MANAGERIAL ECONOMICS

Nature and Scope of Macroeconomics – Part I

ITM BUSINESS SCHOOL
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Topic 3

Introduction

Modern economics has two major branches of economic studies — Microeconomics and Macroeconomics.

Compared to microeconomics, macroeconomics is a relatively new branch of economics.

Until the Great Depression of the 1930s, the scope of economics science was essentially limited to what is now called Microeconomics

Macroeconomics as a separate branch of economics came into existence in 1936, the year in which John Maynard Keynes published his revolutionary book, ***The General Theory of Employment, Interest and Money***. This book laid the foundation of Macroeconomics.

The growth of literature on Keynesian economics and empirical verification and application of Keynesian theories over three decades after the publication of Keynes's General Theory culminated into the emergence of macroeconomics.

Introduction

The two branches of modern economics analyze economic phenomena and investigate into economic issues at two different levels.

While microeconomics analyses economic behaviour of the individual decision-making entities (households and firms) and price determination of individual goods and services,

Macroeconomics deals with economic issues at the level of economy as a whole, e.g., issues related with the determination of total production, total consumption, total employment of resources (labour and capital), economic growth, the general price level, business cycles and economic stabilization at both national and international levels.

What is Macroeconomics ?

P. A. Samuelson: *"Macroeconomics is the study of the behaviour of the economy as a whole. It examines the overall level of a nation's output, employment, prices, and foreign trade."*

Aggregate Consumption, Savings and Investment

Price Level

Aggregate Economic Variables

National Output

Aggregate Employment

What is Macroeconomics ?

The central theme that emerges from the above definitions may be stated as follows.

Macroeconomics is essentially the study of the behaviour and performance of the economy as a whole.

More importantly, it studies the relationship and interaction between the 'factors or forces' that determine the level and growth of national output and employment, general price level and the balance of payments positions of an economy.

What is Macroeconomics ?

The subject matter of macroeconomics look at the kinds of questions that macroeconomics seeks to answer.

- What determines the levels of **economic activities, total output and employment** in a country'?
- How is the **equilibrium** level of **national income** determined?
- What causes **fluctuations** in the **national output and employment**?
- What determines the **general level of prices** in a country?
- What determines the level of **foreign trade and trade balance**?
- What causes **disequilibrium** in the **balance of payments** of a country?
- How do the **monetary and fiscal policies** of the government affect the economy?
- What **economic policies** can steer the economy on the path of growth?

These are some major theoretical questions that macroeconomics seeks to answer.

Nature of Macroeconomics:
Is Macroeconomics a Theoretical Science or a Policy Science?

Positive Orientation

(Theoretical)

- *Building Analytical Models*
- *Formulation of Theories of income, growth, employment and price level*

Normative Orientation

(Policy)

- *Determining Policy Objectives*
- Formulation of macroeconomic policies
- Evaluation of macroeconomic policies

Nature of Macroeconomics: Is Macroeconomics a Theoretical Science or a Policy Science?

Macroeconomics has both theoretical and policy orientations

Macroeconomic theories use macroeconomic models to explain the behaviour of macroeconomic variables and specify the nature of relationship between them in a logical way and orderly fashion.

The most important aspect of macroeconomic theories is that they provide framework and analytical tools to analyse the macroeconomic phenomena.

Macroeconomic theories explaining the determination of national income, aggregate level of consumption, saving and investment, employment and growth rate, behaviour of the general price-level, determination of product-and-money market equilibrium, exchange rate and balance of payments constitute the main body of theoretical macroeconomics.

Nature of Macroeconomics:
Is Macroeconomics a Theoretical Science or a Policy Science?

Macroeconomics has both theoretical and policy orientations

Macroeconomic theories, though nor perfect, do provide a great deal of understanding of and insight into the working of the economy and factors and forces that cause adverse or undesirable effects on the economy.

A clear understanding of macroeconomic dynamics is a necessary condition for the formulation of appropriate macroeconomic policies to achieve predetermined goals.

As regards its policy orientation, macroeconomics provides a sound theoretical framework for investigating the causes and effects of economic problems—unemployment, inflation, recession and depression, stagflation, etc.—and helps in finding appropriate policy measures to solve the problem.

Nature of Macroeconomics:
Is Macroeconomics a Theoretical Science or a Policy Science?

Macroeconomics has both theoretical and policy orientations	Also, macroeconomics analyses the working and effectiveness of macroeconomic policies, especially the monetary and fiscal policies, on the economy. The knowledge of working and efficacy of these policies are extremely useful in devising appropriate policy measures for controlling and regulating the economy to achieve the desired goals.
	In fact, the policy aspect of macroeconomic studies assumes such a great importance that in the opinion of some economists, "Macroeconomics is first and fore-most a policy science". Macroeconomics as a policy science provides a framework and instruments for restructuring the economy and guiding it on the path of growth and stability
	It is perhaps for this reason that some economists consider macroeconomics as 'an applied science'.

Microeconomics Vs. Macroeconomics

Examples of Microeconomic and Macroeconomic Concerns

Division of Economics	Production	Prices	Income	Employment
Microeconomics	*Production/output in individual industries and businesses* How much steel How much office space How many cars	*Prices of individual goods and services* Price of medical care Price of gasoline Food prices Apartment rents	*Distribution of income and wealth* Wages in the auto industry Minimum wage Executive salaries Poverty	*Employment by individual businesses and industries* Jobs in the steel industry Number of employees in a firm Number of accountants
Macroeconomics	*National production/output* Total industrial output Gross domestic product Growth of output	*Aggregate price level* Consumer prices Producer prices Rate of inflation	*National income* Total wages and salaries Total corporate profits	*Employment and unemployment in the economy* Total number of jobs Unemployment rate

Microeconomics Vs. Macroeconomics

The first distinction between the two branches of economics is made on the basis of the unit of study.

Microeconomics studies economic behaviour of individual decision-making units (individuals, households and firms) and how price of an individual product is determined in the market.

It analyses how an individual household decides on what to consume, how much of it to consume and how to allocate its total consumption expenditure on various. goods and services so that its total utility is maximized-, it analyses how individual firms decide & on what to produce and how to price its product so that its total profit is maximized, given its resources.

Microeconomics Vs. Macroeconomics

The first distinction between the two branches of economics is made on the basis of the unit of study.

Also, microeconomics analyses the working of markets for individual goods or services and explains how individual prices are determined in the market. In addition, it explains how inter-firm and inter-industry shift of resources—labour and/or capital affects the firm's and the industry's output.

In simple words, microeconomics takes a microscopic view of economic system and studies how the system works at the micro level.

According to Lerner, Microeconomics consists of looking at the economy through a microscope, as it were, to see how the millions of cells in the body economic—the individuals or households as consumers, and the individuals or firms as producers—play their pan in the working of the whole economic organism".

Microeconomics Vs. Macroeconomics

- In contrast, the unit of study in macroeconomics is the economy as a whole. Macroeconomics is concerned with the nature, relationships and the behaviour of such economic aggregates as national income, total consumption expenditure, savings and investment, total employment, and the general price level.

- As Economist Boulding has put it, "Macroeconomics.... deals not with individual quantities as such, but aggregate of these quantities—not with individual incomes, but with the national income, not with individual prices, but with the [general] price level, not with individual output. but with the national output“.

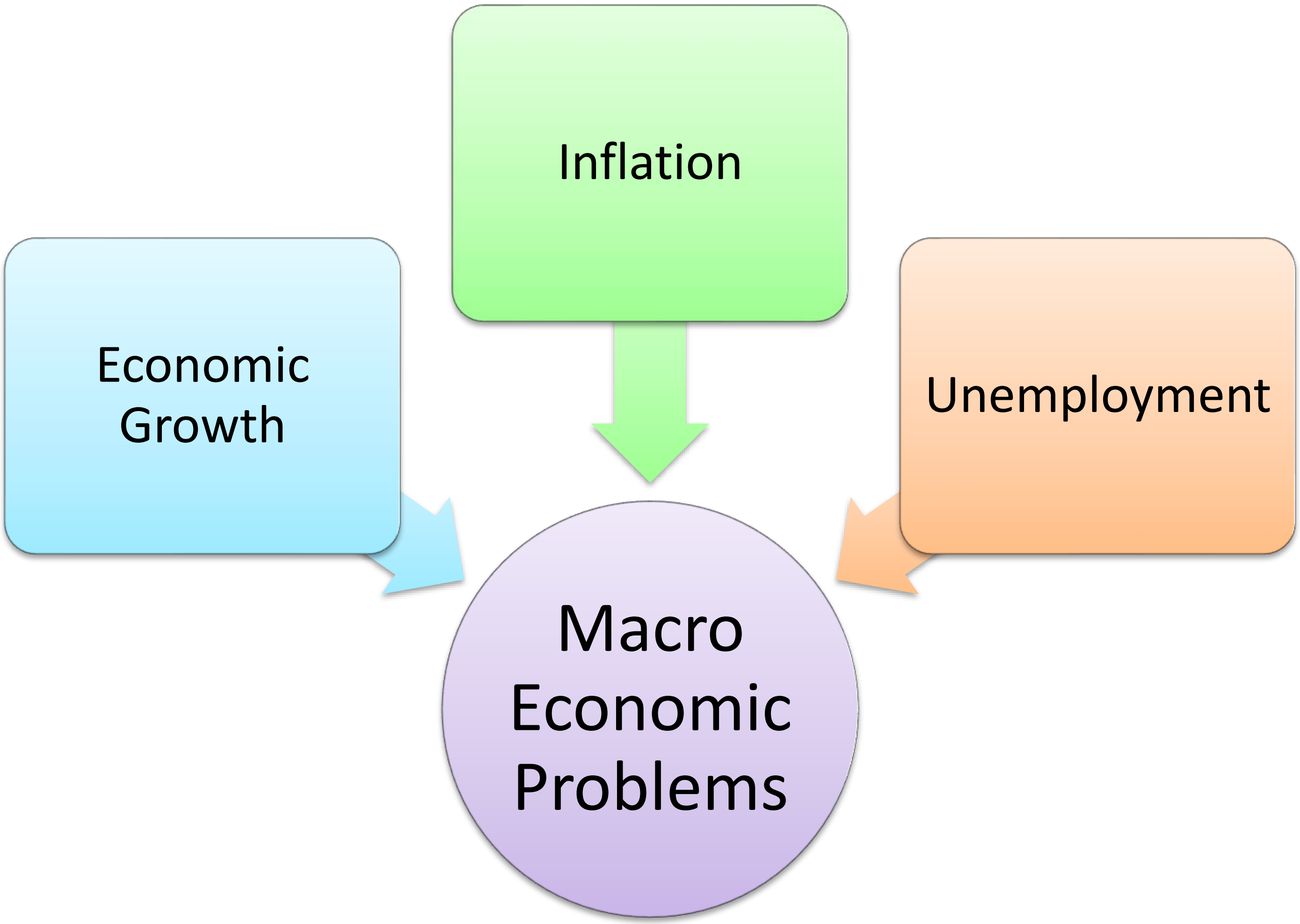
Microeconomics Vs. Macroeconomics

In brief. macroeconomics studies the working and performance of the economy as a whole. Macroeconomics seeks to answer such questions as;

- how the Level of aggregate production (GDP or GNP) is determined;
- what determines the growth rate of an economy:
- how the level of employment is determined;
- how the general level of price is determined in an economy;
- why some times price level rises at a high rate of 10-12 percent and at another at 5-6 percent; and
- how government's monetary, fiscal and income policies affect the aggregate level of output employment and prices.

