# SAARTHI IAS

## PREFACE

'Where there is a will there is a way'. This is not simply a proverb. This is a way through which you can make your life easier and simpler. To be afraid of a thing is not the solution, rather to say "**run away afraid"** or to conquer afraid is a solution. There is a famous motivational saying in hindi **"Darr ke aage jeet hai"** For each and every student examination is phobia, till he or she does not take it as challenge. Life is a biggest boon of the nature to human kind, and to live happy is a biggest art of life. So, until or unless we do not know how to become happy, we can't succeed neither in life nor in any exam. Therefore, to run away from the circumstances is not the bravery, bravery is to fight with the circumstances**. Swami Vivekananda has rightly said 'Arise! Awake! And stop not until the goal is reached".** These golden words when we follow and practices truly in our life nothing is difficult. To ease the life of IAS aspirants for ensuing UPSC IAS exam we are bringing this booklet on Economics. In which we have made an effort to provide entire useful information at one place with an updated material. The booklet is having an alphabetical terminology section in addition to in depth analysis of current topics. To remember the topic easily after some topics a summarized view has been annexed to. In addition to above one updated statistical section has also been attached containing valuable statistical updates relevant for IAS and other Competitive Exams. In addition to above all, One Section of all the important committees with Important Indexes have also been summarized in the two separate Annexures. At the end test papers (solved) have also been attached to make practice for the exam.

At the outset, I want to acknowledge sincere thanks to **'SAARTHI IAS' Founder & Director Shri Arindum Soni,** without his support to bring this booklet was next to impossible. I also sincerely, thanks to my student and friends who had supported me in consolidating the reading material in a proper booklet form.

Disclaimer- Though the information and Data reproduced in the material are authentic but there may be unintentional errors and omissions for which I sincerely apologize. I shall be highly grateful to them, if they bring it to my notice through **SAARTHI IAS** mail box.

I hope this booklet will be useful for the IAS aspirants appearing for IAS Prelims and Mains exams and may be useful for other competitive exams. I will honestly welcome the suggestions if any to improve the book. The suggestions can be posted on our SAARTHI Website www.iasaarthi.com or mail box of the SAARTHI IAS.

Wish all aspirants a successful and a bright future.

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# SAARTHI IAS

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# SAARTHI IAS

## Chapter 1

## A Birds eye view analysis of Indian economy

**When we talk about any economy, we should know what is economy?**

In simpler words we can say "An economy encompasses all of the activities related to the production, consumption, and trade of goods and services is an entity more often we can say in the nation". Means it is the nation in which all the economic activities taking place. When these activities taking place means somebody should be there to govern. So when we study an Indian economy we should know who is playing pivotal role in the economy.

| At the apex level |
|---|
| ↓ |
| Govt. Of India |
| ↓ |
| Performing functions such as maintain law and order, National defense, protection of environment, regulate labour markets, macro-economic stability, provide public goods, judicious income distribution to reduce income inequalities, judiciary for justice, enterprises of production and generation of employment with idea to have social welfare and development of infrastructure etc. |
| ↓ |
| To perform these functions Govt. requires effective revenue and tax system which include direct and indirect tax and effective policies such as fiscal policy, debt management policy, borrowing policy etc., |
| ↓ |
| For accounting of taxation Govt. should have accounting system which in general have entire records of receipts and payments in the form of budget which includes issues relating to mobilization of resources, Govt. Budgeting, economic reforms |
| ↓ |
| To have fair valuation of Goods and Services during one year Govt. is having their valuation system in the form of National Income Accounting, broad parameters for this are GDP and related parameters |
| ↓ |
| For efficient mechanism Govt. formulates policies like Industrial policies which are ultimately affecting the industrial growth |
| ↓ |
| In this process Govt. also keep concept of Inclusive growth in mind which are poverty inequality and unemployment and to adopt measures to eradicate them |

↓

For which Govt requires robust infrastructure

↓

For which Govt. should adopt proper methodology Planning Commission and now NITI Ayog

↓

Which includes various established Growth Models such as Harrod Domar models, P.C Mahalnobis model and Infrastructure models with the help of PPP Projects, BOT/BTO/BROT/BOOT/BOO/BLT and FDI and FII

↓

The Govt. alone can't effectively handle issues relating to Money and Banking, Insurance, Housing etc so it requires certain agencies which can play effectively role in these key areas

↓

**Key Regulators**

| **RBI** | **SEBI** | **IRDAI** | **NHB** |
|---|---|---|---|
| Central bank and Monetary Policy, Money and Banking Policies, Management of Money Market and its instruments such as Commercial Paper, Measures to contain inflation, external sector, foreign exchange reserves and to maintain currency exchange rates, | SEBI and regulation of capital market such as Primary Share Market, Secondary Share Market,<br><br>Plate form where they work, are known as Exchanges BSE, NSE and OTC and RSE are the Exchanges<br><br>And issues relating to Participatory Notes, and corporate Bonds | Controller of Insurance sector.<br><br>Importance gain momentum due to conglomerates | Controller<br><br>Of housing sector. Gaining importance due to larger exposure<br><br>of banks and financial institutions and rising of NPA a concern of RBI |

**International Financial Institutions:** World Trade Organizations, IMF and World Bank

# Chapter 2

# Key Terms (Economics) for UPSC

**ABSOLUTE POVERTY**

Poverty defined with respect to an absolute material standard of living.

Someone is absolutely poor if their income does not allow them to consume enough to purchase a minimum bundle of consumer goods and services (including shelter, food and clothing).

An alternative approach is to measure relative poverty.

**AADHAAR PAYMENT BRIDGE SYSTEM**

Implemented by National Payments Corporation of India (NPCI)

Used by the government departments and agencies for electronic transfer of benefits and subsidiaries under Direct Benefit Transfer (DBT) scheme

Uses Aadhaar numbers issued by UIDAI & IIN (Institution Identification Number) issued by NPCI.

IIN is a unique 6-digit number issued by NPCI to every APB System participating bank and is used to uniquely identify a bank to which the APB transaction has to be routed in the Aadhaar Payment Bridge (APB) System.

**AD VALOREM TAX**

An **ad valorem** tax is a tax based on the assessed value of an item, such as real estate or personal property.

The most common **ad valorem** taxes are property taxes levied on real estate.

However, **ad valorem** taxes may also extend to a number of tax applications, such as import **duty** taxes on goods from abroad.

Ad valorem taxes are generally levied on both real property (land, buildings and other structures) and major personal property, such as a car or boat.

**AGRICULTURAL CENSUS**

Agricultural Census, which is conducted every five years in India.

It is the largest countrywide statistical operation undertaken by Ministry of Agriculture, for collection of data on structure of operational holdings by different size classes and social groups.

