Skillshort

Self-Study Preparation Pack

CSEET

Paper 3: Economic and Business Environment (subjective)

Chapter-wise Detailed Notes

For the February 2027 and June 2027 sessions · ICSI restructured CSEET syllabus (from June 2026) · Part A Economics (Ch 1–5) + Part B Business Environment (Ch 6–12)

100 marks · 3 hours (+15 min reading) | Part A 50 + Part B 50 | 5-mark answers

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This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

3 Past papers: trends & links

4 Mock tests + solutions

5 Chapter practice questions

6 Last-week plan & strategy

Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

How to use these notes

File	What it gives you
01 Chapter notes (this file)	Concepts, tables, formulas and current facts for all 12 chapters
02 Important topics	Weightage and what the June 2026 paper asked
03 Past papers	Trend analysis, question patterns and official links
04 Mock tests	Two full papers in the ICSI pattern with model answers
05 Practice	Chapter-wise 5-mark questions with answer points
06 Last-week plan	Revision plan, one-liner sheet, time plan

EXAM TIP **Paper at a glance**

Part A – Economics (50): Q1 compulsory (4 × 5 = 20) + any two of Q2–Q4 (15 each, 3 × 5). **Part B – Business Environment (50):** Q5 compulsory (20) + any two of Q6–Q8 (15 each). Almost every answer is a **5-mark** short answer – about 250 words with a definition, 4–6 points and an example or current fact.

VERIFY **Current facts**

Schemes, rankings and figures change often. Facts marked VERIFY should be checked against the latest government or regulator website before the exam.

Chapter 1: Demand, Supply, Elasticity and Markets

1.1 Economics – meaning and the problem of choice

Economics studies how people, firms and governments **choose** to use **scarce resources** that have **alternative uses** to satisfy **unlimited wants**.

Definition	Economist	Key idea
Wealth definition (1776)	**Adam Smith** – *Wealth of Nations*	Economics is the science of wealth
Welfare definition (1890)	**Alfred Marshall** – *Principles of Economics*	Study of mankind in the ordinary business of life; material welfare
Scarcity definition (1932)	**Lionel Robbins**	"Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses"
Growth definition	**Paul Samuelson**	How society chooses to use scarce resources to produce goods over time and distribute them

Microeconomics vs macroeconomics

Basis	Microeconomics	Macroeconomics
Meaning	Study of individual units – consumer, firm, industry	Study of the economy as a whole
Main concern	Price determination and resource allocation	National income, employment, inflation, growth
Also called	Price theory	Income and employment theory
Tools	Demand and supply of a commodity	Aggregate demand and aggregate supply
Examples	Price of rice, wage of a worker, output of a firm	GDP, general price level, unemployment rate
Term introduced by	Ragnar Frisch (1933)	Ragnar Frisch

- **Scarcity** – resources (land, labour, capital, entrepreneurship) are limited relative to wants.
- **Choice** – because of scarcity, we must choose what to produce and consume.
- **Opportunity cost** – the value of the **next best alternative** given up. If a farmer grows wheat instead of rice on a plot, the rice he could have grown is the opportunity cost of wheat.

Central problems of an economy

1. **What to produce** (and how much).
2. **How to produce** (labour-intensive or capital-intensive technique).
3. **For whom to produce** (distribution of income).
4. Problems of **full employment** and **growth** of resources.

Production possibility curve (PPC)

A **PPC** shows the various combinations of two goods that an economy can produce with given resources and technology, using them fully and efficiently.

Combination	Wheat (lakh tonnes)	Cloth (lakh metres)	MRT (wheat given up per extra unit of cloth)
A	15	0	–
B	14	1	1
C	12	2	2
D	9	3	3
E	5	4	4
F	0	5	5

- PPC is **concave to the origin** because of **increasing opportunity cost** (rising marginal rate of transformation) – resources are not equally efficient in all uses.
- A point **inside** the PPC shows unemployment/inefficiency; a point **outside** is unattainable.
- **Shift outward** – growth of resources or better technology.

1.2 Demand

Demand is the quantity of a commodity that a consumer is **willing and able** to buy at a given price during a given period. Desire + ability to pay + willingness to pay = demand.

Determinants of demand

Price of the good, income of the consumer, prices of related goods (substitutes and complements), tastes and preferences, expectations of future prices, population, distribution of income, government policy, climate and season.

√× FORMULA Demand function

Dx = f(Px, Y, Pr, T, E, N) – demand for X depends on its price, income, related prices, tastes, expectations and number of buyers

Law of demand

Other things remaining the same (ceteris paribus), the quantity demanded of a commodity rises when its price falls and falls when its price rises. There is an **inverse relationship** between price and quantity demanded; the demand curve **slopes downward** from left to right.

Price (₹ per kg)	Quantity demanded (kg)
50	1
40	2
30	3
20	4
10	5

Why does the demand curve slope downward?

- **Law of diminishing marginal utility** – consumer buys more only at a lower price.
- **Income effect** – a fall in price increases real income.
- **Substitution effect** – the good becomes cheaper relative to substitutes.
- **New buyers** enter the market at lower prices.
- **Multiple uses** – at lower prices the good is used for less important purposes too.

Exceptions to the law of demand

- **Giffen goods** – inferior staple goods where the negative income effect outweighs the substitution effect (*Sir Robert Giffen* – bread in 19th-century Britain).
- **Veblen / status goods** – articles of conspicuous consumption (diamonds) bought more at higher prices (*Thorstein Veblen*).
- **Expectation of future price rise** – people buy more even when price rises (e.g. shares, gold).
- **Ignorance** – quality judged by price.
- **Necessities** – essential goods like salt, life-saving drugs (demand almost unchanged).

Change in quantity demanded vs change in demand

Basis	Change in quantity demanded (movement)	Change in demand (shift)
Cause	Change in the **price** of the good only	Change in **other factors** (income, tastes, related prices)
Graph	Movement **along** the same demand curve	**Shift** of the whole demand curve
Terms	Extension (price falls) / contraction (price rises)	Increase (shift right) / decrease (shift left)

Types of goods by income response

Good	Income rises → demand	Example
Normal good	Rises	Fruits, clothes
Inferior good	Falls	Coarse grains
Luxury	Rises more than proportionately	Cars, foreign travel

Good	Income rises → demand	Example
Necessity	Rises less than proportionately	Salt, rice

Related goods

- **Substitutes** (tea and coffee): price of tea ↑ → demand for coffee ↑ (positive cross relationship).
- **Complements** (car and petrol): price of petrol ↑ → demand for cars ↓ (negative cross relationship).

1.3 Supply

Supply is the quantity of a commodity that producers are willing and able to offer for sale at a given price during a given period.

Law of supply

Other things remaining the same, the quantity supplied **rises** with a rise in price and falls with a fall in price – a **direct relationship**; the supply curve **slopes upward**.

Determinants of supply

Price of the good, prices of factors (input costs), technology, prices of other goods, number of firms, goals of the firm, government policy (taxes, subsidies), expectations, natural factors.

Market equilibrium

Equilibrium price is the price at which **quantity demanded = quantity supplied**. At a higher price there is excess supply (surplus) pushing price down; at a lower price there is excess demand (shortage) pushing price up.

WORKED EXAMPLE Equilibrium from equations

Qd = 100 − 2P and Qs = 20 + 2P.

At equilibrium Qd = Qs → 100 − 2P = 20 + 2P → 4P = 80 → **P = ₹20**. Q = 100 − 40 = **60 units**.

If the government fixes a maximum price (price ceiling) of ₹15: Qd = 70, Qs = 50 → **shortage of 20 units** (black market / rationing may arise).

If it fixes a minimum support price of ₹25: Qd = 50, Qs = 70 → **surplus of 20 units** (government must buy the surplus).

Effect of shifts on equilibrium

Change	Equilibrium price	Equilibrium quantity
Increase in demand	Rises	Rises
Decrease in demand	Falls	Falls
Increase in supply	Falls	Rises
Decrease in supply	Rises	Falls
Equal increase in demand and supply	Unchanged	Rises

1.4 Elasticity of demand

Elasticity of demand measures the **degree of responsiveness** of quantity demanded to a change in one of its determinants.

Price elasticity of demand (Ep)

FORMULA Price elasticity of demand

Ep = Percentage change in quantity demanded ÷ Percentage change in price

$Ep = (\Delta Q / Q) \div (\Delta P / P) = (\Delta Q / \Delta P) \times (P / Q)$

Arc (mid-point) elasticity = $[(Q2 - Q1) / (Q2 + Q1)] \div [(P2 - P1) / (P2 + P1)]$

Price elasticity is negative (inverse relationship), but we usually ignore the minus sign and use the absolute value.

