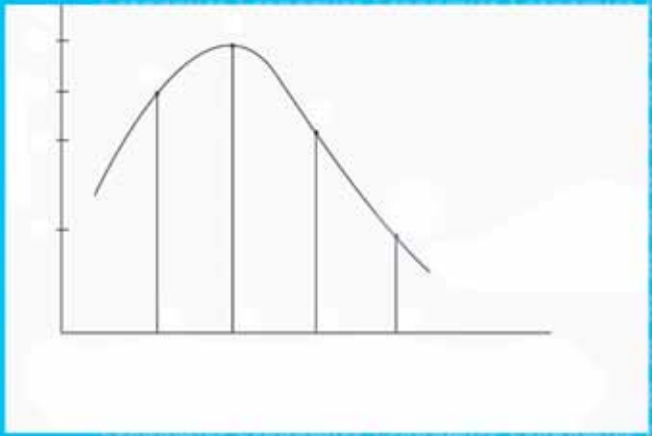
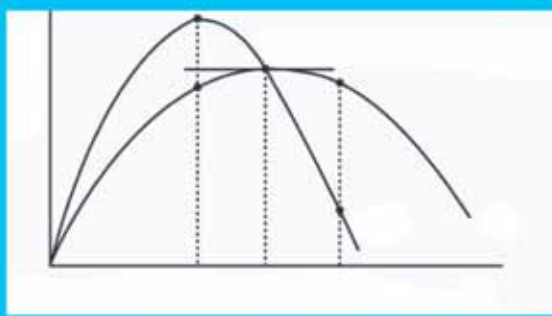


Economics

Classes 9-10



NATIONAL CURRICULUM & TEXTBOOK BOARD, DHAKA

**Sanctioned as textbook for class Nine-Ten from session 2013
By National Curriculum and Textbook Board**

Economics

Class Nine-Ten

Written by

Md. Zahirul Islam Sikder

Dr. Md. Azam Khan

Mohammad Fakhru Alam

Editor

Prof M. Ismail Hossain

Prof Md. Amir Hossain

Translated by

Shwagota Sayeed

Nabila Nuzhat

National Curriculum and Textbook Board, Dhaka.

Published by
National Curriculum and Textbook Board
69-70, Motijheel commercial Area, Dhaka.

[All right reserved by the Publisher]

Trial Edition

First Edition: 2012

Coordinated by
Dilruba Ahmed

Computer Compose
Perform color graphics (Pvt.) Ltd.

Cover
Shudarshan Bachar
Sujaul Abedeen

Design
National Curriculum and Textbook Board

For free distribution form academic year 2010 by the Government of Bangladesh
Printed by:

PREFACE

Education is the pre-requisite for the holistic development in our national life. To cope with the challenges of the fast changing world and to lead Bangladesh to the doorstep of development and prosperity, a well educated and skilled population is needed. In order to build up a nation imbued with the spirit of the Language Movement and our Liberation War, the secondary education aims at flourishing the talents and prospects inherent in the learners. Besides, the other aims also include expansion and consolidation of the basic knowledge and skills of the learners acquired at the primary level in order to make them fit for entry into higher education.

The aims of secondary education further emphasise on developing these learners as skilled and competent citizens of the country through the process of acquiring knowledge at the backdrop of socio-economic, cultural and environmental settings.

Keeping the aims and objectives of National Education Policy 2010 ahead, the curriculum at the secondary level has been revised. In the revised curriculum the national aims, objectives and contemporary needs have been reflected. Along with these expected learning outcomes have been determined based on the learner's age, merit and level of acquisition. Besides, efforts have been made to raise, starting from the level of moral and humanistic values down to awareness on history and tradition, the spirit of the Liberation War, passion for art-culture and literature, patriotism, feelings for nature and equal dignity to all irrespective of religions, caste, creed and sex. Efforts have also been made to apply science in all spheres of our life in order to build a nation advanced in science. Attempts are also there to make the learner capable of implementing the goals envisioned in Digital Bangladesh-2021.

In the light of the present curriculum almost all the textbooks at the secondary level have been introduced. While introducing the textbooks, the capacity, aptitude and prior knowledge of the learners have been taken into utmost consideration. While selecting the contexts and their presentation special attention has been given on the expansion of the learner's creative faculty. Adding learning outcomes at the beginning of each chapter, hints about the achievable knowledge of the learners have been given. By adding variety of activities, creative and other questions evaluation has also been made creative.

It is indispensable for the students to be concerned about the economic activities and economic development of a country. Focusing on this aspect the Economic book for class Nine- Ten is designed. Aspects such as, introduction and importance of modern economic, Utility, demand, production, market, banking system, economic in Bangladesh, important economic aspects of Bangladesh, economic system of Bangladesh government are presented in an easier and comprehensive way. These issues are helpful to broaden the outlook and change the demand of the student.

Considering the challenges and commitments of 21st century and following the revised curriculum the textbook has been written. Therefore we welcome with our highest consideration any suggestions, both constructive and rationale as well for the further improvement of the book. Amidst huge activities needed for introducing a textbook, this one has been written within a very short span of time frame. We will continue our effort to make the next edition of this book more beautiful, decent and free from any types of errors.

We appreciate the endeavours of those who assisted very sincerely with their merit and hard work in the process of writing, translating, editing, illustration, introducing sample questions and printing of the book. We hope the book will ensure joyful reading and achievement of expected skills from the learners.

Prof. Md. Mostafa Kamaluddin

Chairman

National Curriculum and Textbook Board, Dhaka.

Table of Contents

Chapter	Title of Chapter	Page
One	Introduction to Economics	1-11
Two	The Important Ideas of Economics	12-23
Three	Utility, Demand, Supply, and Equilibrium	24-36
Four	Production and Organization	37-49
Five	Market	50-62
Six	National Income and Its Measurement	63-71
Seven	Money and Banking System	72-88
Eight	The Economy of Bangladesh	89-106
Nine	Important Economic Issues in Bangladesh	107-124
Ten	The Public Finance of Bangladesh Government	125-140

Chapter One

Introduction to Economics

1. Introduction to Economics:

From birth till death, man struggles to survive relentlessly. All throughout the life man proceeds overcoming various obstacles. The subject, economics, helps in numerous ways to overcome these problems or obstacles on man's path to tread upon. Economics plays a very significant role to obtain prosperity for human, society or country. To know and learn about economics is, therefore, important. In this chapter, the origin and development of economics; the major economic problems; the definition and principles of economics, the circular flow of income and the different economic systems have been discussed briefly.



It can be expected that after studying this chapter, we will be able to-

- Describe chronologically the origination and development of economics
- Explain the mutual relationship between scarcity and infinite poverty
- Illustrate the concept of economics
- Describe the ten main principles of economics
- Introduce the various economic systems
- Evaluate the comparative merits and demerits of different economic systems.