Primary (fresh data) and secondary (already published) data on structure of Indian agriculture are collected under this operation with the help of State Governments.

The first Agricultural Census in the country was conducted with reference year 1970-71.

Agricultural Census is carried out as a Central Sector Scheme under which 100% financial assistance is provided to States/Union Territories.

Agricultural Census operation is carried out in three phases.

**ALTCOINS**

They are alternative crypto currencies that were launched after Bit coin's success.

They generally project themselves as better replacements for Bit coin.

Bit coin's emergence as the first peer-to-peer digital currency was paving the way for many to follow.

Most altcoins are trying to target any perceived drawbacks that Bit coin has and come up with competitive advantages in newer versions.

**ANGEL FUNDS**

Angel funds refer to a money pool created by high-net-worth individuals or companies (generally called as angel investors), for investing in business startups.

They are a sub-category of venture capital funds with strict focus on startups, while venture capital funds generally invest at a later stage of development of the investee company.

In India the term Angel Funds is defined in SEBI (Alternative Investment Funds) (Amendment) Regulations, 2013.

Angel fund is defined as a sub-category of Venture Capital Fund under Category I- Alternative Investment Fund (AIF) that raises funds from angel investors and invests in accordance with the rules specified in Chapter III –A of SEBI (Alternative Investment Funds) (Amendment) Regulations, 2013.

Angel funds can raise funds only by way of issue of units to angel investors and should have a corpus of at least ten crore rupees.

**ANGEL TAX**

Angel tax was introduced in the 2012 budget by the then finance minister to arrest laundering of funds.

Misuse of the incentives given to the start-ups was the main factor that tempted the government to impose tax on fresh investments over fair price of shares.

Technically, angel tax is an income tax payable on capital raised by unlisted companies from investors (mostly angel investors) via issue of shares if the sold share price is excess of the fair market value of the shares.

It is popularized as angel tax by the business community because such investment is usually a main fund mobilization channel for start-ups that are mostly unlisted entities.

**ANNUAL FINANCIAL STATEMENT**

Annual Financial Statement is a document presented to the Parliament every year under Article 112 of the Constitution of India, showing estimated receipts and expenditures of the Government of India for the coming year in relation to revised estimates for the previous year as also the actual amounts for the year prior to it.

The receipts and disbursements are shown under three parts in which Government Accounts are to be kept viz.,(i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Under the Constitution, Annual Financial Statement has to distinguish expenditure on revenue account from other expenditure. Government Budget, therefore, comprises of Revenue Budget and Capital Budget.

The estimates of receipts and disbursements in the Annual Financial Statement are shown according to the accounting classification prescribed by Comptroller and Auditor General of India under Article 150 of the Constitution, which enables Parliament and the public to make a meaningful analysis of allocation of resources and purposes of Government expenditure.

**'ASSET TURNOVER RATIO'**

Asset turnover ratio is the ratio between the value of a company's sales or revenues and the value of its assets. It is an indicator of the efficiency with which a company is deploying its assets to produce the revenue.

Thus, asset turnover ratio can be a determinant of a company's performance. The higher the ratio, the better is the company's performance. Asset turnover ratio can be different from company to company. Usually, it is calculated on an annual basis for a specific financial year.

Generally, a low asset turnover ratio suggests problems with surplus production capacity, poor inventory management and bad tax collection methods. Low-margin industries always tend to have a higher asset turnover ratio.

**'BAILOUT'**

Bailout is a general term for extending financial support to a company or a country facing a potential bankruptcy threat. It can take the form of loans, cash, bonds, or stock purchases. A bailout may or may not require reimbursement and is often accompanied by greater government oversee and regulations.

The reason for bailout is to support an industry that may be affecting millions of people internationally and could be on the verge of bankruptcy due to prolonged financial crises.

Bailout policies come in various forms, the most common being direct loans or guarantees of third-party (private) loans to the rescued entity. These direct loans are often on terms favoring the entity being rescued. Sometimes even direct subsidies are provided to the parties concerned. Stock purchases are also not uncommon.

Bailouts have several advantages. First, they ensure continued survival of the entity being rescued under difficult economic circumstances. Secondly, a complete collapse of the financial system can be avoided, when industries too big to fail start to crumble. The government in these cases steps in

to avoid the insolvency of institutions that are needed for the smooth functioning of the overall markets.

Bailouts also have their disadvantages. Anticipated bailouts encourage a moral hazard by allowing not only promoters but also other stakeholders (customers, lenders, suppliers) to take higher-than-recommended risks in financial transactions. This happens because they start counting on a bailout when things go wrong.

**BALANCE OF PAYMENT**

According to the RBI, balance of payment is a statistical statement that shows

**The transaction in goods, services and income between an economy and the rest of the world,**

**Changes of ownership and other changes in that economy's monetary gold, special drawing rights (SDRs), and financial claims on and liabilities to the rest of the world, and**

**Unrequited transfers**.

The transactions in BOP are categorized in

a) Current account showing export and import of visible (also called merchandise) and invisibles (also called non-merchandise). Invisibles take into account services, transfers and income.

b) Capital account showing a capital expenditure and income for a country. It gives a summary of the net flow of both private and public investment into an economy. External commercial borrowing (ECB), foreign direct investment, foreign portfolio investment, etc. form a part of capital account.

c) Errors and omissions: Sometimes the balance of payment does not balance. This imbalance is shown in the BOP as errors and omissions. BOP is compiled using the double entry book keeping system consisting assets and liabilities.

**BALANCE OF TRADE**

The difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments.

Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad.

Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy.

- A country has a trade deficit if it imports more than it exports; the opposite scenario is a trade surplus.

Also referred to as "trade balance" or "international trade balance."

**'BANK RATE'**

Bank rate is the rate charged by the central bank for lending funds to commercial banks.

Bank rates influence lending rates of commercial banks. Higher bank rate will translate to higher lending rates by the banks.

In order to curb liquidity, the central bank can resort to raising the bank rate and vice versa.

The Reserve Bank of India determines the bank rate. The rate is changed from time to time but it does not mean that there is already a set schedule for it.

The rate at which the repo rates are changed depends entirely on the prevailing economy.

**BANKING OMBUDSMAN SCHEME**

The Banking Ombudsman Scheme was implemented by the RBI to redress the complaints of customers on certain types of banking services provided by banks and to facilitate the settlement of those complaints.

The scheme was introduced under the Banking Regulation Act of 1949 by RBI with effect from 1995. Later it was legally refined and modified through the introduction of regulations under Banking Ombudsman Scheme 2006. The latest revision was made in 2017.