Degree	Value	Meaning	Example
Perfectly elastic	Ep = ∞	Slight change in price → infinite change in demand; horizontal demand curve	Firm in perfect competition
Relatively elastic	Ep > 1	% change in Q > % change in P	Luxuries
Unitary elastic	Ep = 1	% change in Q = % change in P; rectangular hyperbola	–
Relatively inelastic	Ep < 1	% change in Q < % change in P	Necessities (rice, salt)
Perfectly inelastic	Ep = 0	No change in Q; vertical demand curve	Life-saving drugs (approximately)

Methods of measuring price elasticity

1. **Percentage (proportionate) method** – formula above.
2. **Total expenditure (outlay) method** – Marshall:

Price change	Total expenditure	Elasticity
Price falls, TE rises / price rises, TE falls	Moves opposite to price	Ep > 1
TE unchanged	Constant	Ep = 1
Price falls, TE falls / price rises, TE rises	Moves with price	Ep < 1

3. **Point (geometric) method** – on a straight-line demand curve, Ep at a point = **lower segment ÷ upper segment**. At the mid-point Ep = 1; at the price-axis intercept Ep = ∞; at the quantity-axis intercept Ep = 0.
4. **Arc method** – for large changes, using averages.

Determinants of price elasticity

Nature of the good (necessity/luxury), availability of substitutes, proportion of income spent, number of uses, habits, time period (more elastic in the long run), postponement of consumption, price range.

Income elasticity and cross elasticity

√x FORMULA Income and cross elasticity

Income elasticity Ey = % change in quantity demanded ÷ % change in income

Cross elasticity Exy = % change in quantity of X ÷ % change in price of Y

Elasticity	Value	Interpretation
Ey > 1	Positive, above one	Luxury
0 < Ey < 1	Positive, below one	Necessity
Ey < 0	Negative	Inferior good
Exy > 0	Positive	Substitutes
Exy < 0	Negative	Complements
Exy = 0	Zero	Unrelated goods

WORKED EXAMPLE Price elasticity numericals

(a) Price of a pen falls from ₹10 to ₹8; demand rises from 100 to 130.

% ΔQ = 30/100 × 100 = 30%; % ΔP = 2/10 × 100 = 20%. Ep = 30 ÷ 20 = **1.5** (elastic).

TE before = ₹1,000; after = ₹1,040 → TE rises when price falls → elastic (confirms).

(b) Arc elasticity: P from ₹10 to ₹8, Q from 100 to 130. = (30/230) ÷ (2/18) = 0.1304 ÷ 0.1111 = **1.17**.

(c) Income rises from ₹20,000 to ₹25,000; demand for a good falls from 10 kg to 8 kg. Ey = (−20%) ÷ (25%) = **−0.8** → inferior good.

Importance of elasticity

Pricing decisions by firms and monopolists (price discrimination), taxation policy (tax goods with inelastic demand for revenue), international trade (devaluation), wage determination, joint products pricing, and predicting the effect of price changes on revenue.

EXAM TIP **Always state the sign convention. Write "Ep = −1.5; in absolute terms 1.5 > 1, so demand is elastic."**

1.5 Market forms

A **market** is a system where buyers and sellers interact to exchange goods at a price; it need not be a physical place.

Feature	Perfect competition	Monopoly	Monopolistic competition	Oligopoly
Number of sellers	Very large	One	Large	Few
Product	Homogeneous	Unique, no close substitute	Differentiated	Homogeneous or differentiated
Entry and exit	Free	Blocked	Free	Difficult
Price control	None – price taker	Considerable – price maker	Some	Considerable but interdependent
Demand curve (AR)	Perfectly elastic (horizontal)	Downward sloping, inelastic	Downward sloping, highly elastic	Kinked / indeterminate
Selling cost	Nil	Small (informative)	High	Very high
Example	Agricultural produce (approximately), stock market	Indian Railways, electricity distribution in an area	Restaurants, soaps, toothpaste	Telecom, airlines, cement, automobiles

Chapter 2: National Income

2.1 Meaning

National income is the **money value of all final goods and services produced by the normal residents of a country during a year**, after allowing for depreciation and including net factor income from abroad. It is a **flow** concept (measured over a period), not a stock.

REMEMBER **Only final goods are counted, to avoid double counting. Intermediate goods (raw materials, semi-finished goods used in production during the year) are excluded.**

2.2 Concepts and aggregates

Concept	Meaning
Final goods	Goods meant for final consumption or investment, not for resale or further processing in the same year
Intermediate goods	Goods used up as inputs in production during the year
Domestic territory	Political frontiers + territorial waters + ships/aircraft operated by residents + embassies and military establishments abroad; excludes foreign embassies in India
Normal resident	Person or institution whose centre of economic interest lies in the country (usually living for one year or more)
Depreciation (consumption of fixed capital)	Fall in value of fixed assets due to normal wear and tear and expected obsolescence
Net factor income from abroad (NFIA)	Factor income earned by residents abroad − factor income earned by non-residents in the domestic territory
Net indirect taxes (NIT)	Indirect taxes − subsidies
Transfer payments	One-sided payments with no goods/services in return (old-age pension, scholarships) − **not** included in national income

Aggregates of national income

FORMULA **National income aggregates**

GDP at market price (GDPmp) = Value of final goods and services produced within the domestic territory in a year

GNPmp = GDPmp + NFIA

NDPmp = GDPmp − Depreciation

NNPmp = GNPmp − Depreciation

NDPfc (Domestic income) = NDPmp − Net indirect taxes

NNPfc (National income) = NNPmp − NIT = NDPfc + NFIA

Market price − NIT = Factor cost; Gross − Depreciation = Net; Domestic + NFIA = National

Other related concepts

- **Personal income** = National income − undistributed corporate profits − corporate tax − social security contributions + transfer payments.
- **Personal disposable income** = Personal income − personal direct taxes − miscellaneous fees and fines.
- **Per capita income** = National income ÷ population.
- **Real GDP** = GDP at **constant prices** (base-year prices) − shows real growth. **Nominal GDP** = GDP at current prices.
- **GDP deflator** = (Nominal GDP ÷ Real GDP) × 100.
- **GVA (Gross Value Added) at basic prices** = GVA at factor cost + production taxes − production subsidies. India reports GVA at basic prices and GDP at market prices.

Concept	Formula / meaning
Private income	Income from all sources received by the private sector = NDPfc accruing to the private sector + NFIA + current transfers from government and rest of the world + interest on national debt
Personal income	Private income − corporate tax − undistributed profits (retained earnings) of companies
Personal disposable income	Personal income − direct taxes paid by households − fees and fines
Real national income	National income at constant (base-year) prices
Per capita income	National income ÷ population

NOTE Private income vs personal income

Private income includes the **whole** income of private companies (including corporate tax and retained profits); personal income includes only what actually **reaches households**. So personal income = private income − corporate tax − undistributed profits.

2.3 Methods of measurement

National income can be measured at three phases – production, distribution and disposition – and all three give the same result: **Output = Income = Expenditure**.

1. Value added (product) method

FORMULA Value added

Value of output = Sales + Change in stock

Gross value added at market price (GVAmp) = Value of output − Intermediate consumption

NDPfc = Σ GVAmp of all sectors − Depreciation − NIT; National income = NDPfc + NFIA

Precautions: exclude sale of second-hand goods (only brokerage counted), intermediate goods, self-consumption of services by households (household chores), illegal activities; include own-account production of goods (farmer's own consumption), imputed rent of owner-occupied houses.

2. Income method

FORMULA Income method

NDPfc = Compensation of employees + Operating surplus (rent + royalty + interest + profit) + Mixed income of self-employed

National income (NNPfc) = NDPfc + NFIA

- **Compensation of employees** = wages and salaries in cash and kind + employer's contribution to social security.
- **Profit** = corporate tax + dividends + undistributed profits.

Precautions: exclude transfer payments, capital gains, windfall gains (lottery), sale proceeds of shares/bonds, interest on national debt (consumption loans), and death duties/gift tax.

3. Expenditure method

FORMULA Expenditure method

GDPmp = Private final consumption expenditure (C) + Government final consumption expenditure (G) + Gross domestic capital formation (I) + Net exports (X − M)

Gross domestic capital formation = Gross fixed capital formation + Change in stock

Precautions: exclude expenditure on intermediate goods, second-hand goods, financial assets (shares), transfer payments.

