but it will force the startup to be realistic about the costs, as well as provide a basis for the pricing strategy.

Creating a new product: In the case of an existing business, the company should still peform a break-even analysis before launching a new product—particularly if such a product is going to add a significant expenditure.

Changing the business model: If the company is about to the change the business model, like, switching from wholesale business to retail business, then a break-even analysis must be performed. The costs could change considerably and breakeven analysis will help in setting the selling price.

Source: https://cleartax.in/s/break-even-analysis

Questions:

1. What is profiteering?
2. State break even analysis.
3. What is cost oriented pricing?
4. What is market-oriented pricing?
5. Write short note on opinion polling method.
6. What is Barometric Technique?
7. Discuss the pricing methods.
8. Explain the demand forecasting techniques.
9. Write the uses of breakeven analysis

UNIT-V

National Income-definition, national income accounts, Computation of national income, Difficulties in measurement of national income. Monetary policy -Meaning, Objectives of monetary policy. Fiscal Policy-Meaning, Objectives of fiscal policy.

National Income

National income means the value of goods and services produced by a country during a financial year. Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of money. National income is an uncertain term and is often used interchangeably with the national dividend, national output, and national expenditure. The National Income is the total amount of income accruing to a country from economic activities in a years time. It includes payments made to all resources either in the form of wages, interest, rent, and profits.The progress of a country can be determined by the growth of the national income of the country

Definition

According to Marshall: "The labor 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."
The definition as laid down by Marshall is being criticized on the following grounds.
Due to the varied category of goods and services, a correct estimation is very difficult.
There is a chance of double counting, hence National Income cannot be estimated correctly.
Simon Kuznets defines national income as "the net output of commodities and services flowing during the year from the country's productive system in the hands of the ultimate consumers."
Following are the Modern National Income definition

- GDP
- GNP

Gross Domestic Product

The total value of goods produced and services rendered within a country during a year is its Gross Domestic Product.

Further, GDP is calculated at market price and is defined as GDP at market prices. Different constituents of GDP are:

1. Wages and salaries
2. Rent
3. Interest
4. Undistributed profits
5. Mixed-income
6. Direct taxes
7. Dividend
8. Depreciation

Gross National Product

For calculation of GNP, we need to collect and assess the data from all productive activities, such as agricultural produce, wood, minerals, commodities, the contributions to production by transport, communications, insurance companies, professions such (as lawyers, doctors, teachers, etc). at market prices.

It also includes net income arising in a country from abroad. Four main constituents of GNP are:

1. Consumer goods and services
2. Gross private domestic income
3. Goods produced or services rendered
4. Income arising from abroad.

GDP and GNP on the basis of Market Price and Factor Cost

a) Market Price

The Actual transacted price including indirect taxes such as GST, Customs duty etc. Such taxes tend to raise the prices of goods and services in the economy.

b) Factor Cost

It Includes the cost of factors of production e.g. interest on capital, wages to labor, rent for land profit to the stakeholders. Thus services provided by service providers and goods sold by the producer is equal to revenue price.

Alternatively,

Revenue Price (or Factor Cost) = Market Price **(net of)** Net Indirect Taxes

Net Indirect Taxes = Indirect Taxes Net of Subsidies received

Hence,

Factor Cost shall be equal to

(Market Price) LESS (Indirect Taxes ADD Subsidies)

Net Domestic Product

The net output of the country's economy during a year is its NDP. During the year a country's capital assets are subject to wear and tear due to its use or can become obsolete.

Hence, we deduct a percentage of such investment from the GDP to arrive at NDP.

So NDP=GDP at factor cost LESS Depreciation.

The Accumulation of all factors of income earned by residents of a country and includes income earned from the county as well as from abroad.

Thus, National Income at Factor Cost shall be equal to

NNP at Market Price LESS (Indirect Taxes ADD Subsidies)

Source: https://www.toppr.com/guides/fundamentals-of-economics-and-management/national-income/concept-of-national-income/

National Income Accounts

Gross National Product (GNP)

GNP measures the monetary value of all the finished goods and services produced by the country's factors of production irrespective of their location. Only the finished or final goods are considered as factoring intermediate goods used for manufacturing would amount to double counting. It includes taxes but does not include subsidies.

GDP measures the value of goods and services produced within a country's borders, by citizens and non-citizens alike. **GNP** measures the value of goods and services produced by only a country's citizens but both domestically and abroad. **GDP** is the most commonly used by global economies.

Net National Product (NNP)

Net national product (**NNP**) is gross **national product** (GNP), the total value of finished goods and services produced by a country's citizens overseas and domestically, minus depreciation.