The Banking Ombudsman actually is a senior official appointed by the RBI to redress customer complaints against pitfalls in the stipulated banking services covered by the Banking Ombudsman Scheme 2006 (modifications were made in 2017).

All Scheduled Commercial Banks, Regional Rural Banks (RRBs) and Scheduled Primary Co-operative Banks (UCBs) are covered under the Scheme.

**BANKS BOARD BUREAU (BBB)**

Banks Board Bureau (BBB) is an autonomous advisory body created by the government to enhance the governance of the Public Sector Banks and state-owned financial institutions.

The most popular function of the BBB is to recommend the whole-time directors as well as non-executive chairpersons of public sector banks (PSBs) and state-owned financial institutions.

The BBB was created after the recommendations of the Committee to Review Governance of Boards of Banks in India (Chairman -PJ Nayak Committee – 2014).

Main objective of the creation of BBB was to empower the boards of the Public Sector Banks.

It was created in February 2016 and started functioning from April 2016.

It is an autonomous recommendatory body.

A search Committee including the RBI Governor recommends the names for the appointment of BBB members.

The six member BBB panel has three government officials and three experts, of which two are from banking sector.

Following are the main functions of the BBB.

Responsible for the selection and appointment of Board of Directors in PSBs and FIs (Whole-time Directors and Non-Executive Chairman);

Advise the Government on matters relating to appointments, confirmation or extension of tenure and termination of services of the Board of Directors of the above-mentioned levels.

To advise the Government on the desired structure at the Board level, and, for senior management personnel, for each PSB and Financial Institution (FI).

To help banks to develop a robust leadership succession plan for critical positions that would arise in future through appropriate HR processes including performance management systems.

To build a data bank containing data relating to the performance of PSBs/FIs and its officers.

To advise the Government on the formulation and enforcement of a code of conduct and ethics for managerial personal in PSBs/Financial Institutions.

To advise the Government on evolving suitable training and development programmes for management personnel in PSBs/FIs; and

To help banks in terms of developing business strategies and capital raising plan etc.

**'BASE RATE'**

Base rate is the minimum rate set by the Reserve Bank of India below which banks are not allowed to lend to its customers.

Base rate is decided in order to enhance transparency in the credit market and ensure that banks pass on the lower cost of fund to their customers. Loan pricing will be done by adding base rate and a suitable spread depending on the credit risk premium.

**BASE EROSION AND PROFIT SHIFTING (BEPS)**

It refers to tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax. Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately.

BEPS practices cost countries USD 100-240 billion in lost revenue annually.

Working together within **OECD/G20 Inclusive Framework on BEPS**, over 135 countries and jurisdictions are collaborating on the implementation of 15 measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment.

**BASEL COMMITTEE ON BANKING SUPERVISION**

The BASEL Committee is a committee of bank supervisors consisting of members from each of the G10 countries.

The Committee is a forum for discussion on the handling of specific supervisory problems.

It coordinates the sharing of supervisory responsibilities among national authorities in respect of banks' foreign establishments with the aim of ensuring effective supervision of banks' activities worldwide.

**BASEL CAPITAL ACCORD**

The BASEL Capital Accord is an Agreement concluded among country representatives in 1988 to develop standardized risk-based capital requirements for banks across countries.

The Accord was replaced with a new capital adequacy framework (BASEL II), published in June 2004.

BASEL II is based on three mutually reinforcing pillars hat allow banks and supervisors to evaluate properly the various risks that banks face.

These three pillars are:

Minimum capital requirements, which seek to refine the present measurement framework

supervisory review of an institution's capital adequacy and internal assessment process;

market discipline through effective disclosure to encourage safe and sound banking practices

**BEAUTY PREMIUM**

Refers to the incremental income that people who are physically attractive earn when compared to others who are considered less attractive.

The beauty premium has been attributed by researchers to a variety of reasons, including psychological biases that affect employer choices while hiring workers.

Workers and managers who are physically attractive may be considered more honest and competent at work than others.

Some researchers, however, have denied the existence of the beauty premium in the labour market.

They argue that wage differences can be explained by factors other than physical beauty.

**BENCHMARK INTEREST RATES**

SONIA is short for Sterling Overnight Interbank Average Rate (weighted average overnight rate paid by banks for unsecured transactions in the British sterling market)

LIBOR (London Interbank Offered Rate)

SOFR (US), ESTR (European Union) and TONAR (Japan)

MIFOR (Mumbai Interbank Forward Offer Rate)

MODI – Mumbai Overnight Derivatives and Interest rate (Future Indian benchmark)

Note: Indian businesses borrow dollars in the form of external commercial borrowings (ECBs). The interest costs on these borrowings are usually linked to LIBOR. In fact, RBI's regulations on ECBs also use LIBOR to calculate the cost of loans.

**BHARAT BOND ETF**

Debt exchange-traded fund (ETF) that will hold bonds issued by PSEs owned by the Government of India.

Bharat Bond ETF is the first corporate bond ETF in the country going to be traded in the stock exchanges.

It is a brand-new investment product for the investors as well.

The Bharat Bond ETF invests in AAA rated bonds of PSEs such as REC, PFC, NHAI, etc.

The minimum amount is Rs. 1,000 per bond and there is no maximum limit. But for retail investors, there is an upper limit of Rs. 2 Lakhs.

The Bharat Bond ETF offers a unique combination of assured return (if held to maturity), beneficial tax treatment (if held for more than three years) and liquidity (if one needs to exit before maturity – as the ETFs will be listed on the exchanges).

**BLUE BOND**

Blue bonds are pioneering **financial instruments** that are designed to support sustainable marine and fisheries projects.

They are a **subset** of the **green bonds**.

The World Bank defines blue bonds "as a **debt instrument** issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based projects that have positive environmental, economic and climate benefits."

In 2018, the Republic of **Seychelles** launched the **world's first** sovereign blue bond.

**BUSINESS CORRESPONDENTS**

Business Correspondents are **retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM.**

Banks are required to take full responsibility for the acts of omission and commission of the BCs that they engage and have, therefore, to ensure thorough due diligence and additional safeguards for minimizing the agency risk.

As per the RBI guidelines the products provided by BCs are: Small Savings Accounts, Fixed Deposit and Recurring Deposit with low minimum deposits, Remittance to any BC customer, Micro Credit and General Insurance.

BCs have to do a variety of functions viz, identification of borrowers, collection of small value deposit, disbursal of small value credit, recovery of principal / collection of interest, sale of micro insurance/ mutual fund products/ pension products/ other third-party products and receipt and delivery of small value remittances/ other payment instruments, creating awareness about savings and other products, education and advice on managing money and debt counseling, etc.