Importance of Macroeconomics

It provides solutions to macroeconomic problems



Complex Global Economic System

Origin and Growth of Macroeconomics

Pre-Keynesian Era *(Laissez-faire) - Postulates*

Full Employment	Balanced Production	Equilibrium in Economy

The Keynesian Revolution *(Demand Management)*

National Income	Employment	Economic Stabilization

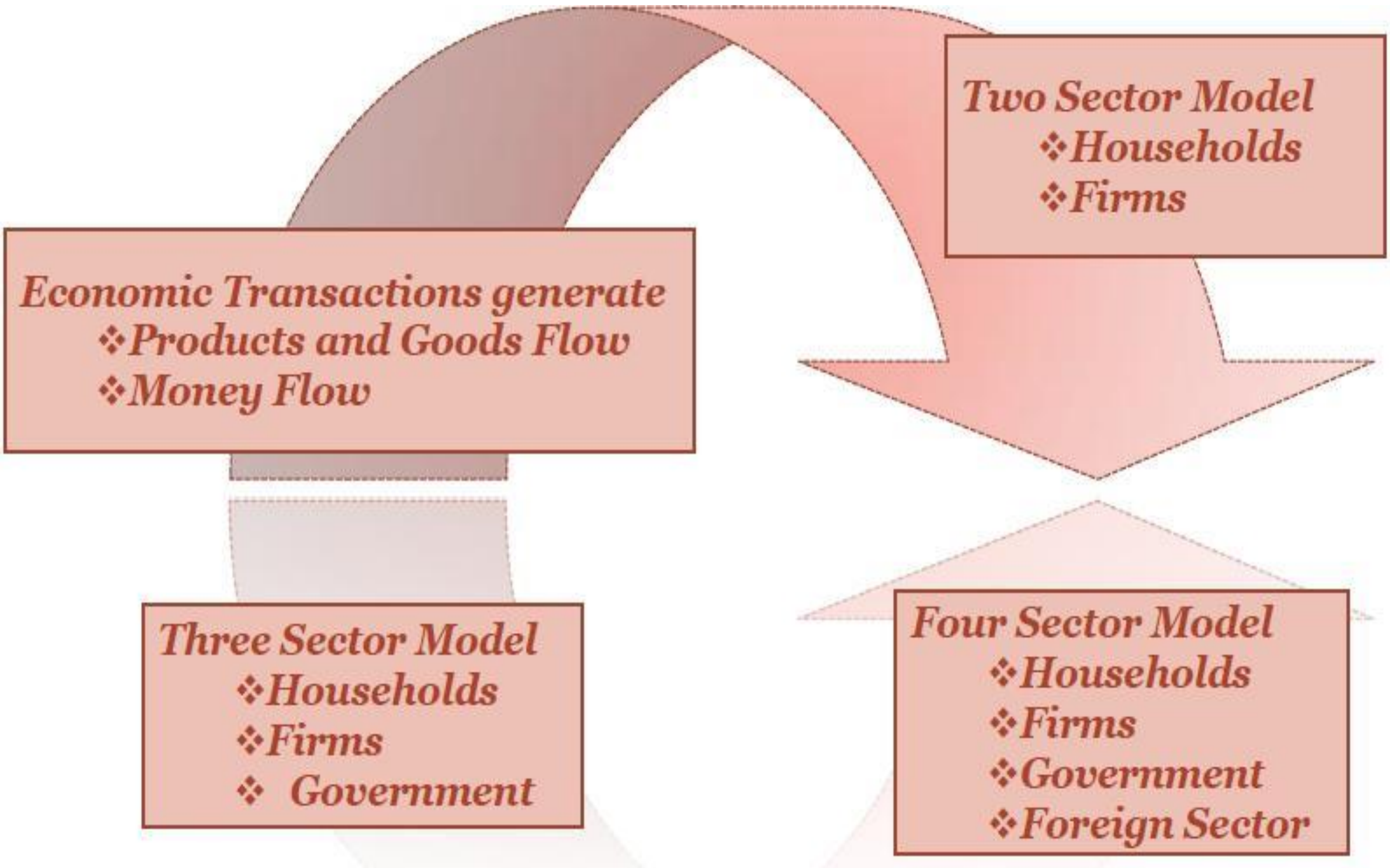
Post-Keynesian Developments

Monetarism	New Classical Macroeconomics	Supply-side Economics	New Keynesianism

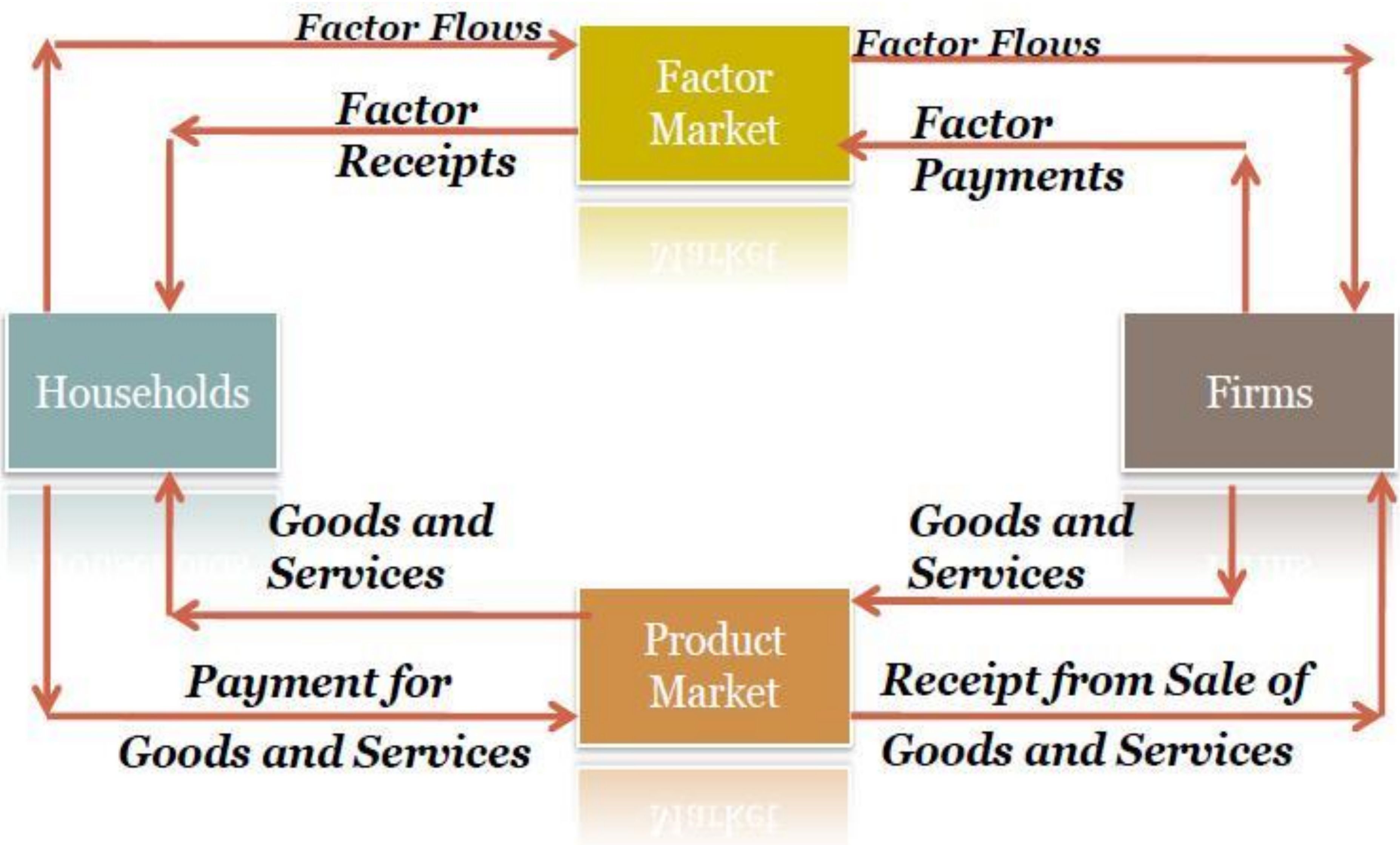
Origin and Growth of Macroeconomics

Period	*Events*	*Macroeconomics*
1930s	Great Depression	Keynes' General Theory
Post WWII	Reconstruction	Success of Keynesian Revolution
1970s	Oil Crises Stagflation	New Classical Revolution
1980s	Adjustment	Supply-side economics
1990s	Globalisation	Growth, institutions

Circular Flow



Circular Flows in Two Sector Economy



Three Sector Economy

2 Sector Model + Government Sector = Three Sector Model

Government Sector

Government sector acts by

- Economic role
- Fiscal operation

Three kinds of monetary flows

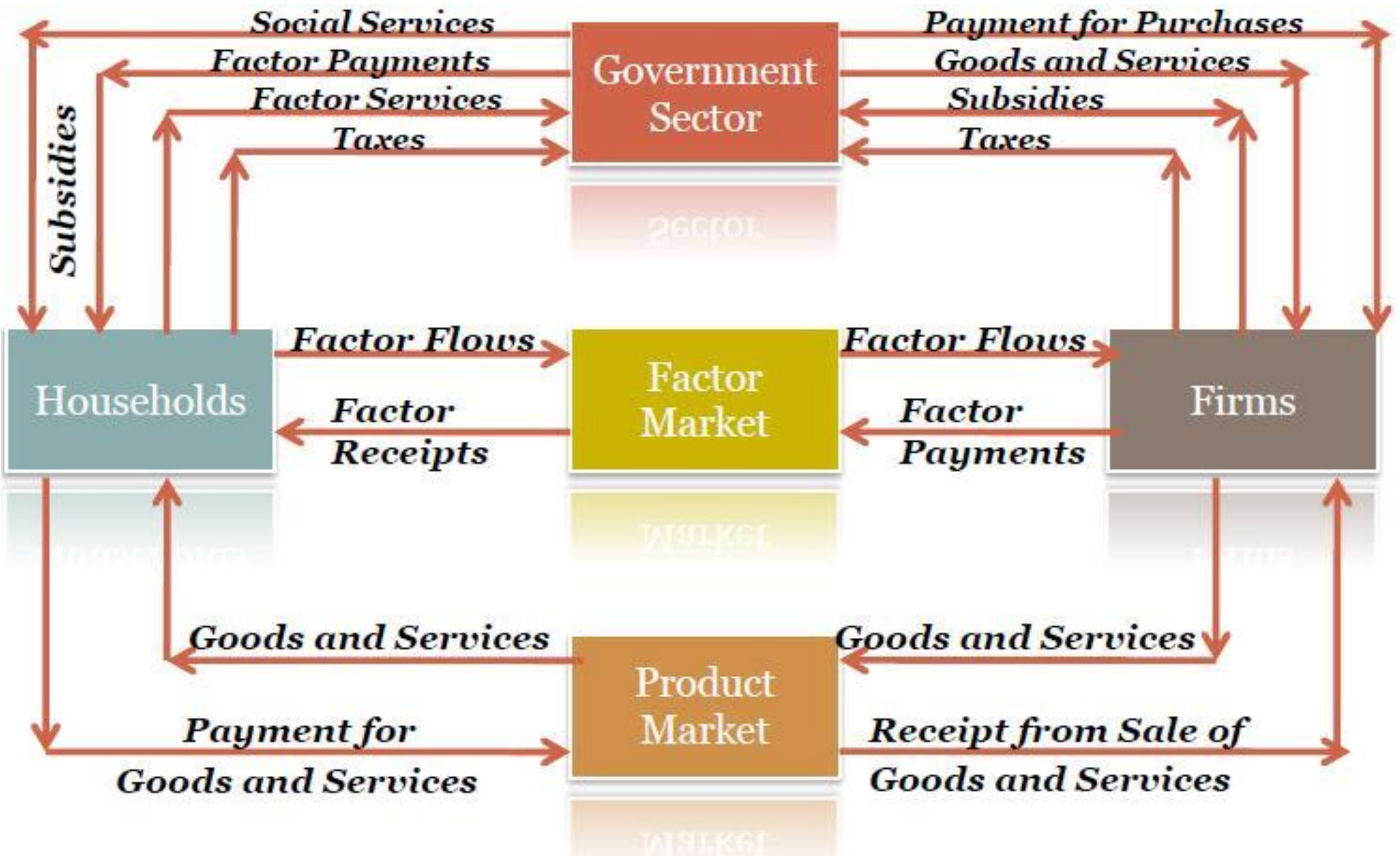
- Direct taxes
- Government expenditure
- Transfer payments & subsidies

Effects of Government Measures

Depends on

- Taxes
- Subsidies
- Causing withdrawals and injections

Circular Flows in Three Sector Economy



Four Sector Economy

3 Sector Model + Foreign Sector = Four Sector Model

Foreign Sector

Foreign Sector Consists of

- Foreign Trade
- Inflow and Outflow of Capital

The flow of goods and money between

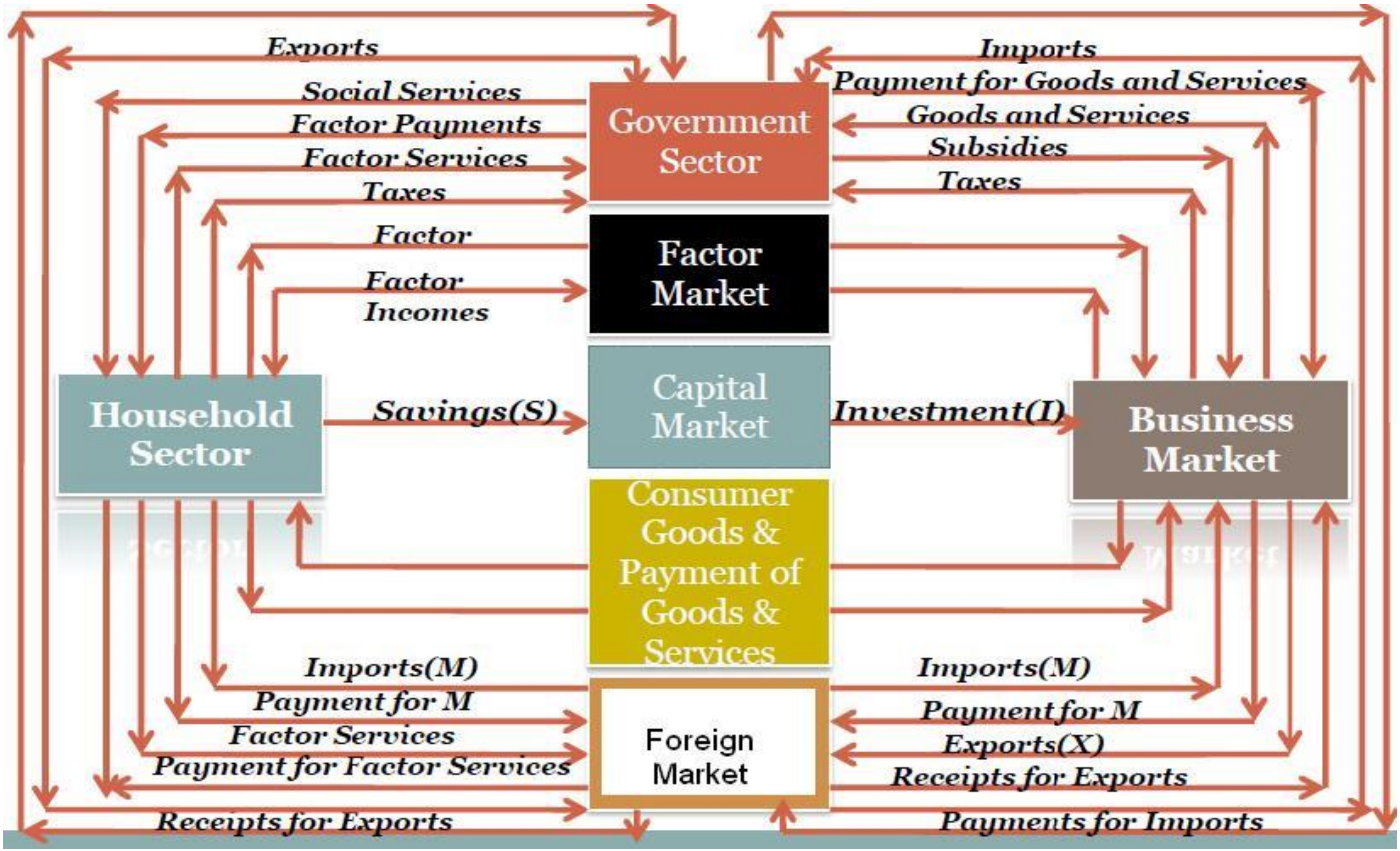
- Household and rest of the world
- Domestic Firms and rest of the world
- Government and rest of the world

Effects of Foreign Trade

Depends on trade balance i.e. X-M

- If X>M, it means inflow is greater than outflow so there is net gain from foreign trade i.e. Increase in magnitude of circular flows.
- If X<M, it means inflow is less than outflow so there is net loss from foreign trade. i.e. Decrease in magnitude of circular flows.
- If X=M there is no change in Circular flow.

Circular Flows in Four Sector Economy



Keynesian Theory of National Income Determination: A Simple Economy Model

Keynes formulated a new theory of employment in contrast to the classical theory of employment.

- Classical economists had emphasized the **role of Supply.**
- Keynes emphasized **role of demand** in the **determination of output and employment.**

According to Keynes theory of income determination – the equilibrium level of national income is determined at the level where Aggregate Demands for goods and services = their Aggregate Supply.