Economic Introduce

1.1 The Origin and Development of Economics

Today the economics we study was not so organized in earlier times. The way of living of humans was much simpler in ancient societies. Food, clothing and habitation-these, only, were the basic needs of humans. The modes of exchanging goods were very limited. Basically, physical labour was the only means for production. During the time of the prophet Moses, that means, at around 2500 BC, in Hebrew civilization, in religious scriptures and in the books of philosophy, there have been some scattered discussions about economics. Income, religion, morality, philosophy and economics were discussed all together at that time. There was no individual existence of economics as a discipline.

The basis of today's European civilization is constructed upon the thoughts of the Greek thinkers, Roman laws and the Christian religion. It was in Greece that Aristotle and other philosophers accepted the idea of individual ownership for the first time, and individual ownership upon land had been established. In the history of Greek civilization, Aristotle is taken to be the first economist. Special attention has been paid on the division of labour, business and the use of money. The Greek civilization is mainly a civilization based on city-states. Slavery was an accepted fact at that time. The inhabitants of the cities were mainly traders and mechanics. The English word, economics, has come from the Greek word *Okonimia*. *Okonomia* means the Management of the Household. Plato (427-347 BC) and Aristotle (384-322 BC) were the two famous scholars of the Greek civilization. These two thinkers have discussed about varied fundamental topics of economics, along with individual property, the wages of the labourers, slavery and interest.

The Romans are known better as martial and successful state administrators. The Romans had mainly adopted the economic guidance of the Greeks as their own. In the Roman society, agriculture was considered as one very great and honourable occupation. And the Roman philosophers considered lending money at interest as a crime equal to that of murdering.

In ancient India, at 4th BC, the issues of politics, society, economics and martial factors have been cast light upon in Koutillya's 'Political Economy'. From the last part of the 16th century till the last part of the 18th century, (1590-1780), the expansion that occurred in international trade in England, France and Italy, that is termed as Mercantilism. With the target of increasing the wealth of the country, the power of the state and making of surplus in trade, the merchants of England exported more while imported very little. Goods produced in England were exported in different countries of the world in huge quantities and valuable metals/minerals (gold, silver, diamonds, etc) were imported. By the middle of the 18th century, the French took their stance against the luxurious lifestyle of the rich people of that country, excessive taxation, and the mercantilism of England and propagated the tenet of Physiocracy. In the opinion of the physiocrats, agriculture (along with mining and pisciculture) is the productive sector. On the other hand industry and trading were considered as non-productive sectors.

This way, during the ancient and middle ages, economics has been discussed in a scattered way. Economics received the recognition as a separate discipline when the British economist, Adam Smith in 1776, wrote his famous book, "An Inquiry into the Nature and Causes of the Wealth of Nations". The basis of today's economics is this book of Smith.

Task: Write chronologically about the origin and development of economics.

1.2 Two Major Economic Problems: Scarcity and Unlimited Wants

Man cannot get everything that he wants. This is known as need. There is no end to this need in human life. To give an example, you are a student. Let us suppose, you have one thousand taka. You need shirt, pant and good shoes. In this way you will find that you need many things. But you have only one thousand taka. Compared to your needs, the amount of money is very little. In economics, this is known as 'scarcity of resources'. Because of scarcity, man chooses or selects according to the importance. If there was no need to choose, there would have been no need for the discipline, economics.

Scarcity and Unlimited Wants

The main problem of humans is not to be able to get everything in proportion to the wants. To produce any goods (e.g.- books) or services (e.g.- medical services) resources are necessary. But "wealth is limited." It is, thereby, possible to get limited goods and limited services by the means of limited wealth. Therefore, with limited wealth, all the necessities of men are not fulfilled. This is the reason of scarcity. Scarcity would not have been created if there were lesser needs. Famous economist professor L. Robbins says, "Economics is a science that analyses human behaviour related to the combination of unlimited wants and alternatively usable scarce resources." According to economist Samuelson, since resources are scarce, therefore, the question of the best utilization of the resources in the society holds such importance. The want for resources obtained from the nature, like sunlight or wind is very high. But we do not have to spend any money to get these. Usually there is no scarcity for these resources. Since the wants of humans are too many and resources are limited, therefore, with these limited resources all the wants of humans are not satisfied. Amongst numerous wants, humans satisfy a few. And they fulfil these wants judging the importance of these wants. Humans satiate the most necessary wants on priority basis. This is known as selection of wants.

1.3 What is Economics?

With the development of knowledge and science, the sphere of economics has grown as well. As a combination of the knowledge of economics from both the past and the present, economics, as a discipline is now much developed or enriched. Among those who have presented economics as a subject or discipline, Adam Smith, David Ricardo, John Stuart Mill think of economics as a science of wealth. This trend of economics is known as classical economics.

Definition of Economics Given by Adam Smith: "Economics is a science that explores the nature and reason of the wealth of the nations." 'Economics grows centring wealth or resources. So, to acquire resources is the main purpose of man's economic activities. The weakness of Smith's definition lies in: 1. How economics would satiate man's unlimited wants by means of limited resources, there is no mention to that in this definition. 2. Although resources have been emphasized in this definition, man and his activities have been ignored. 3. To acquire resources have been given importance, whereas by which means resources can be acquired, that has not been referred to. 4. In this definition, resources stand for goods, but there is no mention of services.

Definition of Economics Given by Professor Marshall: Marshall emphasizes more on human welfare than resources. He says, "Economics discusses the general activities of human life." The prior topics of discussion of economics are income of man and the expenditure of that money for the purpose of satisfying wants. That means, the main

purpose of economics is to accomplish human welfare. Marshall has only discussed about the accomplishment of human welfare in real life. Nowadays, the problem of scarcity is the main problem of economics. In Marshall's definition, this basic problem of the humans has not been taken into consideration.

Definition of Economics Given by Professor L. Robins: Professor L. Robins has defined Economics in a way that has been much more acceptable. In his opinion, "Economics is a science that analyses human behaviour related to the combination of unlimited wants and alternatively usable scarce resources." The characteristics of this definition are as follows:

1. Human wants are unlimited and the nature and volume of the wants are different. 2. The resource and time to fulfil the wants are very limited. 3. One very important part of discussion of economics is how to adjust unlimited wants by the means of limited resources. 4. As the supply of the resources is limited, we have to try to satisfy our varied wants with the same resources. 5. Wants are fulfilled as per their priority. For these reasons, this definition is considered to be a more suitable one.

Criticism of the Definition of Robins: 1. Robins has observed the subject matter of economics from an extended point of view. 2. Humans like some things in their personal and social lives that are not discussed in economics. 3. It is not referred that the main purpose of economic activities is human welfare. 4. The social position of economics has not been discussed in Robins' definition. 5. The economic development of the modern world has not been included in his definition. 6. Robins has only discussed economics with price but skipped to discuss national income, employment system, investment, etc. In the end it can be said that Robins' definition is comparatively complicated. No theory in economics is above criticism. Therefore, in spite of the flaws, the definition provided by Robins is more acceptable.

1.4 We have to face unlimited wants in the perspective of limitation of resources in our society. Before illustrating different concepts and ideas of economics, the ten fundamental principles of economics are briefly discussed here.