**Who can be engaged as BCs? - The banks may engage the following individuals/entities as BC:**

Individuals like retired bank employees, retired teachers, retired government employees and ex-servicemen, individual owners of Kirana / medical /Fair Price shops, individual Public Call Office (PCO) operators, agents of Small Savings schemes of Government of India/Insurance Companies,

individuals who own Petrol Pumps, authorized functionaries of well-run Self-Help Groups (SHGs) which are linked to banks, any other individual including those operating Common Service Centres (CSCs).

NGOs/ MFIs set up under Societies/ Trust Acts and Section 25 Companies.

Cooperative Societies registered under Mutually Aided Cooperative Societies Acts/ Cooperative Societies Acts of States/Multi State Cooperative Societies Act.

Post Offices.

Companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets, excluding Non-Banking Financial Companies (NBFCs).

**'CALL MONEY RATE'**

Call money rate is the rate at which short term funds are borrowed and lent in the money market.

The duration of the call money loan is 1 day. Banks resort to these types of loans to fill the asset liability mismatch, comply with the statutory CRR and SLR requirements and to meet the sudden demand of funds. RBI, banks, primary dealers etc. are the participants of the call money market. Demand and supply of liquidity affect the call money rate. A tight liquidity condition leads to a rise in call money rate and vice versa.

**CALL MONEY MARKET**

The call money market (CMM) the market where overnight (one day) loans can be availed by banks to meet liquidity.

Banks who seeks to avail liquidity approaches the call market as borrowers and the ones who have excess liquidity participate there as lenders.

The CMM is functional from Monday to Friday. Banks can access CMM to meet their reserve requirements (CRR and SLR) or to cover a sudden shortfall in cash on any particular day.

Effectively, the Call Money Market is the main market-oriented mechanism to meet the liquidity requirements of banks.

**'CAPITAL ACCOUNT'**

Capital account can be regarded as one of the primary components of the balance of payments of a nation.

It gives a summary of the capital expenditure and income for a country.

The capital expenditure and income are tracked by way of funds in the form of investments and loans flowing in and out of an economy.

This account comprises foreign direct investments, portfolio investments, etc. It gives a summary of the net flow of both private and public investment into an economy.

A capital account deficit shows that more money is flowing out of the economy along with increase in its ownership of foreign assets and vice-versa in case of a surplus. The balance of payments contains the current account (which provides a summary of the trade of goods and services) in addition to the capital account which records all capital transactions.

**CAPITAL ADEQUACY RATIO**

Capital Adequacy Ratio (CAR) is **the ratio of a bank's capital in relation to its risk weighted assets and current liabilities**.

It is **decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process**.

The capital adequacy ratio, **also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world**.

**CAPITAL GAINS TAX (Short Term)**

The **gain or profit from the sale of assets is classified as a capital gain**.

**STCG or Short-Term Capital Gains Tax is the tax levied on profits generated from the sale of an asset which is held for a government-defined short period is called short-term capital gains tax**.

The **short-term period differs for various items**.

If **an asset is held for less than 36 months**, any gain arising from selling it is treated as a short-term capital gain (STCG).

If an **asset is held for 36 months or more**, any gain arising from selling it is **treated as a 'long-term' capital gain (LTCG)**.

**'CAPITAL MARKET'**

Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions.

Capital markets help channelize surplus funds from savers to institutions which then invest them into productive use. Generally, this market trades mostly in long-term securities.

Capital market consists of primary markets and secondary markets. Primary markets deal with trade of new issues of stocks and other securities, whereas secondary market deals with the exchange of existing or previously-issued securities. Another important division in the capital market is made on the basis of the nature of security traded, i.e. stock market and bond market.

**CARBON TAX**

An environmental tax which is imposed on products which utilize carbon-based materials, and hence contribute to greenhouse gas pollution (including oil, gas, coal, and other fossil fuels).

The level of the tax should depend on the carbon (polluting) content of each material.

Carbon taxes offer a potentially cost-effective means of reducing greenhouse gas emissions. From an economic perspective, carbon taxes are a type of Pigovian tax.

They help to address the problem of emitters of greenhouse gases not facing the full (social) costs of their actions.

Carbon taxes can be a regressive tax, in that they may directly or indirectly affect low-income groups disproportionately.

The regressive impact of carbon taxes could be addressed by using tax revenues to favour low-income groups.

**Catastrophe Bond**

Catastrophe bonds, also known as **Cat bonds**, allows the transfer of risks to bond investors.

For **the issuer—typically governments, insurers, and reinsurers**—cat bonds signify financial protection in case of a major natural catastrophe, such as a hurricane or an earthquake.

For **the investor**, buying the bonds means they may **get high returns** for their investment, which is not subject to financial market fluctuations.

In case a qualifying catastrophe or event occur, the investors will lose the principal they invested and the issuer (often insurance or reinsurance companies) will receive that money to cover their losses.

Generally, insurance and reinsurance companies currently dominate the cat bonds market, but more and more sovereign cat bonds have been issued as governments seek ways to transfer risks amid increasing frequency of natural disasters.

**'CASA'**

CASA stands for Current Account and Savings Account which is mostly used in West Asia and South-east Asia. CASA deposit is the amount of money that gets deposited in the current and savings accounts of bank customers. It is the cheapest and major source of funds for banks. The savings accounts portion pays more interest compared to current accounts.

**'CETERIS PARIBUS'**

This commonly-used phrase stands for 'all other things being unchanged or constant'. It is used in economics to rule out the possibility of 'other' factors changing, i.e. the specific causal relation between two variables is focused.

**CENTRAL SECTOR SCHEMES**

Central sector schemes are schemes with 100% funding by the Central government and implemented by the Central Government machinery.

The central sector schemes are mainly formulated on subjects mainly from the Union List. Besides, there are some other programmes that various Central Ministries implements directly in States and UTs which also comes under Central Sector Schemes.

In these schemes, the financial resources are not shifted to states

**CENTRALLY SPONSORED SCHEMES**

Centrally Sponsored Schemes are the schemes by the centre where there is financial participation by both the centre and states. Historically, CSS is the way through which central government helps states to run its Plans financially.

A stipulated percentage of the funding is provided by the States in terms of percentage contribution.

The ratio of state participation may vary in 50:50, 60:40, 70:30, 75:25, or 90:10; showing higher contributions by the centre. Various central government ministries directly transfer money to the state governments. Implementation of Centrally Sponsored Scheme is made by State/UT Governments. Centrally Sponsored Schemes are created on areas that are covered under the State List.

**CLASSIFICATION OF MSMES**

An enterprise will be classified as a Micro, Small or Medium enterprise based on the following criteria:

(i) Micro enterprise: investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees.

(ii) Small enterprise: investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees.