Keynesian Theory of National Income Determination: A Simple Economy Model

Keynesian theory of income determination is developed in three different model

1. A Simple Economy Model or Two Sectors Model

Households + Firms Sector

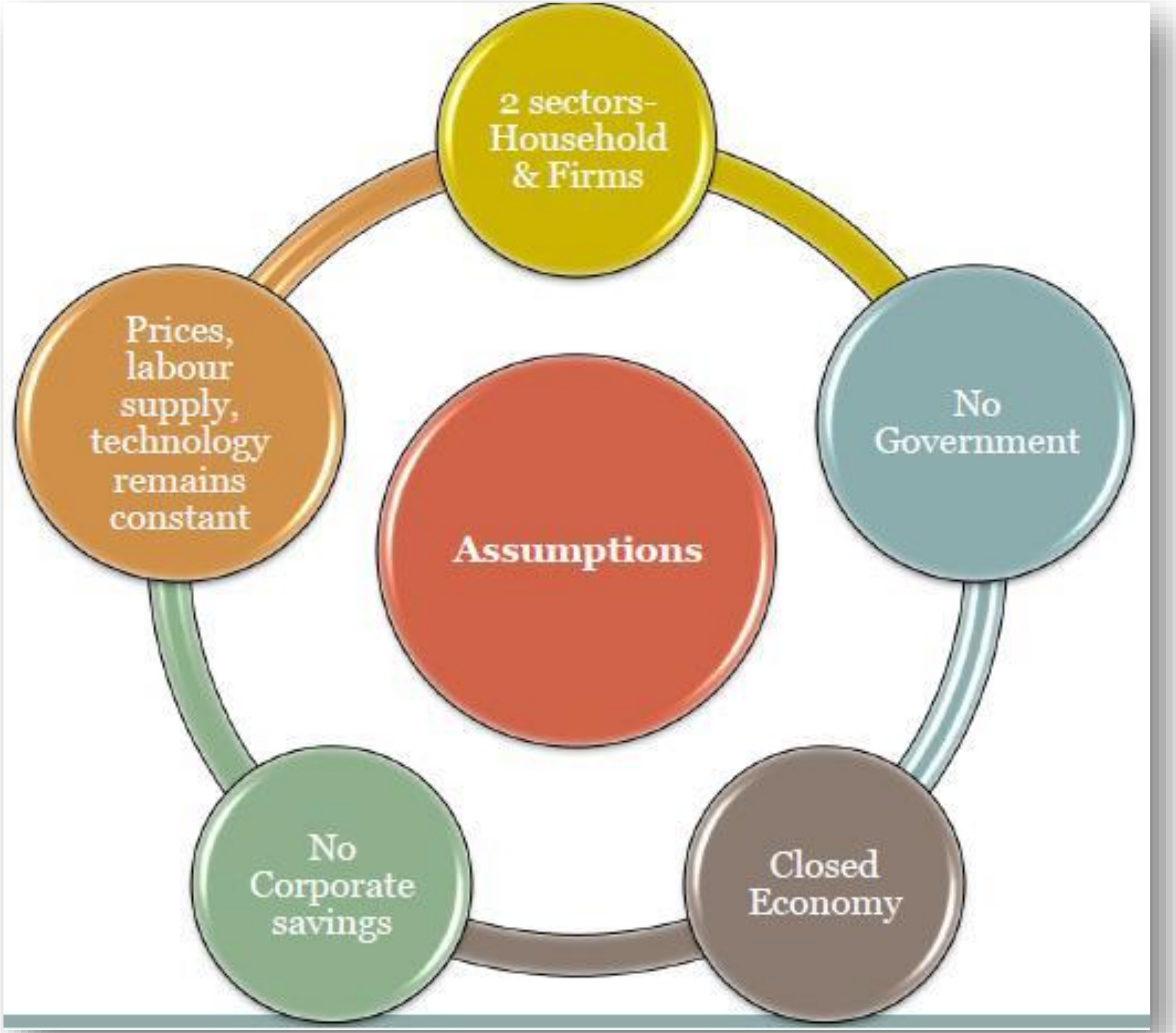
2. A Closed Economy Model or Three Sectors Model

Households + Firms Sector + Government Sector

3. A Open Economy Model or Four Sectors Model

Households + Firms Sector + Government Sector + Foreign Sector

National Income : Two Sector Model



Aggregate Supply (AS)= Aggregate Demand(AD)

Aggregate Supply (AS) refers to the total supply of goods and services in an economy

Aggregate Supply (AS) = C + S

Aggregate Demand (AD) refers to aggregate demand for consumer goods and investment goods

Aggregate Demand (AD) = C + I

$\bar{I}$ = **Constant investment in short run.**

This implies if consumption function is known the two sector AD function can be easily dervied,given the investment ($\bar{I}$)

Where,
C=Aggregate Consumption
S=Aggregate Savings
I = Aggregate Investment

Aggregate Demand for consumer goods or consumption expenditure accounts for over 65% of India's GDP.

Aggregate Demand

Aggregate demand (AD) consists of four components:

1. **Consumption (C):** This is also known as consumer expenditure. It consists of spending by households on goods and services.
2. **Investment (I):** This is spending by private sector firms on capital goods.
3. **Government spending (G):** This covers government spending on goods and services.
4. **Net exports (X–M):** This is the difference between the value of exports of goods and services and the value of imports of goods and services.

The Aggregate Demand Curve

The aggregate demand curve shows the different quantities of total demand for the economy's products at different prices.

- A **rise in the price level** will **cause a contraction in aggregate demand** and a **fall in the price** level will result in an **extension in aggregate demand.**
- The downward sloping nature of the AD curve is shown in Figure.

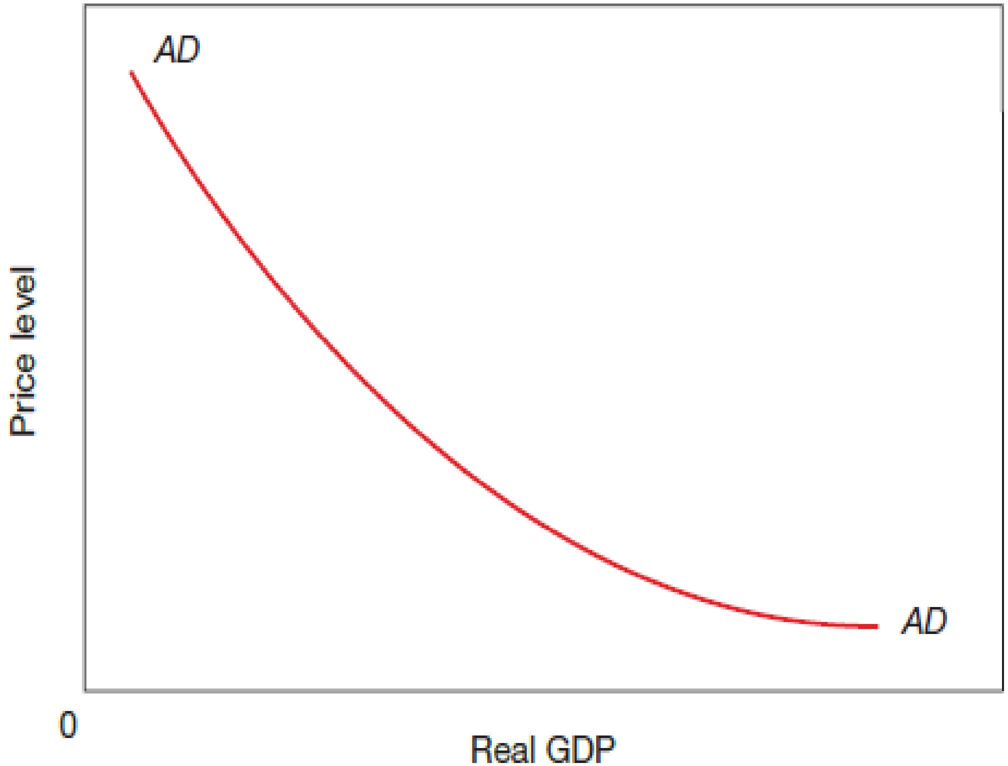


Figure 4.1 The aggregate demand curve

Aggregate Demand

- The relationship between aggregate demand and the price level might seem similar to the relationship shown in the demand curve for an individual product. There is, however, a significant difference.

A demand curve for a product shows **the relationship between a change in the relative price of a product** and the quantity demanded.
The price of the product is changing but it is **assumed that the prices of other products have not changed.** More of the **product is purchased when the price falls**, in part because people switch away from rival products.

In contrast, in the case of the **AD curve, the prices of most products are changing in the same direction**.

Aggregate Demand

So why does aggregate demand fall when the price level rises and vice versa? There are three reasons:

The wealth Effect

- A rise in the price level will reduce the amount of goods and services that people's wealth can buy. The purchasing power of savings held in the form of bank accounts and other financial assets will fall.

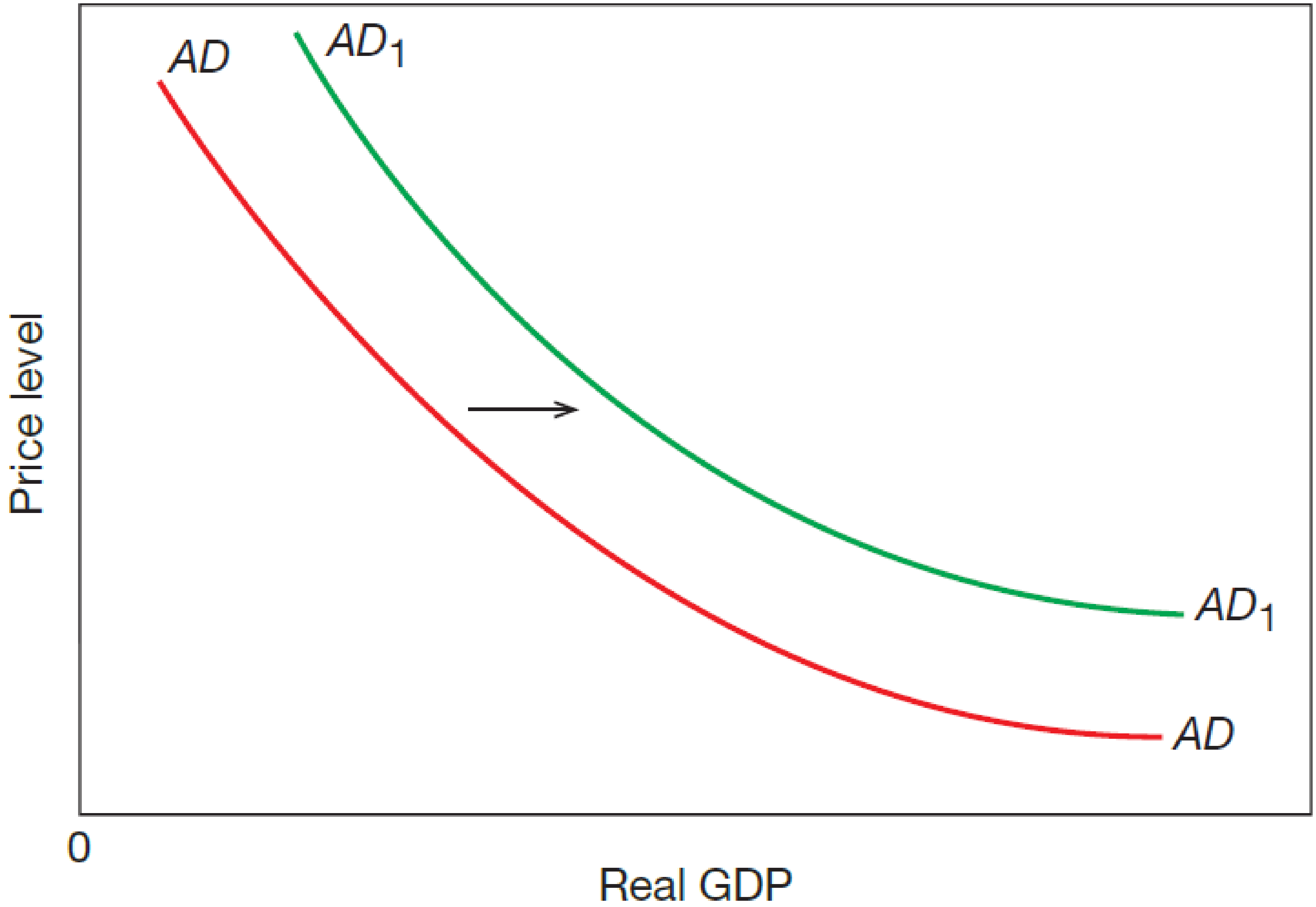
The International Effect

- A rise in the price level will reduce demand for net exports as exports will become less price competitive while imports will become more price competitive.

The Interest Rate Effect

- A rise in the price level will increase demand for money to pay the higher prices. This, in turn, will increase the interest rate. A higher interest rate usually results in a reduction in consumption and investment.

Shifts in the Aggregate Demand Curve



An increase in aggregate demand

Shifts in the Aggregate Demand Curve

- Whilst a change in the price level causes a movement along the *AD* curve, if any non-price level influence causes aggregate demand to change, then the whole *AD* curve will shift .

- A shift to the left indicates a decrease in aggregate demand.

- While a shift to the right shows an increase in aggregate demand, as shown in Figure.

Aggregate Demand

A change in any **non-price** level influence on consumption, investment, government spending and net exports will shift the AD curve.
Examples that would cause an increase in aggregate demand include:

Consumption	• A rise in consumer confidence, a cut in income tax, an increase in wealth, a rise in the money supply, an increase in population.
Investment	• A rise in business confidence, a cut in corporation tax, advances in technology.
Government Spending	• A desire to stimulate economic activity, a desire to win political support.
Net Exports	• A fall in the exchange rate, a rise in the quality of domestically produced products, an increase in incomes abroad.

Aggregate Supply

Regarding **aggregate supply (*AS*)**, economists sometimes distinguish between **short-run aggregate supply (*SRAS*)** and **long-run aggregate supply (*LRAS*)**.