WORKED EXAMPLE Calculating national income (₹ crore)

Private final consumption expenditure 800; Government final consumption expenditure 200; Net domestic capital formation 150; Net exports −20; Consumption of fixed capital 60; Net indirect taxes 90; Net factor income from abroad −10; Compensation of employees 730; Operating surplus 250; Mixed income 60.

Expenditure method: NDPmp = 800 + 200 + 150 + (−20) = 1,130. NDPfc = 1,130 − 90 = 1,040. NNPfc = 1,040 + (−10) = **1,030**.

Income method: NDPfc = 730 + 250 + 60 = 1,040. NNPfc = 1,040 + (−10) = **1,030** – both methods agree ✓.

If your two answers ever differ, recheck which items are gross/net and at market price/factor cost.

GDPmp = NDPmp + depreciation = 1,130 + 60 = 1,190.

2.4 Difficulties in measurement

- Large **non-monetised** (subsistence) sector – farmers consume own produce.
- **Unorganised/informal sector** – no proper records.
- Illiteracy and lack of accounts among small producers.
- **Double counting** risk.
- Problem of **valuing** depreciation, inventories and services of housewives.
- Black money and parallel economy.
- Inadequate statistical data and occupational overlap (one person, many jobs).

Chapter 3: Union Budget

Under **Article 112** of the Constitution, the Government presents to Parliament an **Annual Financial Statement** – estimated receipts and expenditure for the financial year (1 April to 31 March). The Union Budget is presented on **1 February** (since 2017) by the Finance Minister. The Railway Budget was merged with the General Budget in 2017.

Components of the budget

Account	Receipts	Expenditure
Revenue account	**Tax revenue** (income tax, corporation tax, GST, customs, excise) and **non-tax revenue** (interest receipts, dividends and profits from PSUs and RBI, fees, fines, grants)	Revenue expenditure – does not create assets or reduce liabilities: salaries, interest payments, subsidies, pensions, grants to States
Capital account	Borrowings and other liabilities, recovery of loans, disinvestment (other receipts)	Capital expenditure – creates assets or reduces liabilities: infrastructure, purchase of machinery, loans to States, repayment of debt

REMEMBER **A receipt is capital if it creates a liability (borrowing) or reduces an asset (disinvestment, loan recovery). Expenditure is capital if it creates an asset or reduces a liability.**

Budget deficits

FORMULA **Budget deficits**

Revenue deficit (RD) = Revenue expenditure − Revenue receipts

Fiscal deficit (FD) = Total expenditure − Total receipts excluding borrowings = Borrowings and other liabilities

Primary deficit (PD) = Fiscal deficit − Interest payments

Effective revenue deficit = Revenue deficit − Grants for creation of capital assets

WORKED EXAMPLE **Budget deficits (₹ lakh crore – hypothetical)**

Revenue receipts 30; Revenue expenditure 37; Capital receipts (non-debt: loan recovery + disinvestment) 1; Capital expenditure 11; Interest payments 12.

Total expenditure = 37 + 11 = 48. Total receipts excluding borrowings = 30 + 1 = 31.

Revenue deficit = 37 − 30 = 7. **Fiscal deficit** = 48 − 31 = 17. **Primary deficit** = 17 − 12 = 5.

Significance of deficits

- **Revenue deficit** – government dissaving; borrowing used for consumption.
- **Fiscal deficit** – total borrowing requirement; high FD leads to debt burden, inflation, crowding out of private investment.
- **Primary deficit** – borrowing for current needs excluding interest on past debt.

FRBM Act, 2003

The **Fiscal Responsibility and Budget Management Act, 2003** sets rules for fiscal discipline: reduce fiscal and revenue deficits, keep debt sustainable, transparency through Medium-Term Fiscal Policy Statements. After the N.K. Singh Committee (2017), the focus shifted to a **debt target** (general government debt 60% of GDP; Centre 40%) and a fiscal deficit target of 3% of GDP. The Centre has since moved to a **debt-to-GDP glide path** (aiming for a declining debt ratio) – check the latest budget for current targets.

3.1 Revenue budget and capital budget

Budget	Receipts	Expenditure
Revenue budget	Tax revenue (direct and indirect, net of states' share) + non-tax revenue (interest, dividends from PSUs and RBI surplus, fees, fines, grants)	Salaries, interest payments, subsidies, pensions, grants to states, defence revenue expenditure

Budget	Receipts	Expenditure
Capital budget	Borrowings (market loans, small savings, external), recovery of loans, disinvestment	Acquisition of assets (roads, railways, machinery), loans to states and PSUs, repayment of debt

3.2 Sources of tax revenue

Canons of taxation (Adam Smith)

1. **Equity** – tax according to ability to pay.
2. **Certainty** – amount, time and manner certain.
3. **Convenience** – collected at convenient time and manner.
4. **Economy** – low cost of collection.

Later additions: productivity, elasticity, flexibility, simplicity, diversity.

Direct vs indirect taxes

Basis	Direct tax	Indirect tax
Impact and incidence	On the same person	Impact on one, incidence shifted to another
Examples	Income tax, corporation tax	GST, customs duty
Nature	Generally progressive	Generally regressive
Evasion	Easier to evade	Harder to evade (collected at transaction)
Equity	More equitable	Less equitable

- **Impact** – on the person who pays the tax to the government initially. **Incidence** – the final money burden.
- **Progressive tax** – rate increases with income; **proportional** – same rate; **regressive** – burden falls more on the poor.

Goods and Services Tax (GST)

GST, introduced on **1 July 2017** (101st Constitutional Amendment), is a destination-based tax on supply of goods and services, replacing many indirect taxes. Components: **CGST, SGST/UTGST, IGST**. The **GST Council** (Article 279A) chaired by the Union Finance Minister recommends rates. Under **GST 2.0** (from **22 September 2025**), the main slabs were rationalised to **5% and 18%**, with a special **40%** rate for luxury and sin goods (tobacco products continue at earlier rates plus compensation cess until it ends) and lower special rates for some items.

EXAM TIP Objectives of the Union Budget (5-mark answer)

(1) **Economic growth** – capital expenditure on infrastructure; (2) **reducing inequality** – progressive taxes, welfare spending; (3) **economic stability** – controlling inflation and deficits; (4) **allocation of resources** to priority sectors; (5) **employment generation**; (6) **balanced regional development**; (7) managing public enterprises.

Chapter 4: Indian Financial Markets

4.1 The financial ecosystem

Component	Examples
Financial institutions	Banks (commercial, cooperative, RRBs, small finance, payments banks), NBFCs, development financial institutions (NABARD, SIDBI, EXIM Bank, NHB, NaBFID), insurance companies, mutual funds, pension funds
Financial markets	Money market (≤ 1 year), capital market (> 1 year: equity and debt; primary and secondary), forex market, derivatives market, commodity market
Financial instruments	Primary securities (shares, bonds issued by ultimate borrowers), secondary securities (deposits, MF units, insurance policies issued by intermediaries); money market instruments; derivatives
Financial services	Merchant banking, underwriting, broking, depository, credit rating, leasing, factoring, venture capital, portfolio management, custodial services
Regulators	RBI, SEBI, IRDAI, PFRDA, IFSCA, IBBI; Ministry of Finance; FSDC

Formal and informal sectors

- **Formal (organised):** regulated institutions – banks, NBFCs, insurers, markets.
- **Informal (unorganised):** moneylenders, indigenous bankers (shroffs, chettiars), pawnbrokers, chit funds outside regulation, friends and relatives – high interest, no protection. Financial inclusion aims to bring people into the formal system.

Regulator	Established	Regulates
RBI	1 April 1935 (RBI Act 1934); nationalised 1949	Banks, NBFCs, money market, forex market, government securities, payment systems; monetary policy
SEBI	1988 (non-statutory); statutory under SEBI Act 1992	Capital market, stock exchanges, mutual funds, intermediaries; commodity derivatives since FMC merger (2015)
IRDAI	1999 (IRDA Act)	Insurance companies and intermediaries
PFRDA	2003 (statutory under PFRDA Act 2013)	NPS and pension funds; Atal Pension Yojana
IFSCA	2020	Financial services in International Financial Services Centres (GIFT City)
IBBI	2016	Insolvency professionals and processes under IBC
FSDC	2010; chaired by the **Finance Minister**	Coordination among regulators, financial stability

- **Functions of financial markets:** price discovery, mobilisation of savings, liquidity, reduction of transaction and information costs, risk sharing, efficient allocation of capital.