(iii) Medium enterprise: the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

Table: New composite classification for MSMEs – Investment and turnover limits in (Rs crores)

| | Investment (plant and machinery) should not exceed (Rs): | Turnover should not exceed (Rs): |
|---|---|---|
| **Micro Enterprise** | **1 crore** | **5 crores** |
| **Small Enterprise** | **10 crores** | **50 crores** |
| **Medium Enterprise** | **50 crores** | **250 crores** |

The New criteria will be same for both Manufacturing Enterprises and Enterprises providing Services.

## CESS & SURCHARGE

A cess imposed by the central government is a tax on tax, levied by the government for a specific purpose. Generally, cess is expected to be levied till the time the government gets enough money for that purpose.

A cess is different from the usual taxes like excise duty and personal income tax as it is imposed as an additional tax besides the existing tax (tax on tax). Another difference between cess and the usual tax is the way in which tax revenue from cess is kept. Revenue from main taxes like Personal Income taxes are kept at Consolidated Fund of India (CFI). The government can use it for any purposes.

Surcharge is a charge on any tax, charged on the tax already paid. As the name suggests, surcharge is an additional charge or tax. The main surcharges are that on personal income tax (on high income slabs and on super rich) and on corporate income tax.

From the revenue side, surcharges are important as around 35% of all cesses and surcharges comes from the surcharge on direct taxes.

A common feature of both surcharge and cess is that the centre need not share it with states. Following is the difference between the usual taxes, surcharge and cess.

The usual taxes go to the consolidated fund of India and can be spend for any purposes.

Surcharge also goes to the consolidated fund of India and can be spent for any purposes.

Cess goes to Consolidated Fund of India but can be spend only for the specific purposes.

## CENTRAL BANK DIGITAL CURRENCY

The Basel based Bank for International Settlement which is doing pioneering and authoritative research works in central banking appointed a Committee on Central Bank digital currencies

(2018). The Committee in its report observed that it is not easy to define CBDC. "CBDC is not a well-defined term. It is used to refer to a number of concepts." – The BIS Committee on CBDC.

One fact about CBCD is that central banks across the world already provides digital money to commercial banks and other financial institutions in the form of reserves or settlement of balances. This means that when a bank is having higher reserves with the Reserve Bank of India, it gets a that much money in the form of CBCD.

CBDC is a digital payment device which is issued and fully backed by a central bank and is a legal tender's.

## COLLATERALIZED BORROWING AND LENDING OBLIGATION (CBLO)

The Collateralized Borrowing and Lending Obligation (CBLO) market is a money market segment operated by the Clearing Corporation of India Ltd (CCIL).

In the CBLO market, financial entities can avail short term loans by providing prescribed securities as collateral.

In terms of functioning and objectives, the CBLO market is almost similar to the call money market.

The uniqueness of CBLO is that lenders and borrowers use collateral for their activities. For example, borrowers of fund have to provide collateral in the form of government securities and lenders will get it while giving loans.

There is no such need of a collateral under the call money market.

Institutions participating in CBLO are entities who have either no access or restricted access to the inter -bank call money market.

It is a discounted instrument available in electronic book entry form for the maturity period ranging from one day to one year.

## COMPONENTS OF THE RBI'S CAPITAL RESERVE

There are five components in the RBI's capital reserve. The first two (CF and ADF) are Funds created to meet specific purposes and provisions are made yearly to add money to these funds.

The other three (CGRA, IRA and FCVA) are valuation accounts just shows the gain or losses in foreign exchange, government securities or foreign currency contracts handled by the RBI.

Following are the five components of the RBI's capital reserve.

**Contingency Fund (CF)**

**Asset Development Fund (ADF)**

**Currency and Gold Revaluation Account (CGRA)**

**Investment Revaluation Account (IRA) and**

**Foreign Exchange Forward Contracts Valuation Account (FCVA).**

All these five components are recorded in the liability side of the RBI's balance sheet.

### What is Contingency Fund (CF)?

The CF is a fund set apart for meeting the unforeseen contingencies, including depreciation in the value of securities, risks arising out of monetary/exchange rate policy operations, systemic risks and any risk arising on account of the special responsibilities enjoined upon the Bank.

**What is Asset Development Fund?**

The Asset Development Fund (ADF) has been set aside for investment in subsidiaries and associates and internal capital expenditure.

**Currency and Gold Revaluation Account (CGRA)**

The CGRA shows fund that is available to compensate RBI's loss in the value of gold and foreign exchange reserve holdings. Gains and losses of the values of Gold and Foreign Currency Assets decreases or increases the CGRA money.

Maintained by the Reserve Bank of India.

To take care of currency risk, interest rate risk and movement in gold prices.

Unrealised gains or losses on valuation of foreign currency assets (FCA) and gold are not taken to the income account but instead accounted for in the CGRA.

Provides a buffer against exchange rate/ gold price fluctuations.

Thus, changes in the market value of gold and forex assets (like the US Government securities where the RBI invested its foreign exchange reserves) is reflected in the CGRA.

CGRA provides a buffer against exchange rate/gold price fluctuations. When CGRA is not enough to fully meet exchange losses, it is replenished from the contingency fund.

Increase in gold price and depreciation of the rupee increases the CGRA fund.

**Investment Revaluation Account (IRA)**

The investment Revaluation Account shows the buffer amount available with the RBI to compensate losses and to accommodate gains in (i) foreign securities and (ii) domestic securities. RBI holds significant portion of foreign securities and domestic securities (government of India). Under IRA, the marked to market gains and losses are measured.

**Foreign Exchange Forward Contracts Valuation Account (FCVA)**

The FCVA measures marked to market (periodic) gains and losses for the RBI from foreign exchange forward contracts.

**'CONSUMER PRICE INDEX'**

A comprehensive measure used for estimation of price changes in a basket of goods and services representative of consumption expenditure in an economy is called consumer price index.

The calculation involved in the estimation of CPI is quite rigorous. Various categories and sub-categories have been made for classifying consumption items and on the basis of consumer categories like urban or rural.

Based on these indices and sub-indices obtained, the final overall index of price is calculated mostly by national statistical agencies.

It is one of the most important statistics for an economy and is generally based on the weighted average of the prices of commodities.

It gives an idea of the cost of living.

Inflation is measured using CPI.

The percentage change in this index over a period of time gives the amount of inflation over that specific period, i.e. the increase in prices of a representative basket of goods consumed.

## CONSOL BONDS

The government can issue Consol bonds to deal with the current economic challenges.

A consol bond doesn't have date of maturity, but offers a higher coupon rate.

These bonds were used by European countries to fund to the ongoing cost of the First World War in 1917 and for redevelopment works post World War II.

It is also known as perpetual bond.