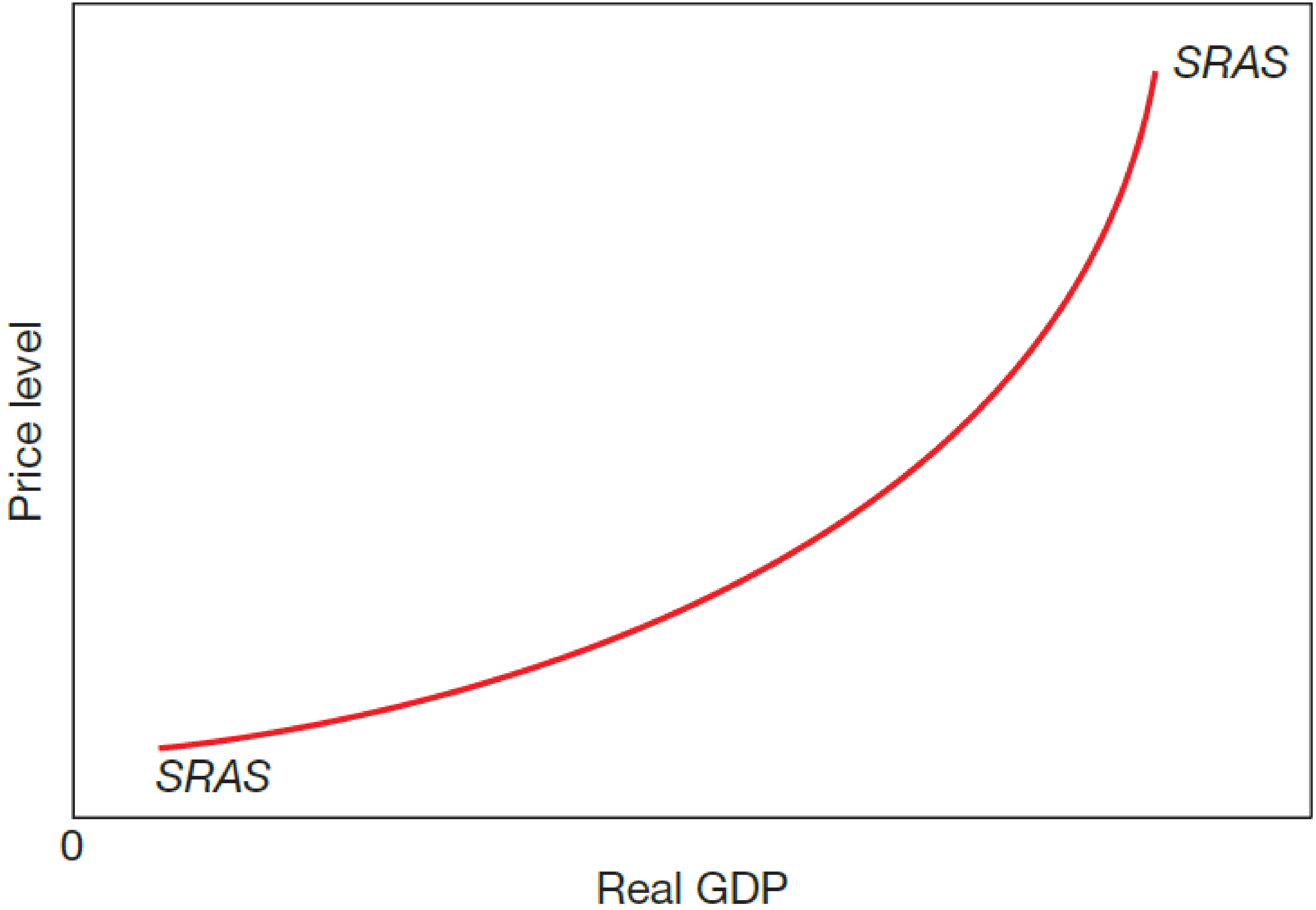
Short-run

- Short-run aggregate supply is the output that will be supplied in a period of time when the prices of factors of production (inputs, resources) have not had time to adjust to changes in aggregate demand and the price level.

Long-run

- In contrast, long run aggregate supply is the output that will be supplied in the time period when the prices of factors of production have fully adjusted to changes in aggregate demand and the price level.

Aggregate Supply



The short-run aggregate supply curve

Aggregate Supply

The short-run aggregate supply curve slopes up from left to right as shown in Figure. As the price level rises, producers are willing and able to supply more goods and services. There are three possible reasons for this positive relationship:

The Profit Effect

- As the price level (that is, the price of goods and services) increases, the price of factors of production such as wages do not change. So the price level rises, the gap between output and input prices widens and the amount of profit increases.

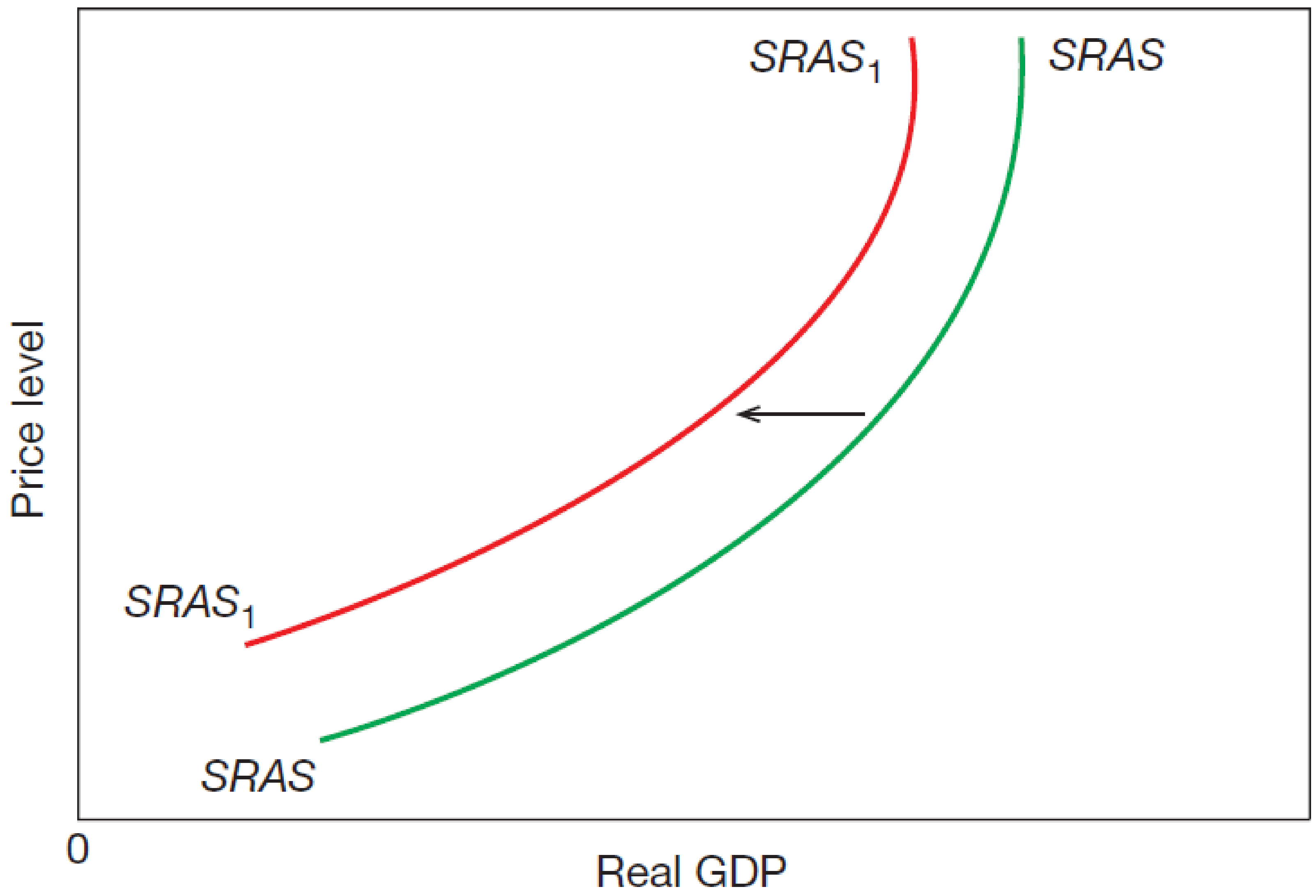
The Cost Effect

- Although the wage rates and raw material costs remain unchanged in the short run, average costs may rise as output increases. This is because, for example, overtime payments may have to be paid and costs will be involved in recruiting more members. To cover any extra costs that may be involved in producing a higher output, producers will require higher prices.

The Misinterpretation Effect

- Producers may confuse changes in the price level with changes in relative prices. They may think that a rise in the price they receive for their products indicates that their own product is becoming more popular. As a result they may be encouraged to produce more.

Shifts in the Short-run Aggregate Supply Curve



A decrease in short-run aggregate supply

Aggregate Supply

While a change in the price level will cause a movement along the short-run aggregate supply curve, there are four main causes of a shift in the SRAS curve. These are:

A change in the price of factors of production

- A rise in wage rates, not matched by an increase in labour productivity, and raw material costs will cause a decrease in SRAS, shifting the curve to the left as illustrated in Figure.

A change in taxes on firms

- A reduction in corporation tax or indirect taxes will cause an increase in SRAS.

Aggregate Supply

A change in factor productivity/quality of resources

- A rise in labour productivity and/or capital productivity will cause an increase in aggregate supply both in the short and long run.

A change in the quantity of resources

- In the short run the supply of inputs may be influenced by supply side shocks including natural disasters. These shocks may not have a significant impact on productive potential in the long run. The factors that will cause an increase in the quantity of resources in the long run will also increase SRAS.

The Shape of the Long-run Aggregate Supply Curve

The long-run aggregate supply curve shows the relationship between real GDP and changes in the price level when **there has been time for input prices to adjust to changes in aggregate demand**.

Keynesians often represent the *LRAS* curve as **perfectly elastic at low rates of output, then upward sloping over a range of output and finally perfectly inelastic.**

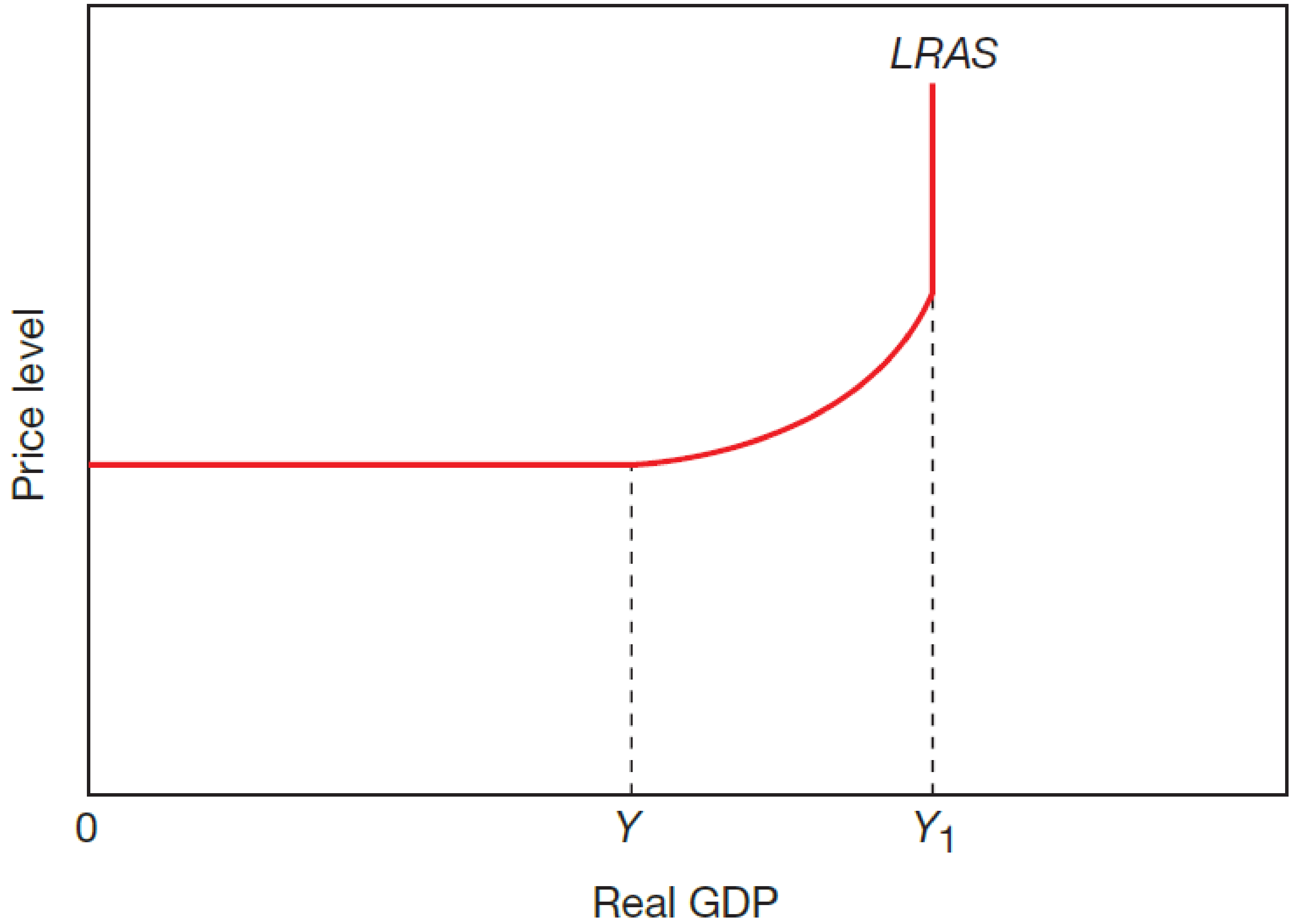
This is to emphasise their view that, in the long run, an economy can operate at any level of output and not necessarily at full capacity. Figure shows that from 0 to *Y*, output can be raised without increasing the price level.

The Shape of the Long-run Aggregate Supply Curve

When output and hence employment are low, firms can attract more resources without raising their prices. There is time for input prices to change but, due to the low level of aggregate demand, they do not. For example, when unemployment is high, the offer of a job may be sufficient to attract new workers.

As output rises from *Y* to *Y*1, firms begin to experience shortages of inputs and bid up wages, raw material prices and the price of capital equipment. When output reaches *Y*1, the economy is producing the maximum output it can make with existing resources.