4.2 Money market and capital market

Basis	Money market	Capital market
Maturity	Up to 1 year	More than 1 year
Purpose	Working capital, liquidity	Fixed capital, long-term investment
Instruments	Call money, T-bills, CP, CD, repo	Shares, debentures, bonds, G-secs
Regulator	RBI	SEBI (equity, corporate bonds); RBI (G-secs)
Risk	Low	Higher
Participants	Banks, RBI, FIs, large corporates	Retail and institutional investors, companies
Market type	Mostly OTC / electronic platforms	Organised exchanges plus OTC
Return	Lower	Higher

WORKED EXAMPLE **Call money interest**

Bank A lends ₹50 crore overnight to Bank B at 6.6% per annum. Interest for one day = 50 crore × 6.6% × 1/365 = ₹90,411 (approx.). On a Friday, the loan runs for 3 days (to Monday), so interest = ₹2,71,233.

4.3 Banks and financial institutions

Type	Examples / features
Scheduled commercial banks	Public sector (12 PSBs), private sector, foreign banks, regional rural banks (RRBs), small finance banks, payments banks
Cooperative banks	Urban cooperative banks; state and district central cooperative banks; dual regulation reduced after the Banking Regulation (Amendment) Act 2020
Small finance banks	Serve small businesses, farmers, unorganised sector; 75% of adjusted net bank credit to priority sector
Payments banks	Accept deposits up to **₹2 lakh** per customer; no lending; e.g. Airtel Payments Bank, India Post Payments Bank
Development banks / AIFIs	**NABARD** (agriculture and rural development), **SIDBI** (MSMEs), **EXIM Bank** (exports), **NHB** (housing finance), **NaBFID** (2021, long-term infrastructure)
Local area banks	Small, local

Functions of commercial banks

Primary	Secondary
Accepting deposits – savings, current, fixed, recurring	Agency functions – collecting cheques, paying bills, acting as trustee
Lending – cash credit, overdraft, term loans, bill discounting	Utility functions – lockers, letters of credit, bank guarantees, forex, cards, digital payments
Credit creation – loans create deposits (money multiplier)	Distribution of insurance and mutual funds

WORKED EXAMPLE **Credit creation (simple multiplier)**

If banks keep 10% of deposits as reserves, an initial deposit of ₹1,000 can support total deposits of 1,000 ÷ 0.10 = ₹10,000 in the system. In practice cash leakage and CRR/SLR reduce the multiplier.

Institution	Key facts
IFCI	Industrial Finance Corporation of India – first development financial institution, set up in **1948** for long-term industrial finance
SIDBI	Small Industries Development Bank of India – set up **1990** under the SIDBI Act, 1989; HQ **Lucknow**; principal institution for promotion, financing and development of **MSMEs**; refinances banks and NBFCs; runs schemes such as Udyami Mitra and Stand-Up Mitra portals and the Fund of Funds for Start-ups
Regional Rural Banks (RRBs)	Set up from **1975** (RRB Act, 1976) to provide credit to small farmers, labourers and artisans; owned by the Central Government (50%), sponsor bank (35%) and State Government (15%)
Co-operative banks	Owned by members on "one member, one vote"; three-tier rural structure (state, district, primary societies) and urban co-operative banks; regulated by RBI and the Registrar of Co-operative Societies
NABARD	Apex bank for agriculture and rural development (1982)
IFSCA	International Financial Services Centres Authority – unified regulator for financial services in IFSCs (GIFT City, Gandhinagar), set up in **2020** under the IFSCA Act, 2019

4.4 NBFCs

A **Non-Banking Financial Company** is a company registered under the Companies Act engaged in lending, investment in securities, leasing, hire purchase, insurance business or chit business (but not primarily agriculture, industry, trading or real estate). It must register with the RBI (net owned fund requirement – ₹10 crore for most NBFCs, phased in by March 2027 under scale-based regulation; check latest).

Bank vs NBFC

Basis	Bank	NBFC
Demand deposits	Accepts	**Cannot** accept demand deposits
Cheques	Issues cheques drawn on itself	Cannot
Payment system	Part of it	Not part of it
Deposit insurance (DICGC)	Available (₹5 lakh)	Not available
CRR / SLR	Applicable	Not applicable (liquidity coverage ratio for large NBFCs)
Foreign investment	Limits apply	Up to 100% automatic for many activities

Scale-based regulation (from October 2022)

NBFCs are divided into **Base Layer** (asset size < ₹1,000 crore, non-deposit-taking), **Middle Layer** (deposit-taking NBFCs and others ≥ ₹1,000 crore; HFCs, IFCs), **Upper Layer** (identified by RBI on size and risk – stricter norms, mandatory listing within 3 years) and **Top Layer** (ideally empty; for very high risk). Types of NBFCs include investment and credit companies (NBFC-ICC), microfinance institutions (NBFC-MFI), infrastructure finance companies, core investment companies, housing finance companies, NBFC-Factors, account aggregators and peer-to-peer lending platforms.

4.5 Shares, debentures and other securities

Security	Meaning
Equity share	Ownership; variable dividend; voting rights; residual claim
Preference share	Fixed dividend; priority over equity in dividend and repayment
Debenture / bond	Debt instrument with fixed interest; secured or unsecured; convertible or non-convertible
Commercial paper, treasury bills	Short-term money-market instruments

4.6 Finance for MSMEs and start-ups

Since 1 July 2020 a single **composite criterion** of investment in plant and machinery (or equipment) **and** turnover applies to both manufacturing and service enterprises. The limits were revised with effect from **1 April 2025** (Union Budget 2025–26).

Category	Investment in plant & machinery / equipment (not more than)	Turnover (not more than)
Micro	₹2.5 crore	₹10 crore
Small	₹25 crore	₹100 crore
Medium	₹125 crore	₹500 crore

REMEMBER **Old vs new limits**

Earlier (2020) limits were Micro ₹1 crore / ₹5 crore, Small ₹10 crore / ₹50 crore, Medium ₹50 crore / ₹250 crore. Budget 2025–26 raised investment limits about 2.5 times and turnover limits 2 times. Exports are excluded when calculating turnover.

Udyam Registration

MSMEs register online on the **Udyam Registration portal** using Aadhaar, PAN and GSTIN details; registration is free and paperless and gives an Udyam Registration Number. The **Udyam Assist Platform** helps informal micro enterprises (without GST/PAN) register. Registration enables access to priority-sector lending, credit guarantee, protection against delayed payments and government procurement benefits.

Stage	Sources
Idea / pre-seed	Own savings, family and friends ("bootstrapping"), grants, seed fund
Seed	Angel investors, incubators, crowdfunding, seed-stage VCs
Early stage (Series A)	Venture capital
Growth (Series B, C...)	Larger VCs, private equity, venture debt

Stage	Sources
Maturity	IPO (main board or SME platforms of BSE and NSE), strategic sale

- **Angel investors:** wealthy individuals who invest their own money in early-stage firms.
- **Venture capital:** professionally managed funds investing in high-growth firms for equity; regulated by SEBI as Alternative Investment Funds (AIFs).
- **Crowdfunding:** raising small sums from many people online (reward or donation based; equity crowdfunding is restricted in India).
- **Bank loans and MUDRA, CGTMSE-backed loans** for MSMEs.

EXAM TIP Valuation terms

Pre-money valuation + investment = post-money valuation. If an investor puts ₹2 crore for 20% equity, post-money valuation = 2 ÷ 0.20 = ₹10 crore and pre-money valuation = ₹8 crore.

- **MSME initiatives:** Udyam registration; Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE); PM MUDRA Yojana (Shishu, Kishore, Tarun, Tarun Plus); Emergency Credit Line Guarantee Scheme; **TReDS** for bill discounting; MSME Samadhaan for delayed payments (payment within 45 days – Sec 43B(h) of the Income-tax Act); PM Vishwakarma; Self-Reliant India Fund VERIFY.

Chapter 5: Indian Economy

5.1 Features and sectors

India is a **mixed economy**, a developing economy with a large population, a dominant services sector in GDP, a large share of employment in agriculture, a demographic dividend (young population), a large informal sector, and fast growth (one of the fastest-growing major economies).