Consols have a fixed interest rate (coupon payments).

They are not redeemable until the issuer (government) decides to call it back.

Therefore, this type of bond is often considered a type of equity, rather than debt.

## CPI BASE YEAR FOR INDUSTRIAL WORKERS

The Labour and Employment Ministry revised the base year of the Consumer Price Index for Industrial Workers (CPI-IW) from 2001 to 2016

Reflect the changing consumption pattern, giving more weightage to spending on health, education, recreation and other miscellaneous expenses, while reducing the weight of food and beverages.

Apart from measuring inflation in retail prices, the CPI-IW was used to regulate the DA of government employees and industrial workers, as well as fixing and revising minimum wages in scheduled employments

Note: CPI for agriculture workers, currently has the base year of 1986-87

## COMMERCIAL PAPER

Commercial paper, also called CP, is **a short-term debt instrument issued by companies to raise funds generally for a time period up to one year**.

It is **an unsecured money market instrument issued in the form of a promissory note** and was introduced in India for **the first time in 1990**.

CPs have **a minimum maturity of seven days and a maximum of up to one year** from the date of issue.

However, the maturity date of the instrument should typically not go beyond the date up to which the credit rating of the issuer is valid.

They **can be issued in denominations of Rs 5 lakh or multiples thereof**.

Since such **instruments are not backed by collateral**, **only firms with high ratings from a recognised credit rating agency can sell such commercial papers at a reasonable price**.

**CPs are usually sold at a discount to their face value, and carry higher interest rates than bonds**.

**'CONTAGION'**

In economics and finance, a contagion can be explained as a situation where a shock in a particular economy or region spreads out and affects others by way of, say, price movements.

The contagion effect explains the possibility of spread of economic crisis or boom across countries or regions.

This phenomenon may occur both at a domestic level as well as at an international level.

The failure of Lehman Brothers in the United States is an example of a domestic contagion.

**'CONTRACTIONARY POLICY'**

A contractionary policy is a kind of policy which lays emphasis on reduction in the level of money supply for a lesser spending and investment thereafter so as to slow down an economy.

A nation's central bank uses monetary policy tools such as CRR, SLR, repo, reverse repo, interest rates etc to control the money supply flows into the economy. Such measures are used at high growth periods of the business cycle or in times of higher than anticipated inflation.

Discouraging spending by way of increased interest rates and reduced money supply helps control rising inflation.

It may also lead to increased unemployment at the same time.

**'CORE INFLATION'**

An inflation measure which excludes transitory or temporary price volatility as in the case of some commodities such as food items, energy products etc.

It reflects the inflation trend in an economy.

A dynamic consumption basket is considered the basis to obtain core inflation. Some goods and commodities have extremely volatile price movements. Core inflation is calculated using the Consumer Price Index (CPI) by excluding such commodities.

**CORE-INVESTMENT COMPANIES**

Non-banking financial companies with asset size of ₹100 crore and above

Carry on the business of acquisition of shares and securities, subject to certain conditions.

Allowed to accept public funds, hold not less than 90% of their net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies.

Asset size of below Rs 100 crore are exempted from registration and regulation from the RBI, except if they wish to make overseas investments in the financial sector.

**COST INFLATION INDEX**

Used for Computation of Long-Term Capital Gain.

Notified by Central Board of Direct Tax (CBDT) every year and till date CBDT has notified Cost Inflation Index for the Financial Year 1981-82 to Financial year 2020-21.

Used for computing indexed cost of acquisition.

**'COST PUSH INFLATION'**

Cost push inflation is inflation caused by an increase in prices of inputs like labour, raw material, etc. The increased price of the factors of production leads to a decreased supply of these goods.

While the demand remains constant, the prices of commodities increase causing a rise in the overall price level. This is in essence cost push inflation.

In this case, the overall price level increases due to higher costs of production which reflects in terms of increased prices of goods and commodities which majorly use these inputs. This is inflation triggered from supply side i.e. because of less supply. The opposite effect of this is called demand pull inflation where higher demand triggers inflation.

Apart from rise in prices of inputs, there could be other factors leading to supply side inflation such as natural disasters or depletion of natural resources, monopoly, government regulation or taxation, change in exchange rates, etc. Generally, cost push inflation may occur in case of an inelastic demand curve where the demand cannot be easily adjusted according to rising prices.

**'COUNTERVAILING DUTIES'**

Duties that are imposed in order to counter the negative impact of import subsidies to protect domestic producers are called countervailing duties.

In cases foreign producers attempt to subsidize the goods being exported by them so that it causes domestic production to suffer because of a shift in domestic demand towards cheaper imported goods, the government makes mandatory the payment of a countervailing duty on the import of such goods to the domestic economy.

This raises the price of these goods leading to domestic goods again being equally competitive and attractive. Thus, domestic businesses are cushioned. These duties can be imposed under the specifications given by the WTO (World Trade Organization) after the investigation finds that exporters are engaged in dumping. These are also known as anti-dumping duties.

The objective of CVD is to nullify or eliminate the price advantage (low price) enjoyed by an imported product when it is given subsidies or exempted from domestic taxes in the country where they are manufactures.

Often countries give subsidies to their exported products so that they can compete in the international market at a reduced price.

**CREDIT RATING**

Credit rating is an assessment of the creditworthiness of a borrower including an individual, a company or a country.

Credit ratings are expressed as letter grades and used for businesses and governments.

Credit scores are numbers used for individuals and some small businesses.

An individual's credit score is based on information from the three major credit reporting agencies, and scores range from 300 to 850.

A FICO score takes information from all three major credit bureaus to create an individual's credit score.

Credit ratings are produced by credit rating agencies, such as S&P Global.

**'CREDIT DEFAULT SWAPS'**

Credit default swaps (CDS) are a type of insurance against default risk by a particular company.

The company is called the reference entity and the default is called credit event.

It is a contract between two parties, called protection buyer and protection seller.

Under the contract, the protection buyer is compensated for any loss emanating from a credit event in a reference instrument. In return, the protection buyer makes periodic payments to the protection seller.

**'CROSS ELASTICITY OF DEMAND'**

The measure of responsiveness of the demand for a good towards the change in the price of a related good is called cross price elasticity of demand. It is always measured in percentage terms.

**'CROWDING OUT EFFECT'**

A situation when increased interest rates lead to a reduction in private investment spending such that it dampens the initial increase of total investment spending is called crowding out effect.

Sometimes, government adopts an expansionary fiscal policy stance and increases its spending to boost the economic activity.

This leads to an increase in interest rates. Increased interest rates affect private investment decisions. A high magnitude of the crowding out effect may even lead to lesser income in the economy.