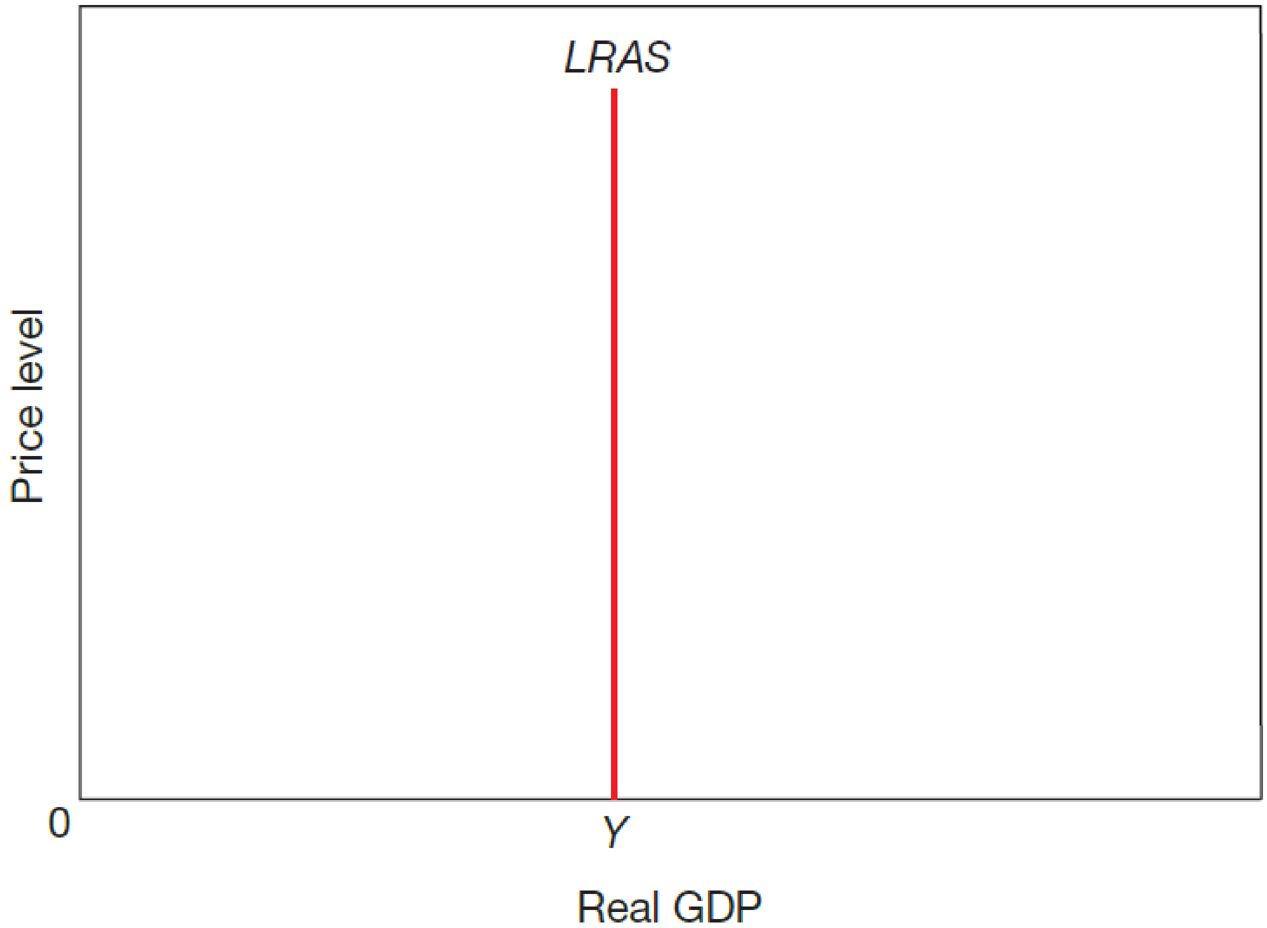
The Shape of the Long-run Aggregate Supply Curve



The Keynesian long-run aggregate supply curve

The Shape of the Long-run Aggregate Supply Curve

Another group of economists, called new classical economists, illustrate the LRAS curve as a vertical line. This is because they think that in the long run the economy will operate at full capacity. This version of the LRAS curve is shown in Figure.



The new classical long-run aggregate supply curve

Aggregate Supply

Both Keynesian and new classical economists agree that the causes of a shift in the LRAS curve **are a change in the quantity and/or quality of resources (factor productivity).**

Both of these will increase the productive potential of an economy. The causes of an increase in the quantity of resources in the long run are:

Net Immigration

- If the immigrants are of working age, this will increase the size of the labour force.

An Increase in the Retirement Age

- This will increase the size of the labour force. A number of countries have raised the age at which people can receive a state pension and some of these plan to raise it even further in the future as life expectancy increases.

Aggregate Demand

More Women Entering the Labour Force	• The proportion of women who work varies from country to country. For example, in 2013 only 15% of women of working age were in the labour force in Saudi Arabia, while 75% of women in Norway were in the labour force.
Net Investment	• If gross investment (total investment) exceeds depreciation (capital goods that have to be replaced because they have become worn out or become out of date) there will be additions to the capital stock.
Discovery of New Resources	• The discovery of, for instance, new oil fields or gold mines can increase a country's productive potential.
Land Reclamation	• For instance, in recent years, Dubai has added considerably to its land area by reclaiming land on which it has built houses, hotels, marinas, theme parks and beaches.

Aggregate Supply

The two main causes of an increase in the quality of resources are:

Improved Education and Training

- This will increase the skills of workers and so raise labour productivity

Advances in Technology

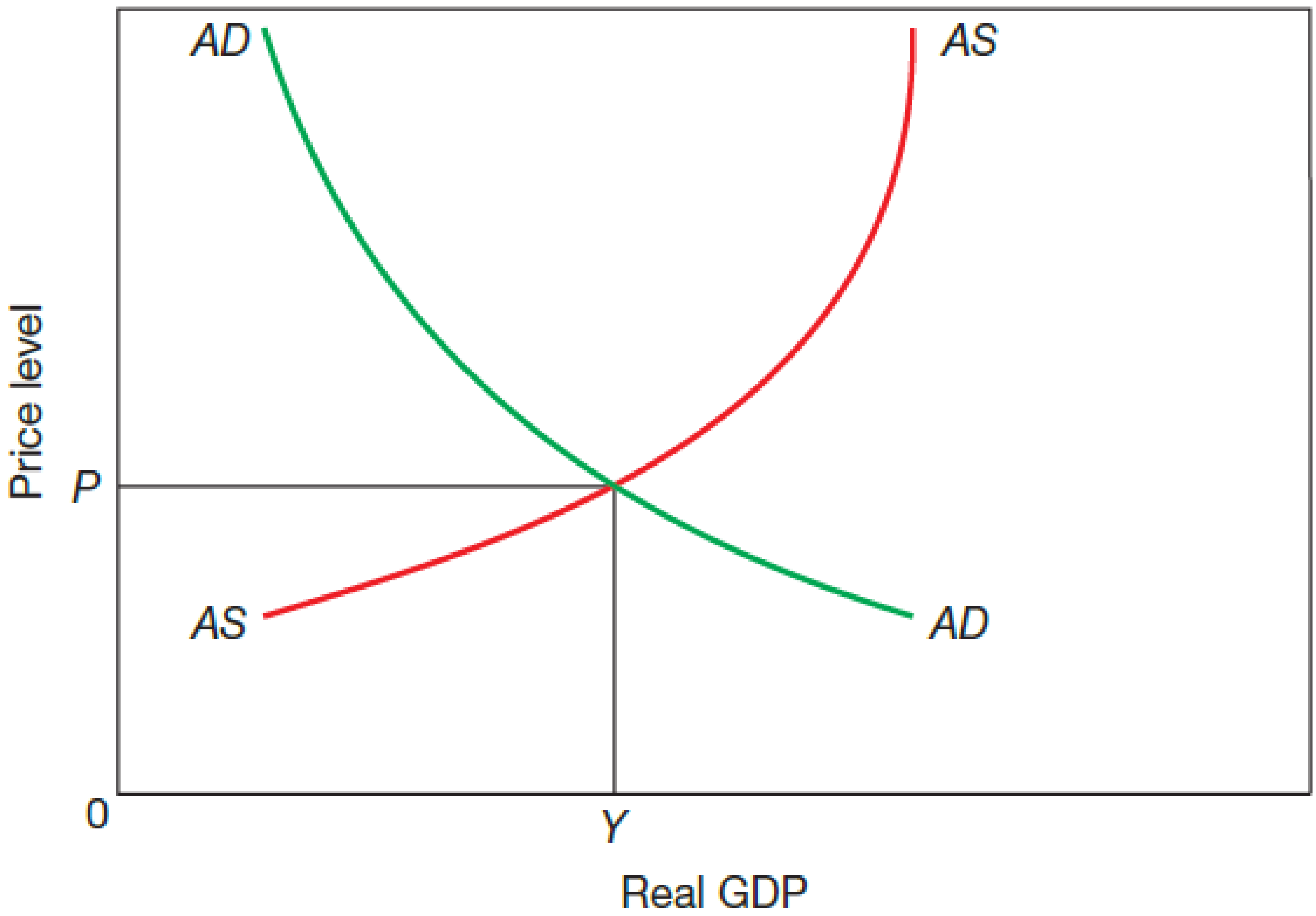
- These both reduce costs of production and increase productive capacity.

Interaction of Aggregate Demand and Aggregate Supply

Macroeconomic equilibrium: the output and price level achieved where AD equals AS.

- The equilibrium level of output and the price level are determined where aggregate demand is equal to aggregate supply. Th e macroeconomic equilibrium is illustrated by the point where the AD and AS curves intersect, as shown in Figure.
- If the price level was initially below P, the excess demand would push the price level back up to the equilibrium level. If the price level was above P, some goods and services would not be sold and firms would have to cut their prices.
- Changes in aggregate demand and aggregate supply will move the economy to a new macroeconomic position. Where that position will be will depend on the direction of the change, the size of the change and the initial level of economic activity.

Interaction of Aggregate Demand and Aggregate Supply



Macroeconomic equilibrium

Summary

- Macro economics is the study of nature, relationships and behaviour of aggregates of economic quantities.
- Nature of Macroeconomics: Positive or Normative Orientation
- Macroeconomic problems are economic growth, inflation, unemployment
- Classical economists had not formulated any systematic theory of macroeconomics
- J.M.Keynes laid the foundation of macroeconomics
- Growth of macroeconomics in the Post-Keynesian era have been strong-monetarism, new classical macroeconomics, supply-side economics, new Keynesianism

Summary

- Economic Transactions generate products and goods flow and money flow
- A Two-Sector Model :Households & firms
- A Three-Sector Model :Households, firms and government
- A Four-Sector Model :Households, firms, government and foreign sector
- Government sector acts by economic role and fiscal operation
- Foreign sector consists of foreign trade and inflow and outflow of capital

Case Study

Economic Reforms: Ease of Doing Business

India makes it to Top 100 in 'ease of doing business'

India jumped up 30 notches into the top 100 rankings on the World Bank's 'ease of doing business' index, thanks to major improvements in indicators such as resolving insolvency, paying taxes, protecting minority investors and getting credit. The Hindu October 31 2017

Topics	DB 2018 Rank
Overall	100
Starting a Business✔	156
Dealing with Construction Permits✔	181
Getting Electricity	29
Registering Property	154
Getting Credit✔	29
Protecting Minority Investors✔	4
Paying Taxes✔	119
Trading across Borders✔	146
Enforcing Contracts✔	164
Resolving Insolvency✔	103

TABLE 9.2 Weights used in calculating the distance to frontier scores for economies with two cities covered

Economy	City	Weight (%)
Bangladesh	Dhaka	78
	Chittagong	22
Brazil	São Paulo	61
	Rio de Janeiro	39
China	Shanghai	55
	Beijing	45
India	Mumbai	47
	Delhi	53
Indonesia	Jakarta	78
	Surabaya	22
Japan	Tokyo	65
	Osaka	35
Mexico	Mexico City	83
	Monterrey	17
Nigeria	Lagos	77
	Kano	23
Pakistan	Karachi	65
	Lahore	35
Russian Federation	Moscow	70
	St. Petersburg	30
United States	New York City	60
	Los Angeles	40

Economic Reforms: Ease of Doing Business

Economy	Ease of Doing Business Rank	Filtered Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property
Bhutan	75	1	3	3	2	1
India	100	2	8	7	1	3
Nepal	105	3	5	6	4	2
Sri Lanka	111	4	2	2	3	4
Maldives	136	5	1	1	5	6
Pakistan	147	6	7	5	7	5
Bangladesh	177	7	6	4	8	7
Afghanistan	183	8	4	8	6	8

Economic Reforms: Ease of Doing Business

Economy	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading across Borders	Enforcing Contracts	Resolving Insolvency
Bhutan	2	6	1	1	1	8
India	1	1	3	4	5	4
Nepal	3	4	4	2	3	1
Sri Lanka	6	3	6	3	6	3
Maldives	7	7	2	5	2	5
Pakistan	5	2	7	6	4	2
Bangladesh	8	5	5	7	8	6
Afghanistan	4	8	8	8	7	7

Economic Reforms: Ease of Doing Business

UP JUST 1 SLOT SINCE 2015

Criteria	2015	2016	2017
Getting electricity	137	70	26
Enforcing contracts	186	178	172
Starting a business	158	155	155
Registering property	121	138	138
Resolving insolvency	137	136	136
Construction permits	184	183	185
Getting credit	36	42	44
Protecting minority investors	7	8	13
Paying taxes	156	157	172
Trading across borders	126	133	143
Overall	**134**	**131**	**130**

Source: Doing Business Report

HOW OTHERS FARE

How others fare	2016	2017
New Zealand	2	1
Signapore	1	2
Denmark	3	3
South Korea	4	5
Russia	51	40
South Africa	73	74
China	84	78
Nepal	99	107
Sri Lanka	107	110
Brazil	116	123
India	**131**	**130**

Economic Reforms: Ease of Doing Business

INDIA	
Ease of doing business rank (1–190)	**100**
✔ **Starting a business** (rank)	156
DTF score for starting a business (0–100)	75.40
Procedures (number)	11.5
Time (days)	29.8
Cost (% of income per capita)	14.8
Minimum capital (% of income per capita)	0.0
✔ **Dealing with construction permits** (rank)	181
DTF score for dealing with construction permits (0–100)	38.80
Procedures (number)	30.1
Time (days)	143.9
Cost (% of warehouse value)	23.2
Building quality control index (0–15)	11.5
Getting electricity (rank)	29
DTF score for getting electricity (0–100)	85.21
Procedures (number)	5
Time (days)	45.9
Cost (% of income per capita)	96.7
Reliability of supply and transparency of tariffs index (0–8)	7
Registering property (rank)	154
DTF score for registering property (0–100)	47.08
Procedures (number)	8
Time (days)	53
Cost (% of property value)	8.4
Quality of land administration index (0–30)	8.2

- Asked about India's low ranking in registering property, DIPP secretary Ramesh Abhishek said, "There are over 100 reforms in progress that have not been factored in this year." Only two of 42 completed reforms had been accepted, and two others had been partially accepted, he said.
- India is among the top ten improvers this year, with improved ranking in six of the ten indicators, while its performance in absolute terms improved in nine. The six areas of improved ranking include dealing with construction permits and enforcing contracts.

Economic Reforms: Ease of Doing Business

- **Where India slipped up** In the category of starting a business, though, the need for local entrepreneurs to go through 12 procedures to start a business, as opposed to five in high-income countries, worsened India's ranking in the category to 156 from 155 last year.
- There was also a major slip in ranking in the category of registering property — from 138 last year to 154 this year — due to increase in time taken, cost and number of procedures for registration.
- India's corporate law and securities regulations were recognised as highly advanced, placing it in fourth place in the global ranking on protecting minority investors. The time taken to obtain an electricity connection in Delhi reduced from 138 days four years back to 45 days now, against a 78-day average in OECD high-income economies, the report observed. This put India in 29th place in the category.
- India still lags in areas such as starting a business, enforcing contracts and dealing with construction permits. It takes longer to enforce a contract today, at 1,445 days, than 15 years ago (1,420 days).
- "Tackling these challenging reforms will be key to India sustaining the momentum towards a higher ranking. To secure changes in the remaining areas will require not just new laws and online systems but deepening the ongoing investment in the capacity of States to implement change and transform the framework of incentives and regulation facing the private sector," Junaid Ahmad, Country Director World Bank said.