National Income (NI)

National income is a broader national level economic measure than is personal income. National income includes *payments to individuals* (income from wages and salaries, and other income), plus *payments to government* (taxes), plus *retained income from the corporate sector* (depreciation, undistributed profits), less *adjustments* (subsidies, government and consumer interest, and statistical discrepancy).

Personal Income (PI)

Personal income measures national level income *to persons and nonprofit corporations*. Personal income includes *payments to individuals* (income from wages and salaries, and other income), plus *transfer payments* from government, less *employee social insurance contributions.*

Disposable Personal Income (DPI)

Disposable personal income measures the after-tax income *of persons and nonprofit corporations*. It is calculated by subtracting *personal tax and nontax payments* from personal income.

Source: https://www.frbsf.org/education/publications/doctor-econ/2000/march/national-personal-disposable-income-economic-indicators/

Computation Of National Income

There are three different ways to measure GDP:

Product Method, Income Method and Expenditure Method. These three methods of calculating GDP yield the same result because National Product = National Income = National Expenditure.

a. The Product Method:

In this method, the value of all goods and services produced in different industries during the year is added up. This is also known as the Value Added Method to GDP or GDI at Factor Cost by Industry of Origin.

The following items are included in India in this: agriculture and allied services; mining; manufacturing, construction, electricity, gas and water supply; transport, communication and trade; banking and insurance, real estates and ownership of dwellings and business services; and public administration and defence and other services (or government services). In other words, it is the sum of Gross Value Added.

b. The Income Method:

The people of a country who produce GDP during a year receive incomes from their work. Thus GDP by income method is the sum of all factor incomes: Wages and Salaries (compensation of employees) + Rent + Interest + Profit.

c. Expenditure Method:

This method focuses on goods and services produced within the country during one year.

GDP by expenditure method includes:

(1) Consumer expenditure on services and durable and non-durable goods (C),

(2) Investment in fixed capital such as residential and non-residential building, machinery, and inventories (I),

(3) Government expenditure on final goods and services (G),

(4) Export of goods and services produced by people of the country (X),

(5) Less imports (M). That part of consumption, investment and government expenditure which is spent on imports is subtracted from GDP. Similarly, any imported component, such as raw material, which is used in the manufacture of export goods, is also excluded.Thus GDP by expenditure method at market prices = C + I + G + (X – M), where (X – M) is net export which can be positive or negative.

Source: https://www.economicsdiscussion.net/national-income/components-national-income/top-17-components-of-national-income/18793

Difficulties In Measurement Of National Income

A number of difficulties arise in measuring the national income accurately. National income accounting involves both conceptual as well as statistical difficulties.

A. Conceptual Difficulties

The conceptual difficulties in measuring national income include:

Problem of Definition

The major problem arises when defining the composition of national income. Ideally, national income includes all the goods and services produced within a certain time period. But there are times when it is difficult to decide which goods to include and which to exclude. A clear distinction between finished goods and intermediate goods is difficult.

For instance, the paper used as office stationery is a final product, but if the paper is used in a book, it becomes an intermediate product.

Price Changes

Change in price is one of the greatest challenges in computing national income. The continued change in the price of raw materials, production process, and the final goods make it difficult to get determine the actual cost of the goods and services when they arrive at the market.

Double Counting

Double counting is an issue that is most prominent while determining national income. It refers to the counting the value of a good more than once.

For instance, a woodcutter sells a log of wood at 2 dollars to a carpenter. The latter makes a table of it and sells it to a furniture vendor at 4 dollars. Now if the price of wood is counted every time then, national income increases by 6 dollars whereas the actual increase is only 4 dollars i.e. the final price of the final product.

The problem of inaccuracy is seen when the value of national income is inflated due to double counting. So, only the value of final good should be taken into account to estimate the national income accurately.

Income from Foreign Investors

This problem arises especially with countries where MNCs reside. Although MNCs are doing well in the host country, a part of their total income goes to the mother company located in a foreign land. So, the actual national income of the host country for the current year cannot be accurately determined.

Services rendered with no Accountability

Another major problem in computing national income is the inclusion of non-monetary transactions that are carried out within an economy. Although the transactions are carried out within the economy, they are not recorded with monetary value. This reduces the overall income of a nation.

For instance, the household work carried out by women are not for commercial purpose and are not considered in monetary terms while calculating national income.

B. Statistical Difficulties

The statistical difficulties are mostly seen in the developing as well as under-developed countries. Some of the statistical difficulties in measuring national income include:

Unrealistic and Inadequate Statistics

Especially in the underdeveloped and developing countries, it is difficult to obtain statistics due to the problem of illiteracy. No proper accounts are maintained for production or expenditure. Besides this, producers provide fabricate data in order to evade income tax. Due to these reasons, the true picture of national income cannot be obtained.