The Ten Principles of Economics

1. People Face Trade-offs

To get something that we like, we must sacrifice some other thing that we like. To give an example, if you spend all of your time studying economics, you will have to keep off from studying Bengali or English. Similarly, if you are watching television, you will not be able to spend time for playing. If the government is spending more for the military sector in the budget, then it is reducing its expenditure in other civil sectors including education sector. That means, man, in the society, chooses an alternative for a trade-off.

2. Opportunity Cost

If you are spending time at school for your studies, then you cannot help your father for his works at home. By the way, if you were involved in any economic activity at home, your family would have been benefitted monetarily from that. But at that time you are studying at school. Here, not to be able to work at home for your studies is the opportunity cost of studies.

3. Rational People Think at the Margin

Rational people think at the margin. After the feast at a wedding ceremony some of you think that it would have been better if you could eat a little more, and some others think that it would have been better to have eaten a little less. This little more to eat or little less to eat is the marginal eating. Let us suppose, you achieved an A in one subject, you would feel that if you had studied a little more you could have obtained an A+. Man also thinks of marginal advantages and disadvantages. For example, you ate three bananas one after another. The third banana is the marginal banana. Eating the marginal banana, the satisfaction you earned, that is known as the marginal utility. To have that third banana, the money that you have spent is known as the marginal cost. As a rational being, you will eat the marginal banana only when the marginal utility will be greater than the marginal cost.

4. People Respond to Incentives

Inspiration or incentives play an important role for every task. Man gets incentives and therefore, performs the job with better care. If your father tells you that he will buy you a cycle if you can obtain a golden A+, inevitably the enthusiasm in you for your studies will be enhanced. Similarly, in Economics, if the labourer gets incentives, he produces more.

5. Trade can Make Everyone Better-Off

Ford in the United States, and Toyota in Japan are two much renowned companies in the world for car trading. There is enough commercial competition existent between these two companies. To draw the attention of the general customers, both of the companies offer various conveniences and reduce prices to occupy the market. Through the process of these commercial activities, the United States and Japan, both are profited, on the other hand, people can buy cars at a lesser price.

6. Markets are Usually a Good Way to Organize Economic Activities

Economic activities are organized by the market system. The reciprocal actions and reactions between the farms and households discern the price of any good. Owners of the farms supply goods observing the market demands and numerous households buy these goods and services as per their income and needs.

7. Government can Sometimes Improve Market Outcomes

The market system is run by the signal of the 'invisible hand'. But always it does not turn out to be correct. For many reasons, the invisible hand fails to work perfectly. In these situations governmental interventions become a must. Inability to proper utilization of resources, environment pollution and corruption, to be saved from factors like these, the interference of the government is necessary.

8. A Country's Standard of Living Depends on Its Ability to Produce Goods and Services

The standard of living of the people of those countries is high whose capabilities for producing goods and services are better. The production capacity of the people of the

developed countries is much better which is the reason why their per capita income is much higher (\$37,500 in the United States and \$35,200 in Japan). As a result they attain better food, better healthcare, and better civic facilities. Working capacity of the labourers also grow.

9. Prices Rise When the Government Prints Too Much Money

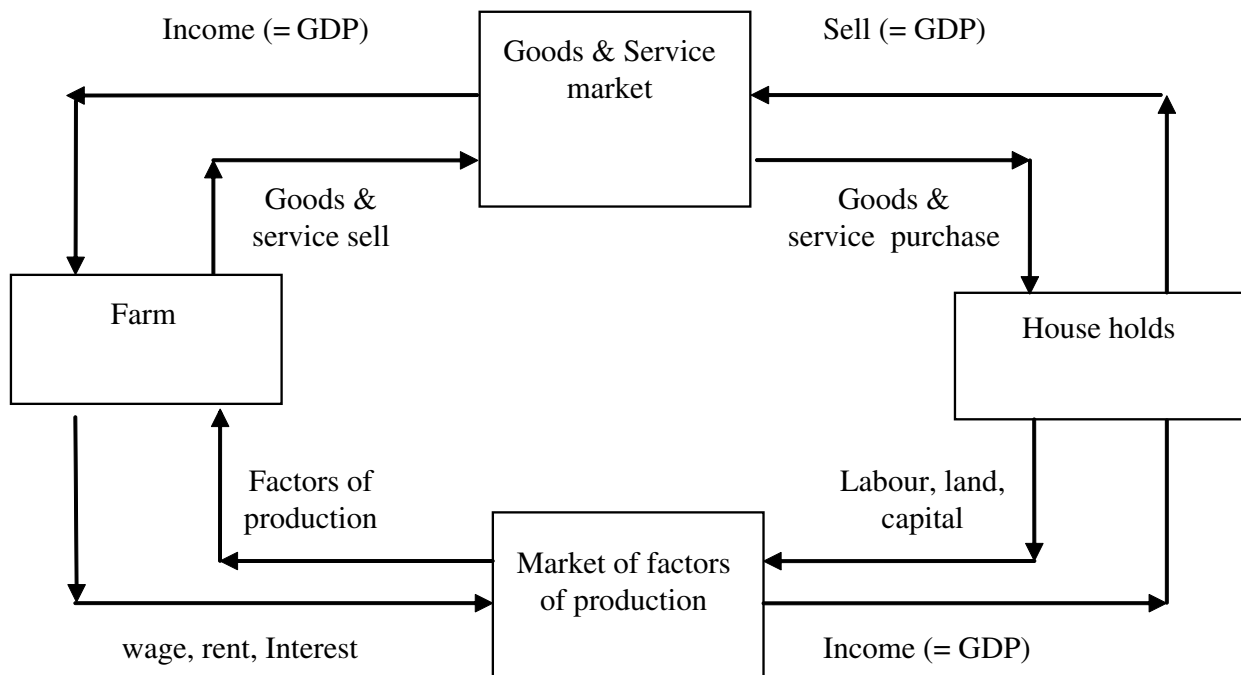
The power to print money rests in the hands of the central bank. If the central bank is printing too much money than inflation occurs, that means the price level of goods rises. Inflation causes the value of money to fall. For example, you can get the necessary materials for your studies spending tk 500. When the value of money diminishes, you will have to spend tk 650 to get the same materials, which is tk 150 more (tk 650 - tk 500) than the previous tk 500.

10. Society Faces a Short-Run Trade-Off between Inflation and Unemployment

The rise in the price level of the goods is known as inflation. And the labourers who are willing to work at the market wages but are failing to get a job-they are the unemployed. When inflation decreases, unemployment rises. On the other hand, when unemployment diminishes, inflation increases.

1.5 The Circular Flow of Income (the two sectors)

There are two types of agents in a strong economy, consumer or household and producer or farm. How the income and expenditure flow in a circular motion between these two types of agents that is shown here by the diagram below.



Circular flow of Income

In the diagram of the circular flow of income, it is shown that the farm obtains the necessary materials for its production (land, labour, capital) from the households. In exchange of these the members of the households get rent, wage and interest from the farm. Here, what is the expenditure of the farm, that is the income of the household. And the households spend that income earned to buy the goods produced by the farm which is the income of the farm. This way the circular flow of the income and expenditure between the farm and the household or between the national income and national expenditure remains persistent.