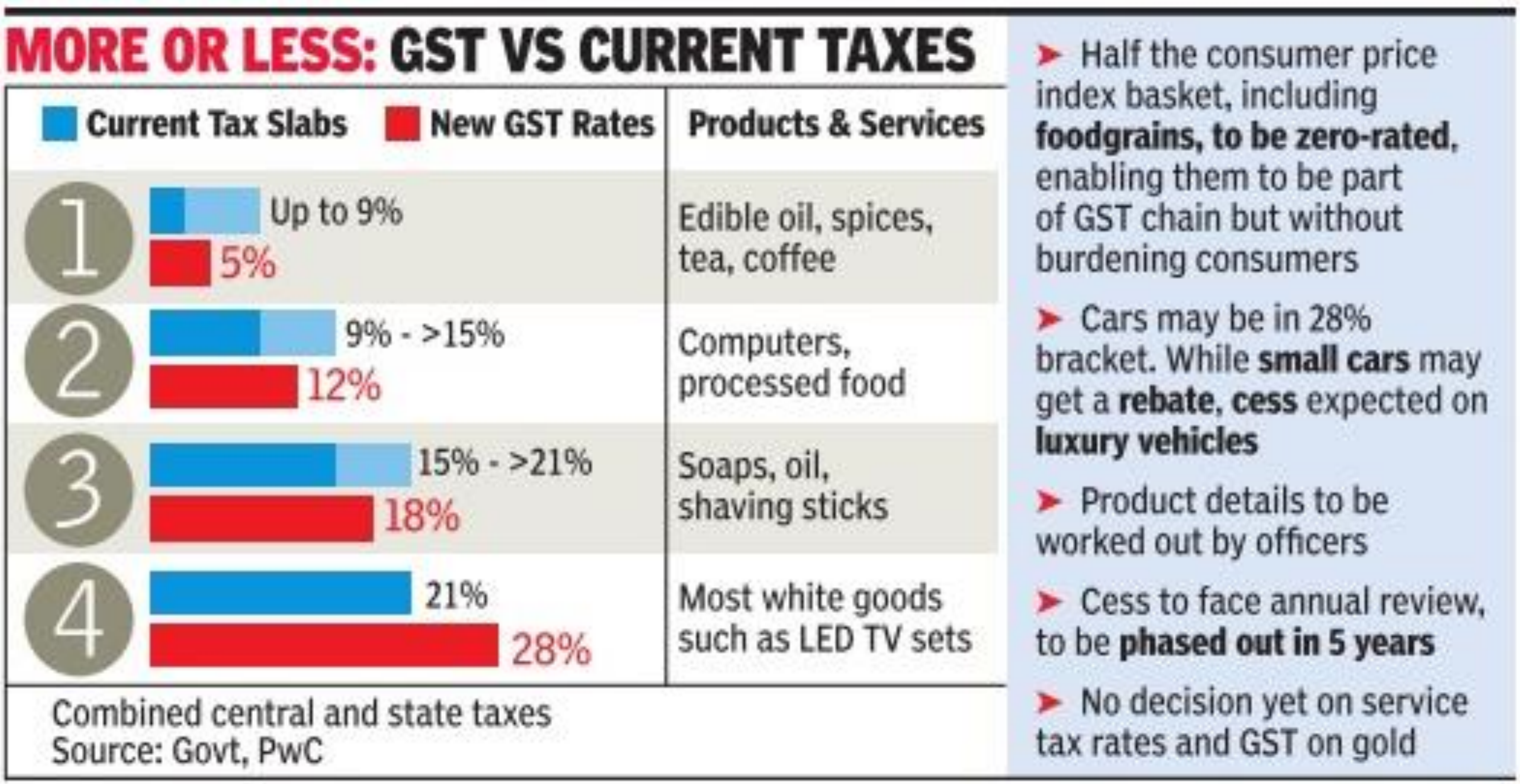
Economic Reforms: Ease of Doing Business

2017

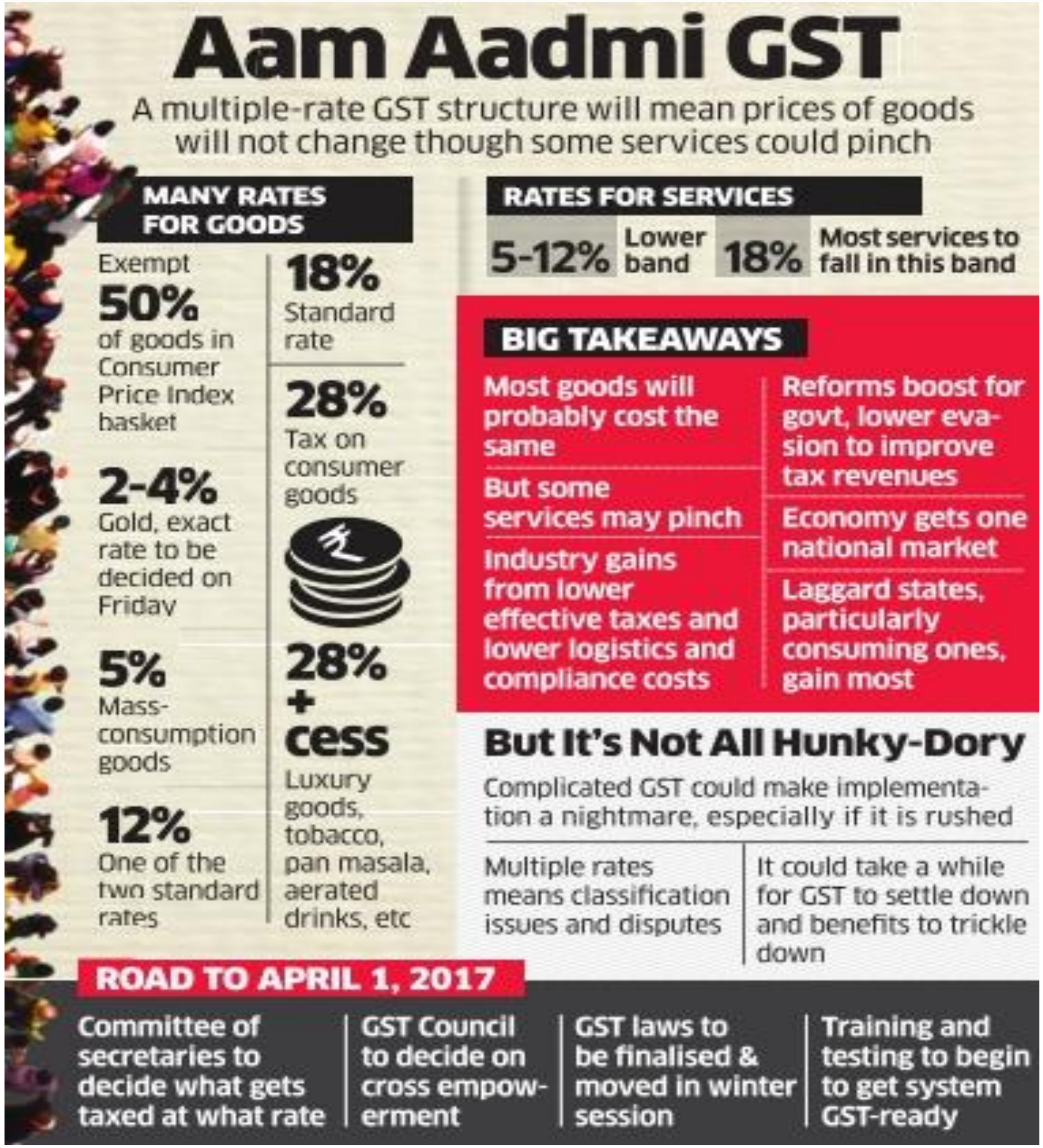
- India moved up only one position in the **International Finance Corporation's (IFC) ease of doing business rankings**, **triggering a strong reaction from the government** which said the string of reform initiatives undertaken by it in the **last one year had not been factored** in by the **World Bank arm**.
- The Doing Business 2017 report released on Tuesday showed **that India was placed 130th among 190 countries** that had been surveyed for the annual rankings, with **Russia, Bhutan, South Africa, China, Nepal, Sri Lanka and Brazil ranking higher. New Zealand replaced Singapore as the easiest place for doing business.**
- While the **Centre's focus on improving India's ranking and repairing the Companies Act was praised in the report**, **labour laws were recognised for creating economic distortions even as IFC took note of the plan to overhaul the regime. India's overall score improved marginally to 55.27**.
- Improving India's ranking in the ease of doing business survey has been identified as a key priority by the Modi government.

Economic Reforms: 4-slab GST

4-slab GST will spare common items in bid to curb inflation
Council Clears Cess On Coal, Sin & Luxury Goods Some Sought Lower Rate for Edu, Health



Economic Reforms: 4-slab GST



Economic Reforms: 4-slab GST

Introduction:

- India's most ambitious tax reform since Independence took a giant leap forward on Thursday with the Centre and states agreeing on the rates for the Goods and Services Tax. To be implemented from April 1, 2017, the GST--which will subsume several taxes, including excise duty and VAT--will have four rates. Currently, there are 15-20 tax slabs between the Centre and states. Coal, luxury and sin goods (e.g. cigarettes and alcohol) will attract cess in addition to the GST.

Zero-rating:

- Finance minister Arun Jaitley said the GST Council had agreed to zero-rating for nearly half the items in the consumer price index basket as well as major food grains, while goods of everyday use would attract 5% GST, as against 6% proposed earlier.

Two Standard Rates:

- In addition, there will be two standard rates of 12% and 18%, a move meant to blunt the Congress's demand for a standard 18% levy.

Economic Reforms: 4-slab GST

White Goods:

- White goods and similar products will face 28% tax, instead of 26% suggested by the Centre earlier. He said instead of the current slab of 30-31% on products such as white goods, which includes excise duty of 12.5% and state VAT of 14.5%, the highest slab under GST will be 28%. The additional benefit of two percentage points that will accrue to the government is being used to reduce the lowest slab from the proposed 6% to 5%.

Cess:

- The cess on luxury and sin goods, and the clean energy cess on coal should help the Centre mop up around Rs. 50,000 crore to compensate states for any revenue loss due to GST. While tobacco currently attracts 65% levy, the current rate on aerated drinks is around 40%. “There will be a sunset clause of five years, which will be reviewed on a year-to-year basis. Compensation through tax collections will have a cascading effect. There will not be any additional levy, “said Jaitley,explaining the rationale for the cess questioned by many. The cess is, however, something that has still not found acceptance, although tax experts said that the slabs agreed upon at the GST Council were good for the common man.

Economic Reforms: 4-slab GST

Exception:

- In addition, some products such as soaps, oil and shaving sticks, which would have gone into the 28% bracket, will now move to the 18% slab.
- Some also suggested a low rate for education and health. “Lower rate of 5% for items of mass consumption along with zero rated tax structure for essential commodities would make GST less regressive and pocket-friendly for the common man. Much to the joy of the consumer and industry, tax costs might even go down for commodities to be taxed at 5% provided the credits on procurements are fully allowed. While the lists are yet to be rolled out by the GST Council, all essential commodities and services, including education and health care should feature in the list of special concessional rate of 5% (if not zero rated), “said BMR indirect tax leader Rajeev Dimri.

Economic Indicator: CAD

Current Account Deficit Narrows to 0.1% of GDP in June Quarter
Thomson Reuters | September 21, 2016

- Mumbai: India unexpectedly posted a slight current account deficit in the April-June quarter, contrasting with expectations it would post the first surplus in nine years, as citizens abroad sent fewer remittances home.
- Data from the Reserve Bank of India (RBI) on Wednesday showed the country posted a **current account deficit of $300 million, or 0.1 per cent of gross domestic product**, in the period. It compared with expectations for a **$4 billion surplus** that would have been the first positive balance since the first three months of 2007.
- The deficit, however, was much narrower than the **$6.1 billion, or 1.2 per cent of GDP,** in the corresponding three-month period a year ago.
- India has a large number of citizens who work abroad, but what they have been able to send home has fallen due to an economic slowdown in popular work destinations such as the Middle East.

Economic Indicator: CAD

Current Account Deficit Narrows to 0.1% of GDP in June Quarter

Thomson Reuters | September 21, 2016

- Private transfer receipts, which reflect remittances, fell to **$15.2 billion** in April-June versus **$16.3 billion** a year ago, according to the RBI data. “Going ahead we expect the remittances from Indians mostly staying in the Middle East countries to remain sluggish, which means the current account deficit for the full fiscal year is likely to be nearly one percent and not below one percent of GDP as earlier expected," said A Prasanna, economist at ICICI Securities Primary Dealership.
- A current account deficit of below 1 per cent of GDP would still be well below the record high of 4.8 per cent of GDP hit in the year ending in March 2013.
- But analysts say the current account gap could signal trouble spots in an economy that may be growing at among the fastest pace in the world but is still expanding well below the 8 per cent needed to provide full employment.
- That is because positive factors such as continued solid **capital inflows** into stocks and debt markets - which poured to **$2.1 billion** from **$200 million** a year ago - are being offset as weak investment demand hits imports, while exports remain sluggish because of slowing global demand.

Economic Indicator: CAD

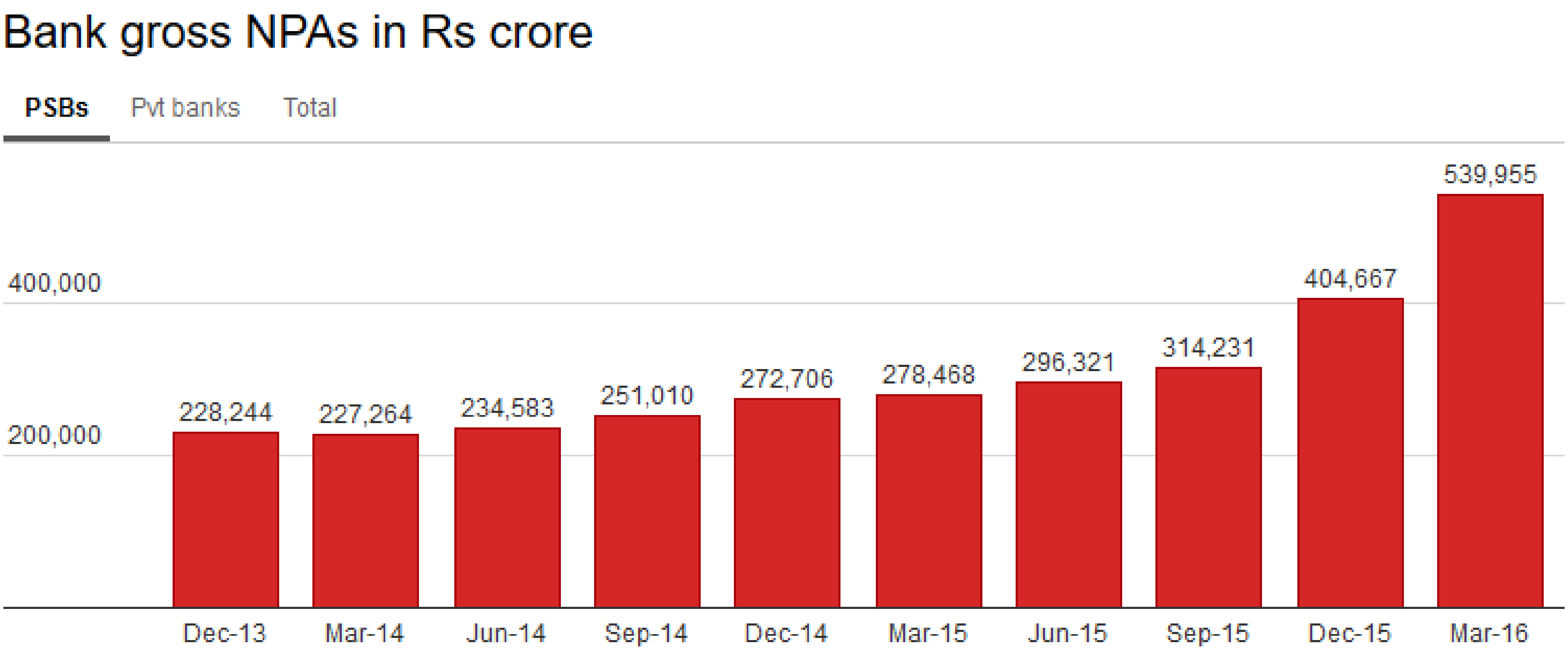
Current Account Deficit Narrows to 0.1% of GDP in June Quarter
Thomson Reuters | September 21, 2016

- The data on Wednesday showed imports slumped in the April-June quarter, even as exports stayed subdued, narrowing the **trade deficit(BOT)** to **$23.8 billion** from **$34.2 billion** a year ago. For a developing economy like India slow import growth is a negative sign, as it reflects weak investment demand because Indian firms need to buy capital goods and machinery from abroad.
- Meanwhile, India's overall **balance of payment** surplus narrowed to **$7.0 billion** from **$11.4 billion** a year ago, according to the RBI, though it still marked a third straight quarter of surplus.