Existence of Barter System

Even in the modern era, barter system continues to exist in the backward communities. People exchange goods for goods and service are paid in kind. No transactions are not carried out in monetary terms. Under these circumstances, a correct estimate of national income is not possible.

The Underground Economy

The underground economy exists in any economy. This includes illegal activities like gambling, smuggling, drugs, etc. These illegal forms of economic activity are not reported to the authority for tax purpose and are excluded from national income accounts.

Self-consumed Production

Economies in developing countries are involved in producing goods and services for self-consumption rather for commercial selling. Usually, some parts of the produced goods are either consumed by the producer themselves or bartered for some other goods with consumers and other entities in the market. This non-monetised sector makes it difficult to calculate national income.

Lack of Occupational Classification

People in under-developed countries engage themselves in one or more occupations to earn their livelihood. There is no clear-cut division of occupations and it is very difficult to identify the incomes of the individuals from a specific job or other occupational undertakings.

Lack of Common Denominators

The numerous economic activities undertaken by individuals, business firms, and governmental bodies cannot be reduced to a common measurable denominator.

Source: https://www.businesstopia.net/economics/macro/measurement-difficulties-national-income

Monetary Policy

Monetary policy is a [central bank's]() actions and communications that manage the money supply. The money supply includes forms of credit, cash, checks, and money market mutual funds. The most important of these forms of money is credit. Credit includes loans, bonds, and mortgages.

Monetary policy increases liquidity to create economic growth. It reduces liquidity to prevent inflation. Central banks use interest rates, bank reserve requirements, and the number of government bonds that banks must hold. All these tools affect how much banks can lend. The volume of loans affects the money supply.

Source: https://www.thebalance.com/what-is-monetary-policy-objectives-types-and-tools-3305867

Objectives of Monetary Policy.

Monetary policy is the process by which a central bank (Reserve Bank of India or RBI) manages money supply in the economy. The objectives of monetary policy include ensuring inflation targeting and price stability, full employment and stable economic growth.

i. To Regulate Money Supply in the Economy:

Money supply includes both money in circulation and credit creation by banks. Monetary policy is farmed to regulate the money supply in the economy by credit expansion or credit contraction. By credit expansion (giving more loans), the money supply can be expanded. By credit contraction (giving less loans) money supply can be decreased.The main aim of the monetary policy of the Reserve Bank was to control the money supply in such a manner as to expand it to meet the needs of economic growth and at the same time contract it to curb inflation. In other words monetary policy aimed at expanding and contracting money supply according to the needs of the economy.

ii. To Attain Price Stability:

Another major objective of monetary policy in India is to maintain price stability in the country. It implies Control over inflation. Price level, is affected by money supply. Monetary policy regulates money supply to maintain price stability.

iii. To promote Economic Growth:

An important objective of monetary policy is to make available necessary supply of money and credit for the economic growth of the country. Those sectors which are quite significant for the economic growth are provided with adequate availability of credit.

iv. To Promote saving and Investment:

By regulating the rate of interest and checking inflation, monetary policy promotes saving and investment. Higher rates of interest promote saving and investment.

v. To Control Business Cycles:

Boom and depression are the main phases of business cycle. Monetary policy puts a check on boom and depression. In period of boom, credit is contracted, so as to reduce money supply and thus check inflation. In period of depression, credit is expanded, so as to increase money supply and thus promote aggregate demand in the economy.

vi. To Promote Exports and Substitute Imports:

By providing concessional loans to export oriented and import substitution units, monetary policy encourages such industries and thus help to improve the position of balance of payments.

vii. To Manage Aggregate Demand:

Monetary authority tries to keep the aggregate demand in balance with aggregate supply of goods and services. If aggregate demand is to be increased than credit is expanded and the interest rate is lowered down. Because of low interest rate, more people take loan to buy goods and services and hence aggregate demand increases and vice-verse.

viii. To Ensure more Credit for Priority Sector:

Monetary policy aims at providing more funds to priority sector by lowering interest rates for these sectors. Priority sector includes agriculture, small- scale industry, weaker sections of society, etc.

ix. To Promote Employment:

By providing concessional loans to productive sectors, small and medium entrepreneurs, special loan schemes for unemployed youth, monetary policy promotes employment.

x. To Develop Infrastructure:

Monetary policy aims at developing infrastructure. It provides concessional funds for developing infrastructure.

xi. To Regulate and Expand Banking:

RBI regulates the banking system of the economy. RBI has expanded banking to all parts of the country. Through monetary policy, RBI issues directives to different banks for setting up rural branches for promoting agricultural credit. Besides it, government has also set up cooperative banks and regional rural banks. All this has expanded banking in all parts of the country.