1.6 Different Economic Systems: It is the expectation of every country of the world to enhance the welfare of the country solving the economic problems. Economic system stands for economic laws and provisions, philosophy, rules and regulations and the environment in which the economic activities take place. There are many economic systems in the world. For example, a. Capitalistic economy, b. Socialistic economy, c. Mixed economy and d. Islamic economy.

1.6.1 Capitalistic Economy

In this system, the materials of production are under individual proprietorship and the entire economic activities are run by automated price system, mainly by non-governmental initiatives and without any governmental interference. This type of financial system is termed as capitalistic economy. By the end of the 18th century, through the French Revolution, there was the initiation of the capitalistic economy in whole of Europe. Classical economist Adam Smith and his followers support this system.

Characteristics of Capitalistic Economy

The major characteristics of the capitalistic economy are given below:

1. **Private Property:** In capitalistic economy, majority of the resources or the materials for production of the society are under individual ownership. Individual exchanges or consumes these.
2. **Private Enterprise:** In capitalism maximum economic activities, e.g.- production, exchange, distribution, consumption, etc are run by individual enterprise. Governmental interference is not expected in these enterprises.
3. **Free Competition:** In this system, many farms get involved in free competition regarding the production of goods and services. As a result, the prices of the goods are less and newer discoveries are possible.
4. **Automatic Price System:** In capitalism the demand and supply in the market automatically decide the price of the good.
5. **Profit:** the producer, in capitalism, produces with the target of the highest profit possible.
6. **Consumers' Liberty:** Every consumer is free to buy and consume goods according to his/her individual choice, wish and taste. The producer supplies as per the demand of the consumer.
7. **Inequality of Income:** In a capitalistic society there remains a greater inequality between the rich and the general people in the society.
8. **Role of the Government:** Government, in this system, remains occupied with the maintenance of the law and order, protecting the state, and securing the rights of wealth.

In different sectors of economy, through mutual dependence, the activities of the capitalistic economy are run. It is not selflessly, rather everyone; according to their own interests perform the economic activities.

1.6.2 Socialistic or Command Economy

In socialistic economy, the state holds the ownership of maximum of the resources and factors of production in the society. State is the owner of majority of the industries and institutions of production and they are run by the directions of the government. The state decides which products will be produced and in what quantity, how and for whom.

Characteristics of Socialistic Economy

1. **State Ownership of Resources:** In socialistic economy, state is the owner of most of the resources (land, industries, mines, etc) and factors of production.
2. **Central Plannings:** The state performs all the tasks alongside the production and distribution. All the plannings are taken by the centre or the state.
3. **Lack of Consumers' Freedom:** In socialism, in maximum cases, the consumers consume the goods decided by the state to be produced. No consumer can consume anything spending money on his/her own will.
4. **Lack of Free Competition:** As the production, in maximum cases is run by state enterprise, there is no free competition between a large numbers of private entrepreneurs.
5. **Absence of Private Profit:** In socialism, instead of individual profit, production is run for national demand and overall welfare. So, no industry is developed here by individual or private enterprises. Agriculture, industries and trade, everything is under the state's control, so there is no private profit.

Mixed Economic System :

The economy in which individual ownership and private enterprise exists side by side with state enterprise and control, that is known as the mixed economy. That is, in this financial system, private and state enterprises play a combined role. In maximum countries of the world, mixed economy is existent. For example, the United States, England, Germany, Bangladesh, India and others.

Characteristic of Mixed Economy

In different countries of the world, the characteristics of mixed economy are of different kinds. Usually, the following characteristics of mixed economy are observed:

1. **The Private and State Ownership of Resources:** In mixed economy an individual can freely possess and enjoy his/her movable and immovable properties and also trade those off. Side by side with that, the government runs the institutions that provide the public properties (highway) and services (healthcare).
2. **Private Enterprise:** In mixed economy, maximum economic activities along with production, trading, distribution and consumption, are organized and conducted by private enterprises.

3. **State Enterprise:** In mixed economy, state enterprises are taken alongside private enterprises. The vital/basic and heavy industries, national security and institutions that are significantly public-related, are conducted by the state.
4. **Profit:** It is possible to earn huge profits by conducting maximum economic activities in the private sector.
5. **Freedom of the Consumer:** In this system, the consumer enjoys complete freedom regarding the trading and consuming general products. However, if the government feels it necessary, it can influence the price of the goods and control the production and consumption of any good as per its necessity. For example: smoking, production of drugs and consumption, etc.

Many think of this mixed economy as a developed financial system since pure capitalism or socialism can be found nowhere in the world.

Islamic Economic System

The economic system that is built upon the fundamental rules and regulations of Islam is known as the Islamic economic system.

Characteristics of the Islamic Economic System:

In Islamic economic system it is suggested to use all the resources in the world for the welfare of human kind. The characteristics of this system worth mentioning are as follows:

1. **Related to All the Areas of Human Life:** Islamic economic system discusses about all the sectors of human life instead of any separated or partial sectors of life.
2. **There is No Discrimination in Human Rights and Responsibilities:** In Islamic economic system there is no inequality or discrimination regarding the rights, duties and responsibilities between individual and the community. The reason behind this is, in this system, every individual is given honour and the fullest rights to live.
3. **Conducted on the Basis of Islamic Law:** The basic principles of Islamic economies depends on the Islamic laws. It has been told to solve the economic problems as per the main philosophy of Islam, the direction and guidance of the Holy Quran and the Prophet (sm).
4. **The Utmost Use of Resources for Human Welfare:** In Islamic economic system, all the natural and human resources of a country are referred to as under people's possession and are to be utilized for people's welfare.
5. **Depository Ownership of the Resources:** Regarding the use of resources, man can only consider himself as a depositor of the Creator. For this reason, economic prosperity and success cannot create corruption and self-indulgence in human character.

6. **Interest-Free Deposit:** Islamic economy does not permit taking interests. Here the banking system offers interest-free deposits.
7. **Jakat and Fitra:** In this system, a distribution system based upon reason and logic has been propagated. With this target, money is taken from the rich people in the form of Jakat and Fitra and is distributed amongst the poor.

Exercise

Short Questions

1. Discuss the origin and development of economics.
2. Define economics. Which of the definitions is more acceptable and why?
3. Discuss the ten principles of economics.

Descriptive Questions

1. What do you understand by scarcity and unlimited wants?
2. Illustrate the definition of economics given by Adam Smith.
3. What do you understand by the circular flow of income (two sector)?
4. What is capitalistic economic system?
5. What is mixed economic system?

Multiple-Choice Questions

1. Who is the father of economics?

a. David Ricardo	b. Aristotle
c. Adam Smith	d. L. Robins
2. Market is a good medium to organize economic activities. Because, there-
 - a. one can bargain
 - b. one can buy consumer products at a cheap price
 - c. goods can be produced according to the demand

Which one of the following is correct?

- | | |
|---------------|------------------|
| a. i and ii | b. i and iii |
| c. ii and iii | d. i, ii and iii |

Read the following passage and answer question number 3 and 4

Nabil went to the market to buy sugar and found that the price of sugar is too high. A buyer standing beside him told him that sugar is being sold at the governmental selling centre at the reasonable price just across the street.