Economic Indicator: NPA

Raghuram Rajan Impact: Indian banks' total bad loans swell to Rs. 6 trillion in March

The clean-up exercise of bank balance sheets forced by the Reserve Bank of India (RBI) Governor Raghuram Rajan is causing truckloads of skeletons to tumble out of the closet.

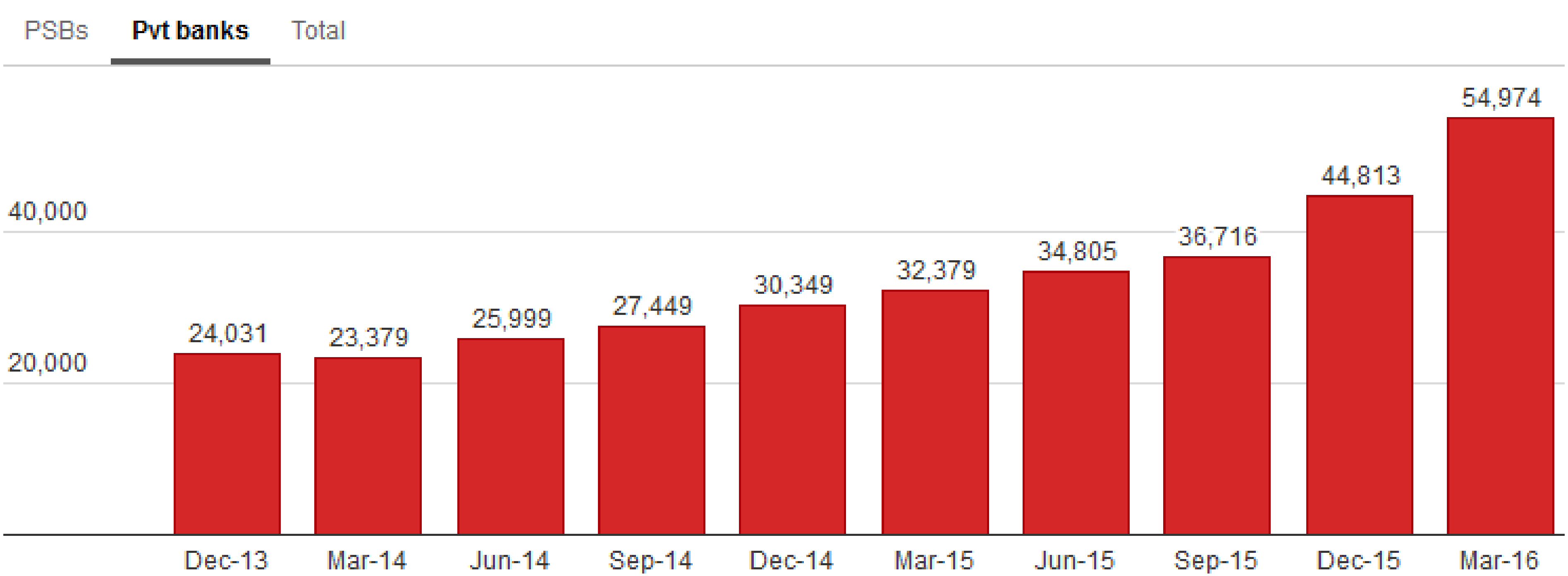


Data considered for 26 PSBs for all quarters and in case of private banks it is 14 banks up to Dec 2015 and 15 banks in March 2016

Economic Indicator: NPA

To be precise, the total Gross Non Performing Assets (GNPAs) of banks stood at Rs. 5,94,929 crores as at end March 2016**,** marking a substantial jump of about Rs. 200,000 crore in just one quarter (at the end of December 2015 quarter, the total GNPAs stood at about Rs. 4,00,000 crore.) Over 90 per cent of this is on the books of public-sector banks (PSBs).

Bank gross NPAs in Rs crore



Data considered for 26 PSBs for all quarters and in case of private banks it is 14 banks up to Dec 2015 and 15 banks in March 2016

Economic Indicator: NPA

A loan is tagged an NPA if interest repayments do not take place in 90 days. The Special Mention Accounts-2 (SMA-2), slabs were brought in by the RBI to detect early signs of stress in the banking system.

Banks with highest gross NPAs (in Rs crore)

Bank	Mar 2016 quarter	Dec 2015 quarter	% chg
Bank of Baroda	40.52	38.93	4.10
Bank of India	49.88	36.52	36.6
Canara Bank	31.64	19.81	59.7
Central Bank	22.72	17.56	29.40
I O B	30.05	22.67	32.5
IDBI Bank	24.88	19.61	26.8
PNB	55.82	34.34	62.6
SBI	98.17	72.79	34.9
UCO Bank	20.91	14.93	40
Union Bank (I)	24.17	18.50	30.70

Economic Indicator: NPA

The NPAs are coming out in truckloads. This scenario is likely to lead to a crisis situation in the banking sector, especially public sector banks (PSBs), if these banks fail to find sufficient capital to refill their coffers.

Net profit/net loss in Rs crore

Bank	Mar 2016 qtr	Dec 2015 qtr	Mar 2015 qtr
Allahabad Bank	-581	-486	203
Bank of Baroda	-3,230	-3,342	598
Bank of India	-3,587	-1,506	-56
Canara Bank	-3,905	85	613
Central Bank	-598	-837	174
I O B	-936	-1,425	20
IDBI Bank	-1,736	-2,184	546
PNB	-5,367	51	307
Syndicate Bank	-1,314	-120	417
UCO Bank	-1,715	-1,497	209

Government Intervention : Plan to Curb NPAs

Case of Market Failure –

Tackling Bad Loans - Govt Working on Plan to Curb NPAs in State-run Banks

NPAs rose to ₹2.67 lakh crore at the end of March from ₹2.40 lakh crore a year earlier

- In August, the government had announced a 7 separated revamp plan for public sector banks dubbed Indradhanush that included a scheme to deal with non-performing assets (NPAs) and a capital infusion plan of 70,000 crore over four years, starting with 25,000 crore in the current financial year

Government Intervention : Plan to Curb NPAs

RBI norms on one-time settlement for debt ridden sectors soon: Nov 02, 2016

- Reserve Bank is likely to come out soon with detailed norms for one-time settlement of loans in line with the Cabinet decision. for all debt-ridden sectors including construction and real estate, sources added.
- Banks' exposure to the construction sector stands at over Rs 3 lakh crore, and 45 per cent or Rs 1.35 lakh crore of the loans are under stress.
- Overall, gross NPAs of the public-sector banks have surged from 5.43 per cent (Rs 2.67 lakh crore) in 2014-15 to 9.32 per cent (Rs 4.76 lakh crore) in 2015-16.
- There could be separate norms which could be with regard to relaxation of margin money requirement for bank guarantees for the construction sector, among other things, sources said.
- The government had also proposed to form a conciliation board in all new construction projects. The construction sector contributes 8 per cent of the GDP and provides employment to some 40 million people in the country. The cabinet had also approved a NITI Aayog proposal related to the construction sector that seeks to eliminate bottlenecks for projects where contractors are fighting a legal battle with government agencies.

Government Expenditure : India Remains World's Largest Arms Importer

India continues to remain the **world's largest arms importer, accounting for 14% of the global arms imports in the 2011-2015** timeframe. It was revealed by report on international arms transfers released by a global think-tank, **Stockholm International Peace Research Institute (SIPRI).**

- Key highlights Top arms importers are:

I. India (14%),

II.China (4.7%),

III.Australia (3.6%),

IV.Pakistan (3.3%),

V.Vietnam (2.9%) and

VI.South Korea (2.6%).

India's arms imports:

- It remains three times greater than those of its rivals Pakistan and China.
- Its biggest suppliers are Russia, United States (US), Israel and France.
- This indicates India's **failure to build a strong domestic defence-industrial base (DIB)** and Indian arms industry has failed to produce competitive indigenously-designed weapons.
- India has spent over **120 billion dollars** on arms acquisitions over the last 15 years most of them from foreign suppliers.

Government Expenditure : India Remains World's Largest Arms Importer

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China's scenario:

- Earlier China used to be top on the imports chart but in past few decades it has gradually built a stronger DIB.
- China has emerged as the world's **third largest arms exporter** after United States and Russia.
- Pakistan is the main recipient of Chinese arms exports accounting for 35% of the total imports followed by Bangladesh (20%) and Myanmar (16%).
- **Russia is China's largest arms supplier accounting for 59%** followed by France (15%) and Ukraine (14%).

MILITARY EXPENDITURE (% OF GDP) IN INDIA

Government Expenditure : India Remains World's Largest Arms Importer

- The import bill is further set to zoom upwards with some major deals, without any Make in India component, in the pipeline.
- This includes the direct purchase of 36 French Rafale fighters for over Rs. 60,000 crore and,
- The Rs. 39,000-crore acquisition of five advanced Russian S-400 Triumf air defence missile systems.

Current Economic Condition

Economy likely to grow at 7.6 per cent in 2016-17: NCAER

- Although **urban demand is predicted to remain strong**, **external demand continues to be volatile**," NCAER said in statement.
- Its estimates show that the **output of kharif foodgrains** is expected to reflect an **increase of 10 per cent to 11 per cent over last year's output of 124 million tonnes.**
- Despite healthy growth in **tax revenues**, the combination of rising expenditure and lower-than-expected non-tax revenues is likely to "**test** the government's resolve" to abide by the **fiscal deficit target set out in Budget 2016-17 of 3.5**, NCAER added.
- The National Council of Applied Economic Research (NCAER) is one of India's oldest economic think-tank set up in 1956.

Case Study : Government Interference

Case Discussion – Price Stability:
Cancer drug price goes up from Rs 8,000 to Rs 1.08 lakh

Costly remedy

Category	Name of drug	Current price (in ₹)	Earlier price (in ₹)
Anti-cancer	Geftinate	11,500	5,900
	Glivec	1,08,000	8,500
Blood pressure/ Heart	Cardace 5mg	128	92
	Plavix	1,615	147
Antibiotic	Moxicip 400	399	250
	Taribid 200	173	34
Cholesterol	Storvas 10	97	62

Case Study : Government Interference

- The Union government decision to **decontrol prices of 108 drugs** -- used to **treat tuberculosis, AIDS, diabetes and heart ailments** -- has jacked up their prices. In some cases, prices have seen an unbelievable rise.
- The price of Glivec, an anti-cancer tablet, for example, has risen from Rs 8,500 to Rs 1.08 lakh.
- Plavix, used to treat blood pressure and heart ailments, will cost Rs 1,615, against the earlier Rs 147. An anti-rabi injection, Kamrab, priced at Rs 2,670, will now cost Rs 7,000.
- In a circular issued before Prime Minister Narendra Modi's visit to the US, the government asked the **National Pharmaceutical Pricing Authority (NPPA), an autonomous body, to withdraw its May 2014 guidelines on drug price control**.
- NPPA had capped the prices of these 108 drugs, in addition to the already listed 800 essential drugs, to improve their affordability, in the wake of official figures that there are 4.1 crore diabetes, 4.7 crore coronary heart disease, 22 lakh TB, 11 lakh cancer and 25 lakh HIV/AIDS patients in the country.

Case Study : Government Interference

- **Are drug companies behind the move?**
  Drug companies, no doubt, are happy. Their argument is that the 108 drugs mostly relate to lifestyle diseases and are not 'essential'. One drug company executive said pharma companies themselves have volunteered to keep prices of 800 essential drugs as low as possible. Also, he asks, "In a free market, how can a regulator control prices."
- **So now, will the prices of all 108 drugs go up?**
  No, say officials. "The government has only taken the powers of NPPA and kept them with it. The government will negotiate with pharma companies to keep prices low. The aim is to cut through red tapism," said a senior official in the ministry of chemicals and fertilisers.
- **Why did the govt do it, in the first place?**
  The government decided to empower itself to deal with the pricing of some limited and non-essential drugs. Instead of seeing this as a favour to pharmaceutical companies, it should be seen as an encouragement for them to invest and spend on R&Ds.