Sector	Activities	Approximate share in GVA VERIFY
Primary	Agriculture, forestry, fishing, mining	About 18% (agriculture and allied)
Secondary	Manufacturing, construction, electricity	About 27%
Tertiary (services)	Trade, transport, finance, real estate, IT, public administration	About 55%

5.2 Agriculture and agricultural policy

- Employs roughly **40–45%** of the workforce but contributes only about **16–18%** of GVA (check latest Economic Survey).
- **Green Revolution** (mid-1960s) – high-yielding variety seeds, fertilisers, irrigation; led by **M.S. Swaminathan**; mainly wheat and rice, Punjab–Haryana–western UP.
- Problems: small and fragmented holdings, dependence on monsoon, low productivity, lack of credit and marketing, post-harvest losses, indebtedness.
- Government measures: **Minimum Support Price (MSP)**, **PM-KISAN** (₹6,000 per year in three instalments), **PM Fasal Bima Yojana** (crop insurance), Kisan Credit Card, **e-NAM** (National Agriculture Market), Soil Health Card, PM Krishi Sinchai Yojana, FPOs (Farmer Producer Organisations).

5.3 Industry and industrial policy

- Industrial policy resolutions: **1948**, **1956** (public sector dominance – Schedules A, B, C), **1991** (liberalisation).
- **Make in India** (2014), **Production Linked Incentive (PLI)** schemes (2020 onwards) for electronics, pharma, automobiles, textiles, etc., **Start-up India**, **Atmanirbhar Bharat** (2020).
- Index of Industrial Production (**IIP**) measures industrial output (base 2011-12; check revision).
- Problems: infrastructure gaps, power, land acquisition, labour laws (now consolidated into **four labour codes**, in force from 21 November 2025), credit, regional concentration.

In **1991**, India faced a severe **balance of payments crisis** (foreign exchange reserves enough for only about two weeks of imports), high fiscal deficit, high inflation and a fall in remittances due to the Gulf war. The Government (PM P.V. Narasimha Rao, FM Dr Manmohan Singh) launched the **New Economic Policy** based on **Liberalisation, Privatisation and Globalisation (LPG)**.

Component	Measures
Liberalisation	Abolition of industrial licensing (except a few industries); reduction of reserved sectors for the public sector; MRTP restrictions removed (later Competition Act 2002); financial sector reforms (Narasimham Committee) – interest rate deregulation, lower CRR/SLR; tax reforms; FEMA replaced FERA
Privatisation	**Disinvestment** of government equity in PSUs; reduction of public sector monopoly; strategic sales; autonomy to PSUs (Navratna, Maharatna)
Globalisation	Reduction of import tariffs and quantitative restrictions; **rupee convertibility on current account** (1994); encouragement of FDI and FPI; long-term trade policy; joining the WTO (1995)

Impact of reforms

Positive: higher GDP growth, growth of services and IT, larger foreign exchange reserves, increase in FDI, greater competition and consumer choice, improvement in technology. **Criticisms**: neglect of agriculture, jobless growth in some periods, rising inequality, regional imbalance, informalisation of labour, vulnerability to global shocks.

5.4 Services sector

The **services (tertiary) sector** contributes **more than 50%** of India's GVA – trade, hotels, transport, communication, finance, real estate, IT and IT-enabled services, public administration, health and education. India

is a leading exporter of **software and business services**. Growth drivers: IT revolution, liberalisation, rising incomes, digital public infrastructure (**Aadhaar, UPI, DigiLocker, ONDC**).

5.5 Foreign trade and balance of payments

Trends and composition

- India's major exports: petroleum products, engineering goods, gems and jewellery, pharmaceuticals, electronic goods, textiles, chemicals, rice, and **software services**.
- Major imports: crude oil and petroleum, electronics, gold, coal, machinery, chemicals, edible oils.
- Major trading partners: USA, China, UAE, Saudi Arabia, EU countries.
- India usually has a **merchandise trade deficit** but a **services trade surplus**; **remittances** (India is the world's largest recipient) support the current account.

Balance of payments (BoP)

Account	Contents
Current account	Trade in goods (visible), services (invisibles), primary income (investment income), secondary income (remittances, grants)
Capital and financial account	FDI, FPI, external commercial borrowings, banking capital, NRI deposits, change in reserves

- **Balance of trade** = exports of goods – imports of goods.
- BoP always balances in accounting sense; a deficit/surplus refers to the balance before reserve changes.

Foreign Trade Policy and institutions

- **Foreign Trade Policy 2023** (from 1 April 2023) – no end date; focuses on incentives to remission (RoDTEP), export promotion through districts as export hubs, e-commerce exports, and rupee trade settlement.
- **DGFT** (Directorate General of Foreign Trade) administers trade policy; **EXIM Bank** finances exports; **ECGC** provides export credit insurance; Export Promotion Councils; **Special Economic Zones (SEZ Act, 2005)**.
- India is a founding member of the **WTO** (1 January 1995).
- **FEMA, 1999** replaced FERA, 1973 – violations are civil offences.
- **FDI**: automatic route for most sectors; government route for sensitive sectors; DPIIT policy.

> ⚠ COMMON MISTAKE **Do not write that NITI Aayog allocates funds to States – it is a think tank; funds are allocated through the Finance Commission and Union ministries.**

> EXAM TIP **For Indian economy questions, structure answers as: background → measures/policy → achievements → problems → suggestions. Quote approximate shares with "about" and the year of data.**

BoP account	Components
Current account	(a) **Trade in goods** (exports – imports = **trade balance**); (b) **invisibles** – services (IT, travel, transport), **primary income** (interest, dividends, wages), **secondary income** (remittances, grants)
Capital (and financial) account	Foreign investment (**FDI** and **FPI**), external loans (ECBs, external assistance), banking capital (NRI deposits), rupee debt service, other capital
Errors and omissions	Statistical discrepancy
Change in foreign exchange reserves	Balancing item (increase = use of surplus)

Basis	FDI (foreign direct investment)	FPI (foreign portfolio investment)
Nature	Long-term investment with **management control** or lasting interest (10% or more of equity of a listed company)	Investment in shares and bonds **without control** (below 10%)
Stability	Stable; not easily withdrawn	Volatile, "hot money"
Benefits	Brings technology, management skills, employment	Adds liquidity to stock and bond markets
Routes	Automatic route or government route	Through registration with SEBI

Chapter 6: Entrepreneurship Scenario in India

The word **entrepreneur** comes from the French word *entreprendre*, meaning "to undertake". An entrepreneur is a person who sees an opportunity, brings together land, labour and capital, bears risk and uncertainty, and creates a new business or a new way of doing things in the hope of profit and growth.

Entrepreneurship is the process or activity of creating and running such a venture – identifying opportunities, mobilising resources, innovating, taking calculated risks and building value.

Views of important thinkers

Thinker	View of the entrepreneur
Richard Cantillon	A risk-taker who buys at a known price and sells at an uncertain price
J.B. Say	An organiser who combines factors of production
Joseph Schumpeter	An **innovator** who carries out "new combinations" – creative destruction
Frank Knight	A bearer of **uncertainty** (non-insurable risk); profit is the reward
Peter Drucker	One who always searches for change, responds to it and exploits it as an opportunity; innovation is the specific tool
David McClelland	A person with a high **need for achievement** (n-Ach)
Israel Kirzner	One who is **alert** to unnoticed profit opportunities

REMEMBER Schumpeter's five new combinations

1. A new product. 2. A new method of production. 3. A new market. 4. A new source of raw material. 5. A new organisation of an industry (e.g. creating or breaking a monopoly).

6.1 Characteristics of an entrepreneur

- **Need for achievement** – strong desire to excel.
- **Calculated risk-taking** – neither gambler nor overly cautious.
- **Innovation and creativity** – new ideas, products and methods.
- **Vision and foresight** – seeing future trends.
- **Self-confidence and internal locus of control** – believes outcomes depend on own effort.
- **Initiative and hard work** – acts without waiting.
- **Leadership and team building** – motivates employees and partners.
- **Decision-making ability** – quick and sound decisions under uncertainty.
- **Flexibility** – adapts the plan when the market changes.
- **Persistence (perseverance)** – does not give up after failure.
- **Resource mobilisation** – arranges finance, people and technology.
- **Networking and communication** – builds relations with customers, investors and government.

6.2 Start-up ecosystem and government initiatives

Startup India was launched on **16 January 2016** by the Government of India to build a strong start-up ecosystem. It is run by the **Department for Promotion of Industry and Internal Trade (DPIIT)**.

Who is a start-up (DPIIT definition, in brief)

- Incorporated as a private limited company, registered partnership firm or LLP.
- Up to **10 years** from the date of incorporation.
- Annual turnover not above **₹100 crore** in any financial year since incorporation.
- Working towards innovation, development or improvement of products, processes or services, or a scalable business model with high potential for employment or wealth creation.
- Not formed by splitting up or reconstructing an existing business.