3. Which economic system is prevailing in Nabil's country?
- a. islamic
 - b. mixed
 - c. capitalistic
 - d. socialistic
4. In the economic system of Nabil's country-
- a. there grows inequality of income
 - b. interest-free loan is exchanged
 - c. stability of price is persistent
 - d. there is no freedom of private enterprise

Creative Questions

1. Telephone conversation of Rumi and her friend who is living abroad-

Rumi: The cost of rice is increasing every month.

Sumi: My monthly expenditure is always the same.

Rumi: How is it possible in your country?

Sumi: The price of the goods in this country is not raised just if someone wishes.

- a. What is feudalism?
 - b. What is meant by scarcity?
 - c. Which economic system is prevalent in Sumi's country? Explain it.
 - d. Analyse the difference between the economic system of Sumi's country and the mixed economic system.
2. Asad has been living in country 'A' for a long time. Recently he came to visit his own country and he told his younger brother about the experiences of his life abroad. The per capita income of the people of that country is very high. The owner of the institution that he works for did not need permission from the government before establishing his factory. And also, he can consume any product that he likes.
- a. Illustrate the definition of economics given by Adam Smith.
 - b. Describe the importance of incentive in economics.
 - c. Explain the real face of the existing economic system of the country 'A'.
 - d. Analyse the feasibility of the economic system of the country 'A' in maintaining the freedom of the consumer.

Chapter two

The Important Ideas of Economics

2. The Important Ideas of Economics

It is important to know some significant facts about economics to acquire a wholesome idea of Economics. The definition of resources and products and their classification, opportunity cost and choice, income, savings, investment, economic and non-economic activities, and above all, the activities of the people of Bangladesh have been discussed in this chapter. Before going to the main discussion of economics, these concepts will be helpful to understand economics.



It can be expected that after studying this chapter, we will be able to –

- Illustrate the concept of economic resources
- Compare between natural resources, human resources and produced goods
- Notify the different economic resources of Bangladesh
- Describe what is a product
- Differentiate between freely accessible goods and economic goods
- Compare between permanent and temporary consumable products
- Differentiate between intermediate and capital products
- Illustrate the concepts of opportunity cost and choice
- Discern the relation between income, savings and investment
- Prepare a sector-wise list of the different economic activities of Bangladesh.

2.1 Economic Resources

We all are more or less acquainted with the term, 'resource'. The word resource is included in our daily conversations in many different ways. For example, Mr. Rahim owns a lot of resources. To an economist, everything is not a resource. In economics, those are considered to be resources which are to be obtained by spending money. Briefly we also call them economic goods. For example, houses, furniture, television, etc are visible material resources and doctor's services, teacher's lessons are invisible or non-material resources. To obtain these mentioned things, money has to be spent. If any particular thing is to be referred to be a resource in economics, it has to have four characteristics. These are-

1. **Utility:** Utility means the capability of any goods/product to fulfil the need of the people. If any goods is to become a resource, then it must have the capability to create utility. People do not buy anything with money that does not have any utility.
2. **Insufficiency:** For a good to become a resource, its quantity and supply will be limited. For example, river water, wind, the supply of these is ample. These are not resources. On the other hand, land, gas, instruments, these are not amply available. That means, these are the insufficient goods for us.
3. **Transferrable/Exchangeable:** Another characteristic of resource is its transferability. Transferrable means being transferred to another hand or handed over. That means that goods can be taken as a resource the ownership of which can be changed. The genius of the world famous poet Rabindranath Tagore cannot be taken as resource in economic terms. Because, there can be no exchange or change of ownership of his brilliance. And the ownership of a television can be changed, which makes a TV a resource.
4. **Externality or Superficiality:** Those things that stand for the internal qualities of humans, are not resources in economic terms. Because we cannot feel their existence externally. For example: the special experience or knowledge of a person about computer or the qualities of someone's character cannot be termed as resources.

Classification of Resources:

Resources are of three kinds from the perspective of their origins. And there are four kinds of resources regarding ownership. Resources are of three kinds as per their origins. They are-

1. **Natural Resources:** Goods obtained from nature which satisfy people's needs are known as natural resources. For example- land, forests, mineral resources, rivers, etc.
2. **Human Resources:** The human qualities of a human are known as human resources. For example, physical capabilities, intelligence, enterprise, skill, organizational capacities, these are human resources. These are not transferrable or superficial, therefore, they are not termed as economic resources.
3. **Produces Resources:** Resources that are created utilizing natural and human resources are known as man-made resources. For example- raw materials, instruments, industries, transport and communication systems, educational institutions, health care centres, etc are built by humans, so they are produced resources.

On the other hand, resources can be divided into four categories according to ownership. For example-

1. **Private Property:** All the properties under the ownership of an individual are known as private properties. Personal land, house, furniture, etc are the examples of private properties.
2. **Collected Properties:** Resources that are under the combined ownership of the state and the public are known as collected properties. Roads, park, zoo, post office, hospital, etc are the examples of collected properties.
3. **National Properties:** The sum total of the private properties and collective properties is known as the national properties. Examples of national properties are- skill of the people, natural gas, water resources, etc.
4. **International Properties:** Resources that are not exactly under any particular country's possession, rather all the countries can utilize them, those are known as international properties. For example Seas, oceans, international rivers are international resources/ properties.

Task: Explain logically which can be said to be resources in terms of economics. Wheat, rice, genius of a poet, experience with the computer, sand of the desert.

Description of the Economic Resources of Bangladesh

Bangladesh is one of the underdeveloped countries in the world. The per capita income of an over-populated country like ours is very low. The economic resources of a country are very closely related to the development of the country. The description of the economic resources of our country is given below:

a. Agricultural Resources:

Bangladesh is an agriculture-based country. Fertile agricultural lands rich with alluvial soil occupy vast areas of this country. The fertility of our lands, favourable weather, rainfall, rivers, etc are supportive for agricultural production. There is about 2 crore and 22 lakh acres of tillable agricultural land in our country. In our agricultural lands, rice, wheat, dal, potato, oil-seed, fruits and other crops and jute, sugarcane, tea, tobacco, silk and other cash crops are produced. Almost 75% of our population is directly or indirectly dependent on agriculture. 21% of our national income comes from the agriculture sector.

b. Mineral Resources

Bangladesh is not rich in mineral resources. So far the minerals that have been discovered here are given a brief description below:

1. **Natural Gas:** The main mineral resource of Bangladesh is natural gas. So far 23 gas fields have been discovered in the country. There, about 13223.149 billion cubic foot gas is in reserve in total. Now, gas is being extracted from only 17 gas fields. The producing gas fields are: Bakhorabad, Hobigonj, Kailashtila, Rokidpur, Sylhet, Titas, Belabo (Narshingdi), Meghna, Sangu, Salda river, Jalalabad, Bianibazar,

Fenchuganj, Moulovibazar, Feni, Bibiana, and Bangura. This gas is used as raw material to produce chemical fertilizers. Besides, in electricity plants, industries and households, this gas is used as fuel.