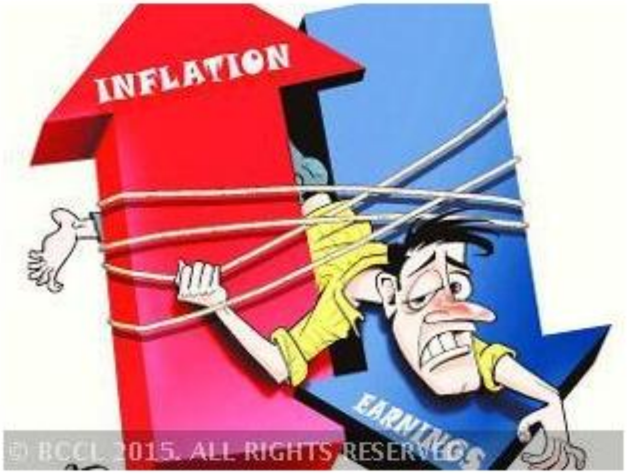
Case Study : Government Interference

- **But surely some pharma firms might have benefitted?**
  Definitely. Subsequent to the new move, 0.7 per cent of the combined sales of Sun Pharma and Ranbaxy in India will be out of price control. The corresponding figures for Torrent and Lupin will be 1.5 per cent and 0.7 per cent, respectively. Soon after the government decision, share prices of pharma companies shot up. Sun Pharma and Ranbaxy gained nearly 2 per cent and GSK Pharma and Davis Lab gained 1 per cent each. Glenmark was also up around 1 per cent.
- **What's the anti-decontrol group saying?**
  Former Union minister for chemicals and fertilisers Srikant Jena alleges that the timing of decontrol smacks of a plot to help multinational pharmaceutical companies, mostly headquartered in the US, to earn bumper profits. He said the decision seems to have been taken to let Prime Minister Narendra Modi earn some brownie points while interacting with top US officials and company executives.
- **Weren't these drugs under price control regime earlier?**
  The Ministry of chemicals and fertilisers had, on May 30, 2013, delegated powers to the NPPA to regulate the prices of life-saving drugs. This resulted in a significant reduction in prices of a broad spectrum of drugs. The Modi government extended this regulation to even lifesaving drugs for cancer, HIV, tuberculosis, malaria, diabetes, cardiovascular diseases and asthma. The government later withdrew these guidelines, ahead of Modi's visit to the US.

Case Study : Economy not out of danger zone as inflation up, IIP down

WEAK INDUSTRIAL GROWTH

- Industrial output growth slowed to 3.6 per cent in September, the lowest in four months and down sharply from an almost three year high of 6.3 per cent in August



Indian economy is still not out of the woods as industrial production slackened to a four-month low of 3.6% while retail inflation inched up to 5%.

HIGHER INFLATION

- Separately, the Consumer Price Index showed retail inflation at 5 per cent in October, accelerating for the third successive month and higher than expectations of about 4.8 per cent. Rising prices may dampen expectations of a cut in interest rates to support an economy that's now seen expanding at about 7.5 per cent or lower and may find the going difficult once the festival-led spike in demand eases.

Case Discussion:Achhe Din Globally Could Make it Easier for Modi Sarkar

Oct 18 2014 : The Economic Times (Mumbai)

- Global commodities have tumbled in recent months, ending an extended bull run that had hurt India by widening the current account and fiscal deficits, besides raising subsidies and weakening the rupee. All this is now reversing. Petrol prices are at a 16-month low, cooking oil and rubber are at a five-year low. Sugar and cotton are also down. This augurs well for a lower rate of inflation...Low Prices Won't Lead to Rate Cut
- India Inc is seeking lower interest rates to boost demand, thanks to both consumer and wholesale price readings dropping to record lows in September due to lower commodity prices. But there's little sign that falling commodity rates are prompting firms to lower prices, who are choosing to cut output instead. So even as the pressure grows on RBI Governor Raghuram Rajan to cut rates, he is unlikely to budge at the next policy announcement on December 2, reports MC Govardhana Rangan

Case Discussion

Current rate $44.47

BRENT CRUDE OIL

June 2014 peak	$115.7
Oct 2014 lowest	$83

WHY IS OIL FALLING?

Supply has increased substantially while demand outlook is weak

- **US shale** output has risen significantly
- **OPEC shows** no signs of cutting output
- **Saudi Arabia** not willing to bear burden. It increased Sep output 0.5% to 9.65 million barrels per day
- **IEA has** cut global energy demand forecast four months in a row
- **IMF** has scaled down the outlook for global economic growth

Has Oil Bottomed Out?

Bank of America and BNP Paribas SA say prices to hold above $80 a barrel

Analysts divided, but oil rose to $87 on Friday

Oil below $80 can make some shale fields unviable

Saudi Arabia may let oil fall to keep some suppliers out

Oil likely to fall further if OPEC does not cut supply

OPEC supplies only 40% of global oil

What Can Make Oil Rise Again?

Revival in economic growth in Europe and Asia

Any output cut by OPEC

Turmoil in the Middle East spikes to disrupt supply

Does Oil Affect Other Commodities?

Impacts Sugar. More cane is used for sugar, as ethanol unattractive at low oil prices

Reflects weak economic growth which affects other commodities

Impact on India

- **India imports** 80% of crude oil requirements
- **Low prices** lead to lower current account deficit, supports rupee
- **Petrol prices** have fallen to a 16-month low
- **Diesel prices** can be cut by about ₹2 per litre
- **It reduces** the subsidy outgo, helps fiscal health

COMMODITY PRICES IN INDIA

SUGAR

October 2012
₹34/kg
October 2014
₹28/kg
Change
-17.6%
in past two years

COTTON

October 1, 2013
₹6,065/quintal
October 1, 2014
₹4,480/quintal
Change
-26%

SOYABEAN

May 2014
₹4,500/quintal
October 2014
₹2,900/quintal
Change
-35%

COOKING OILS

Palm oil prices at over 5 yrs low
Oilseed also down
Low soyabean prices worrying farmers
Industry wants higher duty on crude palm oil imports

RUBBER

Prices at lowest level in over 5 yrs
Imports have risen sharply
Domestic output is down due to the glut

Case Study : Employment : Startups, Ecomms Gun for IITians to Boost Firepower

- **Cos prefer engineers over MBAs for roles in operations, marketing, finance, procurement**
- IITians are stealing a march and job roles over MBAs. Start-ups and large e-commerce companies such as companies such as Flipkart, Ola, Oyo Rooms, Jabong, CarDekho.com, Shopclues and Be wakoof.com, plan to hire more engi neers this year in corporate and managerial functions. These companies are increasingly looking at engineers for roles in operations, marketing, business finance, procurement, etc. Traditionally, MBAs have been preferred for such roles.Companies could save ` . 5-6 lakh every year if they hire an engineer instead of an MBA from a top b-school like the IIMs.

Engineers tend to be more data-driven. They also tend to be younger and find it easier to slip into a start-up culture. Moreover, with every function becoming more tech-enabled, IITians have an edge over B-School graduates, hiring managers said.

Case Study : Foreign Capital and Investment and Make in India :
INDIA MEETS BRITAIN: TRACKING THE UK'S TOP INDIAN COMPANIES

- The UK continues to be the most popular business destination in Europe for Indian companies in fact Indian companies invest more in the UK than the rest of Europe combined.

- Indian investors also continue to seek access to leading edge UK technology, expertise and intellectual property (IP), often leveraging this back in India, for example in food processing and digital media technology.

KEY SECTORS

- Three sectors primarily compose Indian industry's profile in the UK: **technology and telecoms; pharmaceuticals and chemicals; and engineering and manufacturing.The** top four fastest-growing com panies Rolta, Bharti Airtel, Aegis Outsourcing and Secure Meters all hail from the technology sector, a reflection perhaps of the UK's emergence as a world-leading technology hub.

>>UK Prime Minister David Cameron announced in 2010 that the UK would aim to double bilateral trade with India from £11.5 million to £23 million by 2015 and it seems to be on track to achieving this

Case Study : Foreign Capital and Investment and Make in India :

INDIA MEETS BRITAIN: TRACKING THE UK'S TOP INDIAN COMPANIES

"PM Modi's visit to the UK is the first by an Indian prime minister in nearly one decade. There is huge excitement, of course, among the Indian Diaspora in the UK, but the business community is also keenly looking forward to a substantial boost in economic relations and commercial cooperation announcements from the visit. We are delighted and proud to serve as the Institutional Partner from India for the official India-UK CEO Forum and we hope to generate more thought leadership in the process, driving some big business ideas that highlight the real potential of India-UK collaboration."

–Chandrajit Banerjee, *Director General, CII*

Source: Confederation of Indian Industry (CII)

LOOKING AHEAD

- The Indian economy appears to be gathering pace as the Modi government tries to `walk the talk' on key reforms. Its pro-business stance will further encourage many Indian businesses to pursue their global ambitions and Indian investment in the UK is likely to continue to grow as a result. The new government will no doubt bolster bilateral ties between the two countries as it encourages business into India and reduces hurdles for FDI.

Case Study : Foreign Capital and Investment and Make in India :

3 days, 27 deals: India 'most open', says PM Narendra Modi in UK

1. UK listed **OPG Power** Ventures plc will add to its existing investment in India by £2.9 billion to a total of £3.4 billion, creating around 100 UK jobs over next few years. The investment will create 4200 MW of new power capacity in India, of which 1000 MW will be solar power and 3200 MW will be thermal and renewable power in Tamil Nadu.
2. **King's College Hospital** NHS Foundation Trust and Indo UK Healthcare have signed a pact to open King's College Hospital, Chandigarh, which will lead to the creation of jobs for 2,500 nurses and 500 doctors
3. **Merlin Entertainments** plc has announced its first business in India — a Madame Tussauds wax attraction scheduled to open in New Delhi in early 2017. Merlin is also looking to roll out several more of its 'Midway' attraction brands such as Sea Life and Legoland Discovery Centres in key cities across India, and expects to invest up to £50 million there over the next ten years
4. **Genus ABS** will invest £1 million in India, providing latest dairy genetics and constructing a state-of-the-art facility near Pune

Case Study : Foreign Capital and Investment and Make in India :

5. **Solar PV generator** in the UK and Europe, Lightsource, has announced a £2 billion investment in India. It will design, install and manage around 3 gigawatts of solar power infrastructure in India over the next 5 years
6. The UK's **Kloudpad** Mobility Research Ltd has announced a £100 million investment in South India to 'Make in India' the next generation of smart watches, wearables and tablets, creating 2,500 skilled jobs in India and supporting 50 highly skilled researchers in the UK
7. **Vodafone** has announced a range of further investments in India totalling £1.3 billion (Rs 13,000 crore) to support the Government of India's 'Digital India' and 'Make in India' campaigns
8. Representatives of the UK's insurance industry with JVs in India have announced a number of agreements to increase their FDI in the country. For example, should their applications for regulatory approval be granted, **Standard Life, Bupa and Aviva** have committed to invest a combined total of £238 million of FDI in their Indian joint ventures
9. E-commerce cloud platform provider, **cloudBuy**, is signing a contract with the Confederation of Indian Industry (CII) for an online business to business marketplace
10. UK technology company **Intelligent Energy** recently signed an agreement to acquire the energy management business of Indian firm GTL. It will provide clean energy to 27,400 telecoms towers in India, with a contract value of £1.2 billion over ten years

Case Study : Foreign Capital and Investment and Make in India :

11. **Holland & Barrett International** has partnered with Apollo Hospitals in a deal worth £20 million. The partnership will open 1,000 Holland & Barrett outlets in India over the next 5 years. The first store will open in New Delhi in January 2016
12. **Indiabulls Housing** Finance Limited has invested £66 million into OakNorth Bank Limited, a recently authorised bank providing lending to UK entrepreneurs and small business owners
13. **SSPSL**, a subsidiary of India's Strides Shasun will announce an £8 million investment in its England based facility
14. **Advatech** Health Care will invest £5 million in the UK and introduce 'disruptive' IT technology to ambulances
15. **TV**S is opening £20 million advanced logistics facility in Barnsley generating 100 new jobs, growing to 500 over 5 years, in addition to 50 jobs being created through market growth
16. Indian learning solutions provider **Dexler** is setting up Dexler Education UK with investments of around £10 million
17. **London Stock Exchange Group and Yes Bank** are signing an MoU to foster collaborations on bond and equity issuance, with a focus on Green Infrastructure Finance
18. **HDFC** will issue rupee denominated bonds overseas up to $750 million under the RBI guidelines, in one or more tranches. It will list the initial issue of bonds for trading on the London Stock Exchange
19. **Bharti Airtel** intends issuing its maiden sterling bond of up to £500 million to be listed on the London Stock Exchange
20. **State Bank of India and London Stock Exchange** Group to collaborate to create the 'FTSE-SBI India Bonds Indices' which will be used initially by a new investment fund run by SBI.

Case Study : Foreign Capital and Investment and Make in India

21. The offshore arm of the UK's **Equiniti Gr**oup, Equiniti India announced its expansion plan in Chennai that will create 500 new jobs by end of 2017
22. **Zyfin and Sun Global** will be listing the world's first India fixed income ETF on the London Stock Exchange
23. **SBI UK** will open two branches in Hounslow and Ilford and expand of its Manchester and Leicester branches
24. **Wipro** has increased its investment in the UK with the opening of its newest office for Wipro Digital
25. **TCS**, with British Council, will provide opportunities for 1,000 graduate interns from British universities to train and work in India over the next five years
26. **HSBC** has announced the launch of its 'Skills for Life' initiative in India, a programme to skill 75,000 disadvantaged young people and women over five years
27. MoU between the two countries on tech cooperation in the rail sector

Case Study : Economic Reforms

FDI reforms to revitalize India-UK partnership: CII

Key changes to the FDI regime include raising the limit for FDI approvals from the **Foreign Investment Promotion Board (FIPB) to Rs 5,000 crore from Rs 3,000 crore,** increasing foreign-investor limits in several sectors including private banks, defence and non-news entertainment media as well as allowing property developers to sell completed projects to foreign investors without lock-in periods.

DEFENCE, BANKING BIG WINNERS

FDI cap has been increased from 74% to 100% for several sectors, including non-scheduled air transport service, ground handling, credit info firms and satellites

DEFENCE: FIIs, venture capital limit up from 24% to 49%. Overseas investors don't need govt nod to invest up to 49%

BANKING: 74% FII investment allowed, given fungibility with FDI

RETAIL: 'Manufacturers' can enter retailing, including e-commerce

- Single brand retailers such as Marks & Spencer, Adidas, IKEA allowed into e-commerce
- Companies such as Apple exempted from sourcing norms for single-brand retail

PLANTATIONS: Apart from tea, 100% FDI allowed in coffee, rubber, cardamom, palm oil & olive oil

CONSTRUCTION: Several conditions eased, including lock-in clause for exit

- Definition of real estate changed, to exclude township development construction of residential & commercial premises
- 100% FDI allowed in mgmt of townships and malls

AVIATION: 49% FDI under automatic route for regional air transport service

MEDIA & BROADCASTING
100% FDI allowed in DTH, cable networks, mobile TV & teleports with no govt approval needed up to 49%

- 49% FDI with FIPB nod allowed for FM radio, uplinking of news channels
- 100% FDI under automatic route for uplinking of non-news channels and downlinking of TV channels

Case Study : Economic Reforms

- "The recent FDI announcements covering **16 sectors** include many areas of interest to the UK industry. The UK can build up its investment pipeline in the areas of **defence manufacturing, infrastructure and real estate, financial services and conventional and renewable energy industry**, among others," CII added.
- It said the business community is also keenly looking forward to a substantial boost in economic relations and commercial cooperation announcements from the visit.
- According to a CII analysis, cumulative equity investment from the UK to India between January 2003 and August 2015 amounted to USD 54.35 billion.
- The annual equity investment from the UK for 2015 has already touched a six-year high at over USD 4 billion. At its peak in 2008, annual equity investment had crossed USD .