> **NOTE** **Check the latest DPIIT notification**
>
> The turnover limit and other criteria are revised from time to time by DPIIT notification. Quote the latest figure in your exam and mention that recognition is given through the Startup India portal.

Benefits under Startup India

Area	Benefit
Recognition	Online registration on the Startup India portal
Self-certification	Self-certification under specified labour and environment laws for a period
Tax	Eligible start-ups may claim a 3-year profit-linked income-tax holiday out of their first 10 years (with Inter-Ministerial Board certification); angel tax relief
IPR	Fast-tracking of patent applications and rebates on patent/trademark fees; facilitators
Public procurement	Relaxation of prior experience and turnover criteria in government tenders
Winding up	Faster exit under the Insolvency and Bankruptcy Code for eligible start-ups
Funding	**Fund of Funds for Startups (FFS)** managed by SIDBI; **Startup India Seed Fund Scheme (SISFS)**; Credit Guarantee Scheme for Startups (CGSS)
Networking	Startup India Hub, mentorship, challenges, National Startup Awards

16 January is celebrated as **National Startup Day** in India.

Initiative	Key points
Skill India Mission (2015)	Launched 15 July 2015 (World Youth Skills Day); PM Kaushal Vikas Yojana (PMKVY), National Skill Development Corporation (NSDC), National Apprenticeship Promotion Scheme, Skill India Digital Hub (2023); aims to make youth job-ready and entrepreneurial
Make in India (2014)	Promote manufacturing and investment; PLI schemes (production-linked incentives)
Stand-Up India (2016)	Bank loans ₹10 lakh–₹1 crore to SC/ST and women entrepreneurs for greenfield enterprises
Atal Innovation Mission	Atal Tinkering Labs in schools, Atal Incubation Centres (NITI Aayog)
Digital India	Digital infrastructure, services and literacy

Chapter 7: Business Environment

Business environment = the sum of all **external and internal factors** that affect a firm's working.

Type	Includes
Internal environment	Objectives, management, employees, culture, resources (controllable)
External – micro (task/operating)	**Suppliers**, customers, competitors, marketing intermediaries, financiers, public – directly linked with the firm
External – macro (general)	Political, economic, social, technological, environmental (natural), legal, demographic, global – affect all firms

WORKED EXAMPLE **A firm outsourcing its components depends on the supplier part of its micro environment; a new data-protection law is a legal macro factor; changing food habits are socio-cultural.**

7.1 Economic, legal and other environments

Factor	Examples
Political	Government stability, tax policy, trade policy, subsidies, FDI policy
Economic	GDP growth, inflation, interest rates, exchange rates, unemployment
Social (socio-cultural)	Population, age structure, education, lifestyle, religion, attitudes
Technological	Automation, digitalisation, AI, R&D, rate of obsolescence
Environmental	Climate change, pollution norms, waste disposal, sustainability, weather
Legal	Company law, labour law, consumer protection, competition law, health and safety

EXAM TIP **PESTEL is a macro-environment scanning tool; it helps a firm spot opportunities and threats (the O and T of SWOT).**

- **Economic environment:** economic system, growth, inflation, interest rates, fiscal and monetary policy, foreign trade policy, income levels. **Legal environment:** laws governing business – Companies Act, contract law, consumer protection, competition, labour codes, environment laws, IBC.
- **Auxiliaries to trade** (services that remove hindrances of trade): **banking** (finance), **insurance** (risk), **transport** (place), **warehousing** (time), **communication**, **advertising** (information) and packaging.

7.2 Ease of Doing Business

Topic	Key points
World Bank **Doing Business** report	Ranked 190 economies on 10 parameters (starting a business, construction permits, electricity, property registration, credit, minority investors, taxes, trading across borders, contracts, insolvency); India rose from **142nd (2015) to 63rd (2020)**; the report was **discontinued in 2021** after data irregularities
World Bank **B-READY** (Business Ready)	Replacement, first report in October 2024, assessing regulatory framework, public services and operational efficiency VERIFY
DPIIT state rankings – Business Reforms Action Plan (BRAP)	Since 2015 the Department for Promotion of Industry and Internal Trade ranks states and UTs on implementation of reforms (single window, land, labour, environment, inspection); recent editions classify states as **Top Achievers, Achievers, Aspirers and Emerging Business Ecosystems** VERIFY
Reforms	Jan Vishwas (Amendment of Provisions) Act, 2023 – decriminalisation of minor offences; National Single Window System; SPICe+ incorporation; IBC 2016; GST

Chapter 8: Institutions for Business

Institution	Established	Key role
NITI Aayog (National Institution for Transforming India)	1 January 2015, replaced the Planning Commission	Policy think tank of the Government; chaired by the Prime Minister; Governing Council of all Chief Ministers and UT Lt. Governors; promotes **cooperative and competitive federalism**; SDG India Index, Aspirational Districts Programme, Atal Innovation Mission, Export Preparedness Index
Ministry of Corporate Affairs (MCA)	–	Administers the Companies Act 2013, LLP Act 2008, Competition Act 2002 and IBC 2016; MCA21 e-governance portal; Registrars of Companies
SEBI	1988; statutory under the SEBI Act, 1992; HQ Mumbai	Protects investors, develops and regulates the securities market; powers – **regulatory** (regulations, registration), **investigative** (inspection, search, seizure), **quasi-judicial** (penalties, orders, disgorgement)
RBI	1 April 1935; nationalised 1949	Central bank; monetary policy (MPC – inflation target 4% ± 2%); regulator of banks and NBFCs; issuer of currency; banker to government; manager of foreign exchange (FEMA)
IBBI (Insolvency and Bankruptcy Board of India)	1 October 2016 under the IBC, 2016	Regulates insolvency professionals, insolvency professional agencies and information utilities; frames regulations on the insolvency process
CCI (Competition Commission of India)	2003 under the Competition Act, 2002 (fully functional 2009)	Prevents anti-competitive agreements and abuse of dominant position; regulates combinations (mergers)
NCLT (National Company Law Tribunal)	1 June 2016 under Sec 408 of the Companies Act, 2013	Company law disputes, oppression and mismanagement, mergers, and adjudicating authority for corporate insolvency under the IBC
NCLAT (National Company Law Appellate Tribunal)	2016 under Sec 410	Appeals against NCLT and CCI orders and IBBI orders; appeal from NCLAT lies to the **Supreme Court**

EXAM TIP **NITI Aayog – principles to remember**

Team India approach; cooperative federalism; bottom-up planning (village to national); knowledge and innovation hub; inclusive, sustainable development; "Antyodaya" – reaching the last person; transparency and use of technology.

8.1 Social Stock Exchange and digital rupee

- **Social Stock Exchange (SSE):** a separate segment of a recognised stock exchange (framework by SEBI, 2022) where **not-for-profit organisations and for-profit social enterprises** raise funds; NPOs can issue **Zero Coupon Zero Principal (ZCZP)** instruments; requires annual impact reporting. The NSE SSE saw its first listing in 2023 VERIFY.
- **Digital currency (e-rupee / CBDC):** legal tender in digital form issued by the RBI; wholesale pilot from 1 November 2022 and retail pilot from 1 December 2022; differs from crypto-assets, which are not legal tender in India.

Chapter 9: Global Institutions

The **WTO** was established on **1 January 1995** under the Marrakesh Agreement. Headquarters: **Geneva, Switzerland**. It has about 166 members (check latest). India is a founding member. Unlike GATT, the WTO is a permanent organisation with legal standing and covers goods, services and intellectual property.

Objectives

- Raise standards of living and ensure full employment.
- Expand production and trade in goods and services.
- Promote sustainable development and optimal use of resources.
- Ensure developing countries get a fair share of growth in trade.

Functions

- Administering WTO trade agreements.
- Forum for trade negotiations.
- Settling trade disputes (**Dispute Settlement Body**; the Appellate Body has been non-functional since 2019 because members have not appointed judges).
- Monitoring national trade policies (**Trade Policy Review Mechanism**).
- Technical assistance and training for developing countries.
- Cooperation with IMF and World Bank.