2. **Limestone:** Limestone is used in producing cement, glass, paper, soap, blotching powder, etc. There are reserves of limestones in Bhangarhat of Sylhet, Baglibazar, Tekerhat of Sunamgonj, Jaipurhat, Jamalgonj of Jaipurhat and St. Martin island of Chittagong in Bangladesh.
3. **Chinaclay:** There are reserves of chinaclay in Bijoypur of Mymensingh and Patnitola of Naoga district. It is used in making utensils and sanitary products.
4. **Coal:** Coal has been discovered in Sylhet, Rajshahi, Jaipurhat, Faridpur, and Boror Pukuria of Dinajpur of Bangladesh. Nowadays coal is being lifted/extracted in Boro Pukuria of Sylhet.
5. **Chalk :** There are stores of chalk at Moddhopara of Dinajpur and Ranipukur of Rangpur district. Construction of roads, railways, dams, etc needs this stone.
6. **Celica Sand :** Reserves of Celica sands are there at Sylhet, Chittagong, Comilla and Jamalpur. It is used in producing glass, colour, and other chemicals.
7. **Sulphur:** Sulphur is used in producing gunpowder, at match factories, for oil refining and in some other sectors. There is the possibility of getting sulphur at Kutubdia Island in Chittagong.
8. **Mineral Oil:** Mineral oil has been found at Horipur at Sylhet. At the coastall regions of the country, Chittagong hill tracts, and at Sylhet, mineral oil is being searched for.
9. **Bronze:** Very little quantity of bronze has been found at Ranipukur and Pirgonj of Rangpur district and at the layers of chalk at Moddhopara of Dinajpur. Bronze is used for making electric goods and wire, coins, etc.

C. Forest Resources

Forestry and forest resources are very important natural resources. To keep the natural and environmental condition well at least 25% of the total land of the country should be forests. But the forest-land is only 17% of the total land of the country which is less compared to the other countries. For example, there are 34% forests in the United States, 63% in Japan, 67% in Burma, and 22% in India. The entire forest region of Bangladesh can be divided into five parts:

1. **Sundarban:** This forest is situated at the coastal regions of the districts of Khulna, Satkhira, Bagerhat, and Borguna. The total area of this forest is 6,017 square km. Sundori, Goran, Geoa, Bain and some other valuable trees are grown in this forest. The world-famous Royal Bengal Tiger lives in Sundarban and so do many different kinds of valuable animals and birds.
2. **Forests of Chittagong and Chittagong Hill Tracts:** About 15,333 square km of the hilly regions in these two districts are occupied by this forest. Segun, Garjan, Gamari, Jarul, Shimul, Champa, Bamboo, Cain, etc are grown in this forest in huge quantities.

3. **Madhupur and Vaoyal Forests:** The Madhupur Gar of Mymensingh and Tangail districts, and the Vaoyal Gar of Gazipur district together make this forest occupying at least 1064 Square km. Here, Shal, Gajari, Bonjam, Koroï and other trees are grown.
4. **Forest at Sylhet:** This forest is situated at Sylhet. Its size is about 1040 square km. Here, Shimul, Bonjam, Bamboo, Cain and many other trees are grown.
5. **Forest at Dinajpur and Rangpur:** This forest is situated at north-east of the country, at the Barendravumi of Dinajpur and Rangpur districts. Its size is about 39 square km. Shal, Gojari, are etc. grown here.

d. Animal Resources

Everywhere in Bangladesh, many different kinds of animals and birds are found. Among the domestic animals, cow, goat, sheep, buffalo, duck, chicken, etc are the main. Besides, in the Sundarban and forests of Chittagong Hill tracts there are tiger, elephant, deer, and some other valuable animals and numerous kinds of birds. Varied kinds of fishes are found in our rivers, lakes and marshes (haor) and ponds and in Bangaposagar.

e. Energy Resources

The usage of the power resources is a must in the sectors of factories, transports and communication, mechanized cultivation, household etc. There are some sources from which energy resources are obtained. These are, coal, mineral oil, natural gas, water, atomic energy, solar energy, and the different types of prevailing fuels.

Although at some places of Bangladesh, coal has been found, but the extracting has not yet begun. Petroleum has been found at Haripur in Sylhet. The necessary quantity of petroleum is imported from the foreign countries. It has not yet been possible to begin producing atomic and solar energies in this country.

The supply of energy in Bangladesh comes mostly from natural gas, electricity and some other prevailing staffs. We use natural gas in the factories, for household works and for producing electricity. Electricity is produced from water in this country. It is known as water electricity. The only electricity production plant of the country is situated at Kaptai in the Chittagong hill tracts, by the bank of the river Karnafuli. The electricity that is produced by gas, oil and coal, is known as heat electricity. In the electricity production plants in Bangladesh that are listed below, mineral oil is used as fuel:

1. Goalpara heat electricity centre, Khulna
2. Veramara heat electricity centre, Kushtia
3. Thakurgaon heat electricity centre
4. Saidpur heat electricity centre, Nilfamari

The electricity production centres that are run by gas in this country are-

1. Shiddhirgonj heat electricity centre, Narayanganj
2. Ashugonj heat electricity centre, Brahmanbaria

3. Ghorashal heat electricity centre, Narshingdi
4. Shahjibazar heat electricity centre, Sylhet
5. Chittagong heat electricity centre

Heat energy is produced in this country from various existing fuels like wood, hay, dung, jute-stalk, husk leaves etc. The present government has taken up the scheme of supplying electricity by quick rental service.

It is worth mentioning that, nowadays, air current, solar heat, and organic gas are being used in many countries as materials for producing energy. In the modern world, atomic energy is given much importance, too. It can be expected that in near future, energy production will be attempted from these sources as well.

f. Water Resources

Water is a basic natural resource which is must for the survival of animals and plants. Water resource is necessary for the sustenance and development of the agricultural, forestry, animal, and energy resources of the country. There are mainly three sources of water resources in Bangladesh, they are- 1. rivers, lakes and marshes, ponds and sea, 2. rainfall, and 3. underground water.

The water from these three sources is important for our agriculture. Cultivation is hampered if the supply of water is either less or more. In the internal water reservoirs and sea, there are fishes and other aquatic resources. Water electricity is produced from river current. Centring the numerous rivers and marshes and other water reservoirs, the transport system and trading have been developed in this country. River water and rainfall create positive impact upon the weather and environment of the country. If the development of water resource and its proper usage is ensured, then our economic development will surely gain pace.

2.2 Goods: By goods, we only understand material possessions. However, there are many goods in reality which, though non-material (e.g.- light, wind, etc), are goods in terms of economics. Therefore, we call all the things, both material and non-material, those have the capability to fulfil human needs, goods. That is, the thing that has utility is a goods.

Freely Accessible Goods: The goods that can be obtained without money are known as free-access goods. These goods are freely available in the nature and their supply is unlimited. e.g.- light, wind, river water, etc.

Economic Goods: The goods for which people have to pay are known as economic goods. Their supply is limited. e.g.- food, cloths, books, pen, chair, table, etc.

Permanently Consumable Goods: The goods that can be consumed over a long period of time are termed as permanently consumable goods. e.g.- refrigerator, car, house, land, playground, etc.

