

## **Economic Growth**

A country's economic growth is usually indicated by an increase in that country's **gross domestic product**, or **GDP**. Generally speaking, gross domestic product is an economic model that reflects the value of a country's output. In other words, a country's GDP is the total monetary value of the goods and services produced by that country over a specific period of time.

Economic historians have attempted to develop a theory of stages through which each economy must pass as it grows. Early writers, given to metaphor, often stressed the resemblance between the evolutionary character of economic development and human life—e.g., growth, maturity, and decadence. Later writers, such as the Australian economist Colin Clark, have stressed the dominance of different sectors of an economy at different stages of its development and modernization. For Clark, development is a process of successive domination by primary (agriculture), secondary (manufacturing), and tertiary (trade and service) production.

Economic growth is usually distinguished from economic development

## **Economic Development**

A country's economic development is usually indicated by an increase in citizens' quality of life. 'Quality of life' is often measured using the **Human Development Index**, which is an economic model that considers intrinsic personal factors not considered in economic growth, such as literacy rates, life expectancy and poverty rates.

India is regarded as one of the fastest growing major economy in the world. Since 2010, while most emerging economies witnessed a declining trend in growth rate, India's growth rate showed improvement. This led to global policy-makers trying to understand the Indian economy better.

### **Basic Characteristics of the Indian Economy**

The key macro-indicators or the basic characteristics of the Indian Economy are as follows:

#### **National Income**

Usually, income level is used in the determination of the overall well-being and happiness of a country and its citizens.

Therefore, it is one of the important basic characteristics of the Indian Economy. Income of an economy is generally measured through the Gross Domestic Product or GDP.

#### **Capital Formation**

Capital formation plays a crucial role in the economic development of a country. Usually, insufficient capital is the primary culprit in underdeveloped or developing economies.

Therefore, both production and consumption are dependent on the amount of capital available in the country.

Capital Formation includes physical resources like tools, machines, etc. as well as human resources like the knowledge, skill, health, etc. of the workforce.

The most important process of accumulating physical capital is increasing the volume of real domestic savings. According to the World Bank, in 2015, the household sector was the biggest contributor to Gross Domestic Savings in India.

### **Inflation**

Managing inflation is the toughest tasks of an economic policy-maker. Inflation is the sustained rise in the general level of prices. There are many factors which influence the rate of inflation in an economy.

In India, fluctuations in prices are a common occurrence due to several natural and economic factors. These fluctuations create an atmosphere of uncertainty which goes against the spirit of the economic development of the country.

Two price indices help in the measurement of Inflation – the Wholesale Price Index (WPI) and the Consumer Price Index (CPI).

### **Foreign Capital/Investment**

In countries like India, the domestic capital is not sufficient for economic growth. Therefore, foreign capital is a way of filling the gap between domestic savings, foreign exchange, government revenue and the investment necessary to achieve the developmental targets.

Apart from being capital-poor, India is also backward in technology required for rapid economic development for many reasons. Foreign capital can provide the required resources to solve the technological backwardness of the country.

### **Foreign Trade**

Traditionally, India was famous for textile and handicrafts exports. During the British era, India became an exporter of raw materials and the British machine-made goods.

However, in the post-independence period, India went through a huge change in its foreign trade policy. Since the introduction of the five-year plans, India started depending heavily on imported machinery and equipment to develop different types of industries.

That was a time when India needed to import capital goods to set up industries. These were developmental imports. Subsequently, India needed to import huge quantities of intermediate goods and raw material to utilize the productive capacity created in the earlier stage. These were maintenance imports.