With higher interest rates, the cost for funds to be invested increases and affects their accessibility to debt financing mechanisms.

This leads to lesser investment ultimately and crowds out the impact of the initial rise in the total investment spending. Usually, the initial increase in government spending is funded using higher taxes or borrowing on part of the government.

## CRYPTO CURRENCY

Cryptocurrency is a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a Central Bank.

Cryptocurrencies are a specific variant of digital currencies.

A cryptocurrency's feature can be understood from the word crypto.

The currency here, is born out of the digital activity called cryptography.

It is a digital asset more and can be used as a device (money) to purchase goods and service.

The individual cryptocurrency ownership can be stored in a ledger in the form of computerised database and there are credible transaction records.

## CUSTOMS DUTY

Customs Duty is **levied when goods are transported across borders between countries.**

It is the **tax that governments impose on export and import of goods**.

Customs Duty is **beneficial for many reasons**.

For instance, it ensures a country's economic stability, jobs, environment, among others.

It regulates **the movement of goods in and out of the country**.

It **keeps a check on restricted items**.

## 'CURRENCY DEPOSIT RATIO'

The currency deposit ratio shows the amount of currency that people hold as a proportion of aggregate deposits.

An increase in cash deposit ratio leads to a decrease in money multiplier. An increase in deposit rates will induce depositors to deposit more, thereby leading to a decrease in Cash to Aggregate Deposit ratio. This will in turn lead to a rise in Money Multiplier.

## CURRENCY ETF

The term currency ETF refers to a financial product that provides investors with exposure to foreign exchange (forex) currencies.

Like other exchange-traded funds (ETFs), investors can purchase currency ETFs on exchanges just like shares of corporate stocks.

These investments are usually passively managed, where underlying currencies are held in a single country or basket of countries.

Like any investment, currency ETFs come with their own risks and rewards.

Currency ETFs are exchange-traded funds that track the relative value of a currency or a basket of currencies.

These investment vehicles allow ordinary individuals to gain exposure to the forex market through a managed fund without the burdens of placing individual trades.

Currency ETFs can be used to speculate on forex markets, diversify a portfolio, or hedge against currency risks.

Risks associated with currency ETFs tend to be macroeconomic, including geopolitical risks and interest rate hikes.

**CURRENCY SWAP**

A currency swap between two countries is an agreement or contract to exchange currencies (of the two countries or any hard currency) with predetermined terms and conditions.

Often the popular form of currency swap is between two central banks.

Here, the main purpose of currency swap by a central bank like the RBI is to get the foreign currency form the issuing foreign central bank at the predetermined conditions (like exchange rate and the volume of currency) for the swap.

Besides supporting the domestic currency and foreign exchange market, another main purpose of currency swap is to keep the value of the foreign exchange reserves kept with the central bank.

Besides currency or exchange rate stability, currency swaps between governments also have supplementary objectives like promotion of bilateral trade, maintaining the value of foreign exchange reserves with the central bank and ensuring financial stability (protecting the health of the banking system).

Currency swap agreement can be bilateral or multilateral.

Usually, currency swap agreements are of five types depending upon the nature and the status of the currencies swapped.

Exchange cash for cash vs cash for securities;

Exchange conditional vs unconditional swaps;

Exchange reserve currencies on both sides;

Exchange reserve currency for non-reserve currency; and

Exchange non-reserve currencies on both sides.

## CURRENT ACCOUNT DEFICIT (CAD)

Current Account is the sum of the **balance of trade (**exports minus imports of goods and services), **net factor income** (such as interest and dividends) and **net transfer payments** (such as foreign aid). Current account deficit in simple terms is dollars flowing in minus dollars flowing out.

Current Account Deficit is slightly different from Balance of Trade, which measures only the gap in earnings and expenditure on exports and imports of goods and services. Whereas, the current account also factors in the payments from domestic capital deployed overseas.

Current Account Deficit may be a positive or negative indicator for an economy depending upon why it is running a deficit. Foreign capital is seen to have been used to finance investments in many economies. Current Account Deficit may help a debtor nation in the short-term, but it may worry in the long-term as investors begin raising concerns over adequate return on their investments.

CAD exists due to a host of factors including existing exchange rate, consumer spending level, capital inflow, inflation level, and prevailing interest rate.

For the Current Account Deficit in India, crude oil and gold imports are the primary reasons behind high CAD.

The Current Account Deficit could be reduced by boosting exports and curbing non-essential imports such as gold, mobiles, and electronics.

Currency hedging and bringing easier rules for manufacturing entities to raise foreign funds could also help. The government and RBI could also look to review debt investment limits for FPIs, among other measures.

## CAPITAL ACCOUNT DEFICIT

Capital account Deficit occurs when payments made by a country for purchasing foreign assets exceed payments received by that country for selling domestic assets. (For example, if Indians are buying a lot of properties in the US, but if Americans are not buying any properties or buildings in India, India will have a Capital Account Deficit.)

A deficit in the capital account means money is flowing out the country, but it also suggests the nation is increasing its claims on foreign assets.

In other words, at times of Capital Account Deficit, foreign investment in domestic assets is less and investment by the domestic economy in foreign assets is more.

## DATED GOVERNMENT SECURITIES

Dated Government securities are long term securities or bonds of the government that carries a fixed or floating coupon (interest rate).

Securities are issued by the government (centre or state) for mobilizing funds.

Mostly financing the fiscal deficit is the most important purpose for issuing the dated securities.

The remuneration for buying the dated securities is the interest payment which are called coupon.

The interest payment is fixed and is a percentage of the face value of the security. Interest is paid at regular intervals (usually half-yearly). The tenor of dated securities can be up to 30 years. But the most common tenure is five year and ten year.

Securities are held mostly by commercial banks (in the form of SLR) and other financial institutions. The government securities are tradable in the stock market.

Short term instruments are treasury bills that have a maturity of less than one year (91 days, 182 days (now not issued) and 364 days). For treasury bills, there is no interest payments but the bill is obtained at a discount.

**'DEBT EQUITY RATIO'**

The debt-equity ratio is a measure of the relative contribution of the creditors and shareholders or owners in the capital employed in business. Simply stated, ratio of the total long-term debt and equity capital in the business is called the debt-equity ratio. It can be calculated using a simple formula.

**DEPOSITORY RECEIPT (DR)**

A Depository Receipt (DR) is a financial instrument representing certain securities (e.g. shares, bonds etc.) issued by a company/entity in a foreign jurisdiction.

Securities of a firm are deposited with a domestic custodian in the firm's domestic jurisdiction, and a corresponding "depository receipt" is issued abroad, which can be purchased by foreign investors.

DR is a negotiable security (which means an instrument transferrable by mere delivery or by endorsement and delivery) that can be traded on the stock exchange, if so desired.