Temporarily Consumable Goods: The goods that are to be consumed within a short period of time and sometimes can be consumed for only once, they are known as temporarily consumable goods. e.g.- food, cloths, ornaments, vegetables, etc.

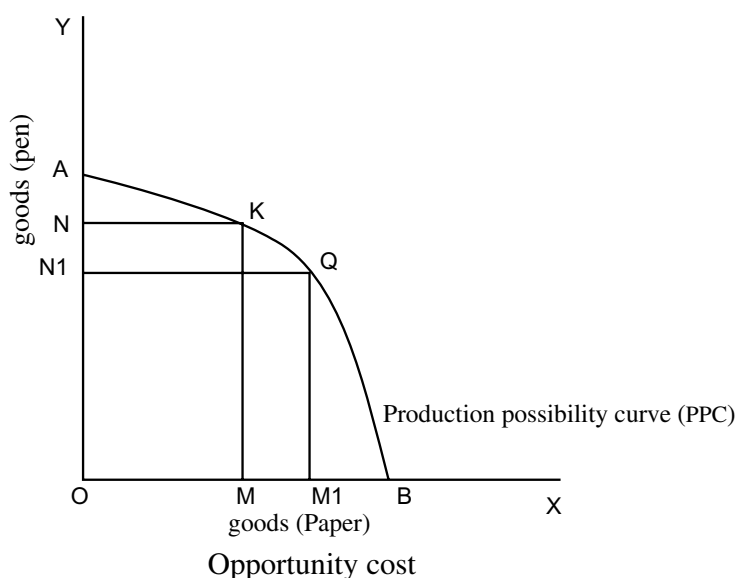
Intermediate Goods: Some produced goods that are not to be used for direct consumption, rather used as factors of production; those are known as intermediate goods. e.g.- raw materials, milk and sugar used for preparing sweets, etc. are intermediate goods.

Capital Goods: The produced goods that are used for the production of other goods, are known as capital goods. e.g.- instruments, factories, warehouses, etc. Capital goods can be used to produce other capital goods.

Task: Mention which good is of which kind- light, river water, table, land, ornaments, instruments.

2.3 Opportunity Cost and Choice

One highly used concept in economics is 'opportunity cost'. Suppose, you are a student. Can you do everything every day? For example, you cannot take the economics examination and watch a cricket game at the field at the same time. If you are choosing to do one task it will obviously not be possible for you to do the other one. Let us take another example, let us suppose that you have 1 acre of land. If rice is cultivated here, then 20 quintals of land can be produced in this land. If you want to cultivate jute on that land, it would be possible to produce 10 quintals of jute there. In this case, the opportunity cost of 20 quintals of rice is 10 quintals of jute. Briefly speaking, to obtain something, another has to be sacrificed- the sacrificed quantity is the opportunity cost of the other good. The concept of the opportunity cost can be shown more clearly by a picture-



In the picture, the OX axis shows paper and the OY axis shows pen. If I spend all of my resources to produce pen, I can produce OA quantity of pen. On the other hand if I want to get only paper, I can produce OB quantity of paper. The AB line that connects the two points A and B, is the production possibility curve. I can get both the products if I want to. Spending all of my resources, I can produce ON quantity of pen and OM quantity of paper. The point K on the production possibility curve shows this state. Now, if I want to produce MM₁ quantity of paper more, then I will have to sacrifice NN₁ quantity of the

production of pen. The point Q shows this condition. Here, NN_1 quantity of pen is the opportunity cost of the MM_1 quantity of the extra production of paper.

Now, if we think a little we can understand the concept of choice. Can we run our lives with only one goods? Definitely no. To live, we need a lot of goods. Here, for the convenience of understanding, let us consider only two goods. You want pen and also chocolate. Let us select a point on the opportunity cost curve (e.g.- Q or K) where we can get both. Not only for an individual, in our society also, we save to choose a condition where without wasting our limited resources, the utmost benefit of the society is ensured.

Task: Referring to two examples regarding opportunity cost from the real life present in a picture and show to your teacher.

2.3 Income, Savings and Investment

Income: For using a factor of production, the money that the factor or its owner gets in a fixed period of time that is known as income. The income obtained for labour is known as wage.

Savings: People income for consumption. Thinking of the future, people do not consume the whole of the earned income of the present. They keep a portion of that income in some economic institution. This portion that is kept is known as savings. Say for example, your father gets a salary of ten thousand taka in one month. He spends nine thousand for your family. Here, your father saves one thousand taka. This concept of savings can be shown by an equation. e.g.- $S = Y - C$ (when $Y > C$).

Here, S = savings, Y = income, C = consumption cost.

An individual's savings usually depends upon the quantity of income, responsibility towards the family, farsightedness, social security and the rate of interest.

Investment: People save from their income. When the saved money is utilized for enhancing production, it is known to be investment. For example, there are capital goods of one lakh taka in a factory at a particular time. To increase production, goods valued another fifty thousand taka are used in that factory. This extra fifty thousand taka is the investment. Through investment, the quantity of production rises and economic development is possible.

Task: Refer to at least four sectors where investment brings about economic development.

2.5 Economic Activities and Non-Economic Activities

For survival, people perform various activities. The main purpose of these tasks is to earn a living. For a living, some people work at factories, some at offices, and some on lands. Apart from earning a living, people also perform activities like playing, entertainment or rearing children. And some others get involved in works like stealing, robbing or snatching. All of these activities referred above are not to be termed as economic activities. We will divide these activities into two parts. e.g.- a)economic activities, b)non-economic activities.

a) Economic Activities

To earn a living, the activities taken up by people are known as economic activities. By economic activities, people earn money and spend that for survival. e.g.- the labourers work at the factories, farmers work at the lands, doctors treat the patients, industrialists run the industries, all these are economic activities. The basic inspiration of people for their economic activities is to fulfil their need of goods.

b) Non-Economic Activities

The activities which do not earn money which cannot be spent for the survival, those are known as non-economic activities. These activities, though they fulfil some of the needs of humans, they do not play a role in earning money. e.g.- the rearing of children by the parents, playing, the religious practices of a pious person, etc are the examples of non-economic activities. Besides, the activities by which there occurs some mal results in the society or the society is harmed, those are not referred to as economic activities. e.g.- stealing, snatching, robbery, corruption, etc.

2.6 Economic Activities of Bangladesh

Bangladesh is a developing country of South Asia with low income. The economy of this country is basically dependent on agriculture. However, the contribution from the industrial sector is also growing.

Agriculture Related Economic Activities: From the point of view of employment, agriculture is known as the largest sector now. 50% of the labour force is employed in this sector. Almost 75% of the total population is directly or indirectly related with agriculture. Cultivating the lands, sowing, irrigation, giving fertilizer, spreading insecticides, harvesting the crops, selling the crops, livestock farming, pisciculture, fishing, poultry, producing various types of vegetables and fruits, and selling, activities like these are included in the agricultural sector.