Principles of the WTO trading system

Principle	Meaning
Most Favoured Nation (MFN)	A concession given to one member must be given to all members (non-discrimination)
National treatment	Imported goods, once in the market, must be treated no less favourably than domestic goods
Freer trade	Gradual reduction of barriers through negotiation
Predictability	Binding commitments and transparency
Fair competition	Rules against dumping and subsidies
Special and differential treatment	More time and flexibility for developing countries

Major WTO agreements

- **GATT 1994** – trade in goods.
- **GATS** – General Agreement on Trade in Services.
- **TRIPS** – Trade-Related Aspects of Intellectual Property Rights.
- **TRIMs** – Trade-Related Investment Measures.
- **AoA** – Agreement on Agriculture (amber, blue and green box subsidies).
- **SPS and TBT** – sanitary/phytosanitary measures and technical barriers to trade.
- **Anti-dumping, subsidies and safeguards agreements.**
- **Trade Facilitation Agreement (2017).**

Ministerial Conferences

The Ministerial Conference is the highest decision-making body and meets usually every two years. Recent ones: MC12 Geneva (2022), MC13 Abu Dhabi (2024). MC14 is scheduled in Cameroon (2026) – check the latest outcome.

India and the WTO

- Benefits: market access, rule-based system, dispute settlement.
- Concerns: agricultural subsidies and public stockholding for food security, TRIPS and medicine prices, e-commerce duties, fisheries subsidies.

The **IMF** was set up at the **Bretton Woods Conference (1944)** and began operations in **1947**. Headquarters: **Washington, D.C.** It has 190 member countries (191 if counting the latest admission – check). India is a founding

member.

Objectives

- Promote international monetary cooperation.
- Facilitate balanced growth of international trade.
- Promote exchange-rate stability.
- Help establish a multilateral system of payments.
- Provide resources to members facing balance of payments problems.

Functions

- **Surveillance** of members' economic policies (Article IV consultations, World Economic Outlook).
- **Lending** to members with BoP problems – Stand-By Arrangements, Extended Fund Facility, Rapid Financing Instrument, etc., with policy conditions.
- **Capacity development** – technical assistance and training.
- **Special Drawing Rights (SDR):** an international reserve asset created in 1969, valued on a basket of five currencies – US dollar, euro, Chinese renminbi, Japanese yen and British pound.
- **Quota system:** each member's quota decides its subscription, voting power and access to finance.

WORKED EXAMPLE **India and the IMF in 1991**

During the 1991 balance of payments crisis, India's foreign-exchange reserves fell to cover only a few weeks of imports. India pledged gold and borrowed from the IMF, and launched economic reforms. India has not needed IMF lending since then.

The **International Bank for Reconstruction and Development (IBRD)** – the World Bank – was also set up at Bretton Woods in 1944 and started in 1946. Headquarters: **Washington, D.C.** Initially it financed post-war reconstruction of Europe; now it focuses on development and poverty reduction.

Five institutions of the World Bank Group

Institution	Year	Role
IBRD	1944	Loans to middle-income and creditworthy low-income countries
IDA (International Development Association)	1960	Interest-free or low-interest loans and grants to the poorest countries ("soft loans")
IFC (International Finance Corporation)	1956	Finances private-sector projects
MIGA (Multilateral Investment Guarantee Agency)	1988	Political-risk insurance for foreign investors
ICSID (International Centre for Settlement of Investment Disputes)	1966	Settles investment disputes between governments and foreign investors

The **World Bank** in narrow sense = IBRD + IDA.

Functions

- Long-term loans for infrastructure, education, health, agriculture.
- Policy advice and research (World Development Report).
- Technical assistance.
- Promoting private investment.

Institution	Year / HQ	Role
Asian Development Bank (ADB)	1966, Manila	Loans, grants and technical aid to Asia-Pacific developing countries; India is a founding member and a large borrower
OECD	1961, Paris	Forum of mostly advanced economies for policy coordination (tax – BEPS, governance principles); India is a key partner, not a member
EBRD (European Bank for Reconstruction and Development)	1991, London	Promotes market economies in central and eastern Europe, Central Asia, MENA; India became a member in 2018
OPEC	1960 (Baghdad), HQ Vienna	Organisation of oil-exporting countries coordinating petroleum policies; OPEC+ includes Russia and others

Institution	Year / HQ	Role
AIIB	2016, Beijing	Infrastructure finance in Asia; India is the second-largest shareholder
New Development Bank (BRICS)	2015, Shanghai	Infrastructure and sustainable development in BRICS and other emerging economies
IFC and **IDA**	IFC 1956; IDA 1960	IFC – private-sector financing; IDA – soft loans to the poorest countries (World Bank Group)

Chapter 10: Environmental Governance

10.1 National Guidelines on Responsible Business Conduct (NGRBC)

Issued by the **MCA in 2019** (replacing the 2011 National Voluntary Guidelines), the NGRBC has **nine principles** – businesses should:

P	Principle
1	Conduct and govern themselves with **integrity**, in an ethical, transparent and accountable manner
2	Provide goods and services in a manner that is **sustainable and safe**
3	Respect and promote the **well-being of all employees**, including those in the value chain
4	Respect the interests of and be responsive to **all stakeholders**
5	Respect and promote **human rights**
6	Respect and make efforts to protect and restore the **environment**
7	When engaging in influencing **public and regulatory policy**, do so in a responsible and transparent manner
8	Promote **inclusive growth** and equitable development
9	Engage with and provide value to their **consumers** in a responsible manner

10.2 Government of India and SEBI initiatives

Initiative	Key points
BRSR (Business Responsibility and Sustainability Report)	SEBI requires the **top 1,000 listed companies** by market capitalisation to file BRSR (from FY 2022-23) as part of the annual report; structured on the nine NGRBC principles; **BRSR Core** – key ESG indicators with reasonable assurance, phased in for the largest companies VERIFY
Carbon Credit Trading Scheme (CCTS), 2023	Notified under the Energy Conservation Act, 2001 (amended 2022) to create the **Indian Carbon Market**; obligated entities get emission-intensity targets and trade carbon credit certificates; administered by the **Bureau of Energy Efficiency**; also an offset mechanism for voluntary projects VERIFY
Green Credit Programme (2023)	Market-based incentive for voluntary environmental actions such as tree plantation and water conservation
Mission LiFE (Lifestyle for Environment)	Mass movement for sustainable consumption, launched 2022
National Action Plan on Climate Change (2008)	Eight national missions (solar, energy efficiency, sustainable habitat, water, Himalayan ecosystem, green India, sustainable agriculture, strategic knowledge)
CSR – Sec 135	2% of average net profit for qualifying companies; environment sustainability is a Schedule VII activity
India's targets VERIFY	Net zero by **2070**; 500 GW non-fossil capacity by 2030; reduce emissions intensity of GDP by 45% from 2005 level by 2030

10.3 International initiatives

Initiative	Key points
UNFCCC (1992)	Framework convention on climate change; annual COPs
Kyoto Protocol (1997)	Binding targets for developed countries; carbon markets (CDM)
Paris Agreement (2015)	Limit warming well below 2°C, aim for 1.5°C; Nationally Determined Contributions (NDCs)
UN Sustainable Development Goals (2015)	17 goals to be achieved by 2030
UN Global Compact	Ten principles on human rights, labour, environment and anti-corruption
ISSB / GRI standards	Global sustainability-reporting standards

Chapter 11: Artificial Intelligence and Business

- **Artificial intelligence (AI)** is the ability of machines and software to perform tasks that normally need human intelligence – learning, reasoning, understanding language, recognising images and making decisions. **Generative AI** creates new text, images, code or audio (e.g., chatbots).

Business area	Uses of AI
Customer service	Chatbots and virtual assistants, 24 × 7 support
Marketing	Personalised recommendations, targeted advertising, sentiment analysis
Finance	Fraud detection, credit scoring, algorithmic trading, automated accounting
Operations	Demand forecasting, inventory and supply-chain optimisation, predictive maintenance
HR	Résumé screening, attendance, employee analytics
Compliance and law	Contract review, regulatory tracking (RegTech), drafting

Opportunities	Challenges
Higher productivity and lower cost	Job displacement and need for reskilling
Better, faster decisions from data	Bias and discrimination in algorithms
New products and business models	Data privacy and cyber security (DPDP Act, 2023)
Improved customer experience	High cost of implementation for MSMEs
Inclusion – vernacular and voice tools	Errors ("hallucinations"), deepfakes and misuse
Global competitiveness	Accountability, transparency and ethics; lack of regulation

- **India's initiatives: IndiaAI Mission** (approved March 2024, about ₹10,372 crore – computing capacity, datasets, start-up funding, skilling) VERIFY; NITI Aayog's "AI for All" and Responsible AI principles; Digital Personal Data Protection Act, 2023. **Global:** EU AI Act (2024) – risk-based regulation; OECD AI Principles.