Source: https://www.yourarticlelibrary.com/economics/indian-economy/monetary-policy-of-india-main-elements-and-objectives/39553

Fiscal Policy

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary **policy** through which a central bank influences a nation's money supply.

Monetary policy refers to the actions of central banks to achieve macroeconomic **policy** objectives such as price stability, full employment, and stable economic growth. **Fiscal policy** refers to the tax and spending **policies** of the federal government.

Objectives of Fiscal Policy

Main Objectives of Fiscal Policy in India
Before moving on the discussion on objectives of India's Fiscal Policies, firstly know that the general objective of Fiscal Policy.

General objectives of Fiscal Policy are given below:

1. To maintain and achieve full employment.
2. To stabilize the price level.
3. To stabilize the growth rate of the economy.
4. To maintain equilibrium in the **Balance of Payments.**
5. To promote the economic development of underdeveloped countries.

Fiscal policy of India always has two objectives, namely improving the growth performance of the economy and ensuring social justice to the people.

The fiscal policy is designed to achieve certain objectives as follows:-

1. Development by effective Mobilisation of Resources: The principal objective of fiscal policy is to ensure rapid economic growth and development. This objective of economic growth and development can be achieved by Mobilisation of Financial Resources. The central and state governments in India have used fiscal policy to mobilise resources.

The financial resources can be mobilised by:-

a. **Taxation:** Through effective fiscal policies, the government aims to mobilise resources by way of direct taxes as well as indirect taxes because most important source of resource mobilisation in India is taxation.

b. **Public Savings:** The resources can be mobilised through public savings by reducing government expenditure and increasing surpluses of public sector enterprises.

c. **Private Savings:** Through effective fiscal measures such as tax benefits, the government can raise resources from private sector and households. Resources can be mobilised through government borrowings by ways of treasury bills, issuance of government bonds, etc., loans from domestic and foreign parties and by deficit financing.

2. Reduction in inequalities of Income and Wealth: Fiscal policy aims at achieving equity or social justice by reducing income inequalities among different sections of the society. The direct taxes such as income tax are charged more on the rich people as compared to lower income groups. Indirect taxes are also more in the case of semi-luxury and luxury items which are mostly consumed by the upper middle class and the upper class. The government invests a significant proportion of its tax revenue in the implementation of Poverty Alleviation Programmes to improve the conditions of poor people in society.

3. Price Stability and Control of Inflation: One of the main objectives of fiscal policy is to control inflation and stabilize price. Therefore, the government always aims to control the inflation by reducing fiscal deficits, introducing tax savings schemes, productive use of financial resources, etc.

4. Employment Generation: The government is making every possible effort to increase employment in the country through effective fiscal measures. Investment in infrastructure has resulted in direct and indirect employment. Lower taxes and duties on **small-scale industrial (SSI)** units encourage more investment and consequently generate more employment. Various rural employment programmes have been undertaken by the Government of India to solve problems in rural areas. Similarly, self employment scheme is taken to provide employment to technically qualified persons in the urban areas.

5. Balanced Regional Development: there are various projects like building up dams on rivers, electricity, schools, roads, industrial projects etc run by the government to mitigate the regional imbalances in the country. This is done with the help of public expenditure.

6. Reducing the Deficit in the Balance of Payment: some time government gives export incentives to the exporters to boost up the export from the country. In the same way import curbing measures are also adopted to check import. Hence the combine impact of these measures is improvement in the balance of payment of the country.

7. Increases National Income: it's the strength of the fiscal policy that is brings out the desired results in the economy. When the government want to increase the income of the country then it increases the direct and indirect taxes rates in the country. There are some other measures like: reduction in tax rate so that more peoples get motivated to deposit actual tax.

8. Development of Infrastructure: when the government of the concerned country spends money on the projects like railways, schools, dams, electricity, roads etc to increase the welfare of the citizens, it improves the infrastructure of the country. A improved infrastructure is the key to further speed up the economic growth of the country.

9. **Foreign Exchange Earnings:** when the central government of the country gives incentives like, exemption in custom duty, concession in excise duty while producing things in the domestic markets, it motivates the foreign investors to increase the investment in the domestic country.

Source: https://www.jagranjosh.com/general-knowledge/fiscal-policy-of-india-meaning-objectives-and-impacts-on-the-economy-1448705973-1

Questions

1. Define national income.
2. What is GDP?
3. State PI.
4. What is NNP?
5. What is double counting?
6. Explain the national income accounts.
7. Discuss the method to compute national income.
8. Write the difficulties in measurement of national income.
9. Explain the objectives of monetary policy
10. Write the objectives of fiscal policy