DRs constitute an important mechanism through which issuers can raise funds outside their home jurisdiction. DRs are issued for tapping foreign investors who otherwise may not be able to participate directly in the domestic market.

It is perceived as the beginning point of connecting with the foreign investors (i.e. a stage before the actual listing the shares /securities in a foreign stock exchange) or a way of introducing the company to a foreign investor. For investors, depository receipt is a way of diversifying the risk, by getting exposure to a foreign market, but without the exchange rate risk as they are foreign currency denominated. Further, they feel safer to invest from their home location.

Depending on the location in which these receipts are issued they are called as **ADRs** or American Depository Receipts (if they are issued in USA on the basis of the shares/securities of the domestic (say Indian) company), IDR or Indian Depository Receipts (if they are issued in India on the basis of the shares/securities of the foreign company; Standard Chartered issued the first IDR in India) or in general as **GDR** or Global Depository Receipt.

Thus, ADR or GDR are issued outside India by a foreign depository on the back of an Indian security deposited with a domestic Indian custodian in India (means a custodian or keeper of securities- an Indian depository, a depository participant, or a bank- and having permission from the securities market regulator, SEBI, to provide services as custodian).

In India any company – whether private limited or public limited or listed or unlisted – can issue DRs. However listed DRs enjoy some tax benefits.

This financial tool gives an idea of how much borrowed capital (debt) can be fulfilled in the event of liquidation using shareholder contributions. It is used for the assessment of financial leverage and soundness of a firm and is typically calculated using previous fiscal year's data.

A low debt-equity ratio is favorable from investment viewpoint as it is less risky in times of increasing interest rates. It therefore attracts additional capital for further investment and expansion of the business.

**DEBT AND NON-DEBT RECEIPTS**

Non-debt receipts are the receipts which doesn't incur any future repayment burden for the government.

On the other hand, the debt receipts are those which are to be repaid by the government.

Borrowings is the debt receipts.

Other receipts in the budget are non-debt receipts.

On the other hand, in the case of non-debt receipts like tax revenues (or tax receipts) obtained by the government is that there is no repayment.

Following are the major receipts items in the central government.

Debt receipts or borrowing is shown in item number (e). Other items are non-debt receipts.

The non-debt receipts have tremendous importance for the central government in terms of their desirability.

Nearly 75% of the total budget receipts are non-debt receipts.

**'DEFLATION'**

When the overall price level decreases so that inflation rate becomes negative, it is called deflation. It is the opposite of the often-encountered inflation.

A reduction in money supply or credit availability is the reason for deflation in most cases. Reduced investment spending by government or individuals may also lead to this situation. Deflation leads to a problem of increased unemployment due to slack in demand.

Central banks aim to keep the overall price level stable by avoiding situations of severe deflation/inflation.

They may infuse a higher money supply into the economy to counter- balance the deflationary impact.

In most cases, a depression occurs when the supply of goods is more than that of money.

Deflation is different from disinflation as the latter implies decrease in the level of inflation whereas on the other hand deflation implies negative inflation.

**'DEPRECIATION'**

The monetary value of an asset decreases over time due to use, wear and tear or obsolescence.

This decrease is measured as depreciation.

Depreciation, i.e. a decrease in an asset's value, may be caused by a number of other factors as well such as unfavorable market conditions, etc.

Machinery, equipment, currency are some examples of assets that are likely to depreciate over a specific period of time.

Opposite of depreciation is appreciation which is increase in the value of an asset over a period of time.

**'DEPRESSION'**

Depression is defined as a severe and prolonged recession. A recession is a situation of declining economic activity. Declining economic activity is characterized by falling output and employment levels.

Generally, when an economy continues to suffer recession for two or more quarters, it is called depression.

The level of productivity in an economy falls significantly during a depression.

Both the GDP (gross domestic product) and GNP (gross national product) show a negative growth along with greater business failures and unemployment.

When a recession continues to take its toll on any economy, the built in process triggers further cuts in investment as well as consumption spending due to loss of confidence among investors and consumers. Also, the financial crisis may lead to decreased availability for credit. Excessive fluctuations happen in relative value of currency. Overall trade and commerce get reduced. The Great Depression of 1929 is considered to be the most classic example of a depression in economic history.

**DIRECT TAX CODE (DTC)**

Direct Tax Code is set of rules that is going to replace the existing Income Tax Act (IT Act).

It covers all taxes that is under the present IT Act including corporate income tax and personal income tax. Effort to create a DTC started from 2009 onwards.

**DISINFLATION**

Disinflation is a situation of decrease in the rate of inflation over successive time period.

It is simply slowing of inflation. Here, the inflation rates for successive periods are taken and we find that inflation rate decreases steadily over these different time periods.

Disinflation is quite a pleasant one especially for a developing economy. High level of inflation is a nuisance or price instability for many developing economies. For them, price level management is actually inflation management.

Hence for developing economies like India, disinflation is a happy trend as it is an escaping situation from high level of inflation.

Disinflation and deflation are different. Deflation is the decline of price level. On the other, disinflation is the decrease of inflation. Actually, price level increases under disinflation, but the rate of that increase, decreases. Under deflation, prices are coming down but under disinflation, inflation is coming down.

### DISINVESTMENT

Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets.

The government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources.

In some cases, disinvestment may be done to privatize assets.

However, not all disinvestment is privatization. Some of the benefits of disinvestment are that it can be helpful in the long-term growth of the country; it allows the government and even the company to reduce debt.

Disinvestment allows a larger share of PSU ownership in the open market, which in turn allows for the development of a strong capital market in India.

Main objectives of Disinvestment in India:

Reducing the fiscal burden on the exchequer

Improving public finances

Encouraging private ownership

Funding growth and development programmes

Maintaining and promoting competition in the market

### DIVIDEND DISTRIBUTION TAX

The Dividend Distribution Tax is a tax levied on dividends that a company pays to its shareholders out of its profits.

The Dividend Distribution Tax, or DDT, is taxable at source, and is deducted at the time of the company distributing dividends.

The dividend is the part of profits that the company shares with its shareholders.

The law provides for the Dividend Distribution Tax to be levied at the hands of the company, and not at the hands of the receiving shareholder.

Under Section 115-O, the Income Tax Act, any domestic firm which is declaring or distributing dividend has to pay DDT at the rate of 15 per cent on the gross amount of dividend. Successive governments have, from time to time, dabbled with imposing and removing Dividend Distribution Tax, according to the market conditions and need of the exchequer.

Other than Dividend Distribution Tax (DDT), the Securities Transaction Tax (STT) and Long-Term Capital Gains (LTCG) tax are other major taxes levied on market instruments.