Chapter 12: Corporate Governance

12.1 Meaning and genesis

Corporate governance is the **system of rules, practices and processes by which a company is directed and controlled**. Its aim is to balance the interests of shareholders, management, customers, suppliers, financiers, government and the community.

- **Cadbury Committee (UK, 1992)**: "Corporate governance is the system by which companies are directed and controlled."
- **OECD/G20 Principles of Corporate Governance** (revised 2023): shareholders' rights, equitable treatment, role of stakeholders, disclosure and transparency, responsibilities of the board, and sustainability and resilience.

Pillars / principles of good governance

Accountability, transparency, fairness, responsibility, independence, and ethical conduct.

Need and importance

Separation of ownership and management (the **agency problem**); protection of minority shareholders; investor confidence and lower cost of capital; preventing scams (Satyam, Enron, IL&FS); global integration; better performance and sustainability.

Agency theory

Jensen and Meckling (1976): shareholders (principals) appoint managers (agents) who may pursue their own interests. Governance tools align interests: independent boards, audits, disclosures, performance-linked pay and the market for corporate control. In India the main issue is often the **principal–principal conflict**, i.e. promoters vs minority shareholders.

- **Roots in ancient Indian thought:** Kautilya's **Arthashastra** – the king (manager) is a trustee whose happiness lies in the happiness of his subjects; strict accounting, audit and punishment for embezzlement; the **Bhagavad Gita** – duty (*karma*) without selfish motive; the **Vedas** and **Upanishads** – truth (*satya*) and righteousness (*dharma*); **Thirukkural** – ethical wealth creation.

12.2 Models of corporate governance

Model	Countries	Features
Anglo-American (outsider) model	USA, UK	Dispersed shareholding; market-based control; **unitary board** with independent directors; shareholder primacy; strong disclosure
German (two-tier) model	Germany	**Supervisory board** (includes employee representatives – co-determination) supervises the **management board**; banks are major stakeholders
Japanese (keiretsu) model	Japan	Cross-shareholdings among group companies; banks play a key role; insider boards; consensus
Indian model	India	Mixed. Unitary board as in the Anglo-American model, but **concentrated promoter/family ownership** and business groups; strong regulation by the Companies Act, SEBI LODR, RBI and IRDAI

Theories: agency theory, **stewardship theory** (managers are trustworthy stewards), **stakeholder theory**, resource dependency theory.

12.3 Evolution in India and legal framework

Year	Development
1998	CII Code on Desirable Corporate Governance (voluntary)
1999–2000	**Kumar Mangalam Birla Committee** (SEBI), which led to **Clause 49** of the Listing Agreement
2002	Naresh Chandra Committee (auditor–company relationship)
2003	**N.R. Narayana Murthy Committee** (SEBI), which strengthened Clause 49
2009	Satyam scam; CII task force and the MCA's Voluntary Guidelines

Year	Development
2013	**Companies Act, 2013** with detailed governance provisions
2015	**SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR)** replaced the listing agreement
2017	**Uday Kotak Committee** on corporate governance, many of whose recommendations went into LODR in 2018
2021 onwards	**BRSR** (Business Responsibility and Sustainability Report), BRSR Core with assurance for top listed companies in phases

Law / regulation	Governance provisions
Companies Act, 2013	Independent directors (Sec 149, Schedule IV), woman director, audit committee (Sec 177), nomination and remuneration committee (Sec 178), stakeholders' relationship committee, CSR (Sec 135), secretarial audit (Sec 204), vigil mechanism, related-party transactions (Sec 188)
SEBI (LODR) Regulations, 2015	Board composition and committees (Reg 17–27), related-party policy, **corporate governance report** in the annual report (Schedule V) and **quarterly compliance report** to stock exchanges (Reg 27(2)), BRSR (Reg 34(2)(f))
Secretarial Standards (ICSI)	SS-1 (board meetings), SS-2 (general meetings)

12.4 Governance mechanisms, reporting and ESG

- **Internal financial controls** (Sec 134(5)(e)) and the auditor's report on them (Sec 143(3)(i)).
- **Proxy advisory firms** and stewardship codes for institutional investors (SEBI 2019).
- **Shareholder democracy**: e-voting, postal ballot, class action.
- **Whistle-blower policy** and vigil mechanism.
- **CARO 2020** reporting by auditors on specific matters.

> EXAM TIP Remember the key numbers: **one-third IDs** (Companies Act, listed), **half IDs** if the chair is executive or a promoter (LODR), **two-thirds independent audit committee** (LODR), **4 board meetings with a 120-day gap**, and **2 terms of 5 years** for IDs.

Sustainable development (Brundtland Report, 1987): "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

UN Sustainable Development Goals (SDGs)

17 goals with 169 targets, adopted in 2015 for the period to **2030** (no poverty, zero hunger, good health, quality education, gender equality, clean water, affordable clean energy, decent work, industry and innovation, reduced inequalities, sustainable cities, responsible consumption, climate action, life below water, life on land, peace and justice, partnerships). NITI Aayog publishes the **SDG India Index**.

ESG and sustainability reporting in India

- **Business Responsibility and Sustainability Report (BRSR)**: mandatory for the **top 1,000 listed companies** by market capitalisation from 2022-23 (Reg 34(2)(f)). It is based on the **nine principles of the National Guidelines on Responsible Business Conduct (NGRBC, 2019)**.
- **BRSR Core**: a set of key ESG indicators (GHG emissions, water, energy, waste, gender diversity, etc.) with **reasonable assurance** for the top listed companies, phased in from 2023-24. Value-chain ESG disclosures are phased in later. Check SEBI's latest timelines.
- **ESG ratings providers** are regulated by SEBI (2023). There are ESG mutual fund schemes, and SEBI has issued green debt securities and greenwashing guidelines.
- **Integrated reporting** (IIRC) and the **ISSB standards (IFRS S1, S2)**: global sustainability disclosure standards that India is considering.

Nine NGRBC principles (summary)

1. Ethics, transparency and accountability.
2. Safe and sustainable goods and services.
3. Employee well-being.

4. Respect for stakeholders.
5. Human rights.
6. Protect and restore the environment.
7. Responsible public policy advocacy.
8. Inclusive growth and equitable development.
9. Value to consumers responsibly.

Climate initiatives

India's target of **net zero by 2070** (Panchamrit, COP26). The **Carbon Credit Trading Scheme, 2023** is being implemented through compliance and offset mechanisms, and there is Mission LiFE (Lifestyle for Environment). Companies adopt renewable energy, energy efficiency, circular economy, water positivity and science-based targets.

WORKED EXAMPLE **CSR and sustainability in practice**

Tata Steel runs health, education and livelihood programmes around Jamshedpur. ITC claims to be carbon, water and solid-waste-recycling positive. Infosys Foundation supports education and health care. These firms disclose CSR spends in their annual reports and ESG data in their BRSR.

EXAM TIP In CSR answers, always write the **three thresholds** (₹500 cr / ₹1,000 cr / ₹5 cr), the **2% of average net profit of 3 years** rule, and the **Unspent CSR Account (30 days, 3 years)** and **Schedule VII fund (6 months)** rules. These are the most examined points.

12.5 Failures and lessons

Case	Year	What went wrong	Lesson
Satyam Computer Services	2009	Chairman confessed to inflating cash and profits by about ₹7,000 crore	Independent directors and auditors must question; led to reforms in the Companies Act, 2013
IL&FS	2018	Debt defaults of a large infrastructure lender; weak board oversight	Monitoring of systemic NBFCs; board accountability
Enron (USA)	2001	Off-balance-sheet entities hid debt; auditor Arthur Andersen collapsed	Sarbanes-Oxley Act, 2002
Lehman Brothers (USA)	2008	Excessive risk and leverage	Risk management and board risk committees

12.6 Institutions and stewardship

- **Institutions:** ICSI (governance professionals; ICSI National Awards for Excellence in Corporate Governance), SEBI, MCA, **National Foundation for Corporate Governance** (NFCG, set up by the MCA with CII, ICAI and ICSI), Indian Institute of Corporate Affairs (IICA – independent directors' databank).
- **Stewardship:** institutional investors (mutual funds, insurers, pension funds) should actively monitor investee companies, vote responsibly and engage on governance issues. **SEBI's Stewardship Code** (2019–20) has six principles: (1) a policy on stewardship responsibilities, (2) managing conflicts of interest, (3) monitoring investee companies, (4) intervention and collaboration, (5) a voting policy and disclosure of voting, (6) periodic reporting of stewardship activities. ICSI has also issued **guiding principles on stewardship** for its members VERIFY.