Economic Activities Other than Agriculture: Apart from agriculture, the other economic activities of the people of this country are- activities at the garments industry, various small industries and cottage industries, large industries and factories, public services and private services, construction of roads and railways, driving vehicles, small and big business, etc. Besides, many people of the country earn their living by making toys, dolls and sweets, tailoring, works of the blacksmiths, goldsmiths, shoemakers or curriers, weaver, woodmen, hawkers, making cigarettes, etc. Many people earn their living by working as village doctors, Ayurvedic physicians, exorcists, by showing performances of wild animals, begging, etc.

The economic activities of a poor country like Bangladesh are of varied kinds. From the very ancient time, the people of this country have been struggling relentlessly to live happy and well-to-do life by these various types of activities.

Task: Prepare a list of 10 agriculture based economic activities and 10 economic activities beyond agricultural activities of the people of Bangladesh.

Exercise

Short Questions

1. Give a brief description of the economic resources of Bangladesh.
2. Describe the mineral resources of Bangladesh.
3. Illustrate opportunity cost and choice with diagram.
4. Explain the economic activities of the people of Bangladesh.

Descriptive Questions

1. What are the characteristics of resources?
2. Refer to the classification of resources.
3. What is good?
4. Refer to the classification of goods.
5. What is opportunity cost?
6. Define income.
7. What is saving?
8. What do you understand by investment?
9. What are economic activities?
10. What do you understand by non-economic activities?

Multiple-Choice Questions

1. Which of the following is collective resource?
 - a. house
 - b. post-office
 - c. the river Padma
 - c. bay of Bengal

2. Good will is the wealth of business, Because of-

- i. has the capability to satisfy wants
- ii. ownership can be changed
- iii. collective ownership can be seen

Which of the following is correct?

- a. i
- b. i and ii
- c. ii and iii
- d. i, ii and iii

Read the following passage and answer question number 3 and 4

Rahela has a sewing machine. She earns monthly tk 10,000/- from it. After maintaining the family and the education costs of her children, she saves rest of the money. From that savings money, this year she has bought another sewing machine.

3. In economic terms, is Rahela's buying of the sewing machine?

- a. savings
- b. capital
- c. investment
- d. opportunity cost

4. By the last activity of Rahela-

- i. familiar security will be enhanced
- ii. responsibility towards the children will be increased
- iii. employment will grow

Which of the following is correct?

- a. i
- b. i and ii
- c. ii and iii
- d. i and iii

Creative Questions

1. Some guests have come at Shafiq's house. His mother gave him tk 1000/- and sent him to the market to buy some fish and meat. At the market he found that with that money he can buy 2 kg of fish and 4 kg of meat. Thinking a bit, he bought 1 kg fish and 2 kg meat.

- a. What, according to Professor Seligman, is income?
 - b. What is meant by power resource?
 - c. Illustrate the idea of Shafiq's buying fish and meat presenting it in a diagram.
 - d. Analyze the economic significance of Shafiq's choosing the two goods.
2. Hafiz can inspire any person very easily with his words. He has unrestrained capacity of organizing people. He has a room at Sadarghat for the preservation of goods that come from different parts of the country. From here, his employees supply goods to different parts of the country according to his will.
- a. What are economic goods?
 - b. What are natural resources?
 - c. What type of economic good is Hafiz's room at Sadarghat? Explain.
 - d. What type of resource is Hafiz's quality? Give reasons for your answer.

Chapter Three

Utility, Demand, Supply and Equilibrium

In this chapter, utility, consumption, total utility, and marginal utility, law of diminishing marginal utility, demand, the market demand line, and selection of the equilibrium price have been discussed.



It can be expected that after studying this chapter, we will be able to-

- Illustrate the concept of utility
- Discern the relation between utility, consumption and consumers
- Prove that the total utility is the sum of the marginal utilities
- Can illustrate the law of diminishing marginal utility with a picture
- Can elaborate the relation between price and the quantity of demand
- Can elaborate the relation between price and the quantity of supply
- Discern the equilibrium price and quantity

3. Utility, Demand, Supply and Equilibrium

3.1 Utility, Consumption and Consumers

Utility: We need many goods and materials for our life. Many other things are necessary along with food and cloths. Without these, we cannot live a normal life. e.g.- food, cloths, books, services of the doctor, etc fulfil the demands of the humans. Therefore, in economics, the capability of any good to satisfy people's needs is termed as utility.

Consumption: Every day we use rice, fish, pen, clock, cloths, in other words, we consume these things. Here, consumption does not, however, only stand for finishing these off. Because, we cannot actually destroy or finish anything. By using the goods we can just get their utility. We have to keep in mind that if the utility of any good is destroyed in any way other than satisfying a need, it will not be considered as consumption. That is, in economics, to finish the utility of any good for the purpose of satisfying a want or need, is known as consumption.

Consumer: The person who consumes, we call him/her the consumer. That is, other than the free accessibly goods, the person who is prepared to spend money to consume any other good, she/he is known as the consumer.

Task: Mention two differences between consumption and the consumer.
--

3.2 Total Utility and Marginal Utility

Total Utility

At the market, you want to buy more than one mango to eat. The money that you spend to buy the first mango, to buy for the second or third or fourth time, you do not spend the same. Because, after consuming the first mango, your wish to eat mango is satisfied to quite an extent. Your wish to eat mango for the second time, is lessened. For the third or fourth mango it will be even lesser. It might even be possible that you will not buy any more mangoes. Because, you do not have the wish to eat mango any longer, in other words, the utility of extra mangoes to you is zero. To buy mangoes, you have to spend money. Let us assume that, the first mango you buy for tk 8, you would agree to spend tk. 7 for the second mango, you want to give tk 6 for the third one and for the fourth, tk 5. Thus, you buy 4 mangoes for $(8+7+6+5)=\text{tk } 26$. If money is taken as the measure of utility, the total utility of four mangoes is 26. Therefore, the sum of the satisfaction from different units of a good derived at a particular time is known as the total utility. Since the extra mangoes gradually give lesser satisfaction, therefore, with the increment of consumption, the total utility increases at a decreasing rate.

Marginal Utility:

Suppose, you have bought 3 mangoes. Now you buy another mango. This fourth extra mango is the marginal mango. From this marginal mango, the satisfaction or the utility

you derive is the marginal utility. If you have spent tk 5 to buy this mango, then the marginal utility will be 5. That is, consuming one extra unit of good or service, the utility that one can get is marginal utility.

Presentation of Total Utility and Marginal Utility by a List

Unit of Good	Total Utility (in taka)	Marginal Utility (in taka)
1st	8	8.00
2nd	$8+7=15$	7.00
3rd	$15+6=21$	6.00
4th	$21+5=26$	5.00
5th	$26+4=30$	4.00
6th	$30+0=30$	0.00
7th	$30-1=29$	-1.00

It can be seen in the list above that when the price of the 1st mango is tk 8 then the marginal utility is tk 8. Buying the 2nd mango makes the total cost tk 15. The total utility derived from 2 mangoes is tk 15. And the marginal utility derived from the 2nd mango is 7. This way, utility derived from 4 mangoes is 26. The marginal utility of the 4th mango is 5. And thus the marginal utility, chronologically is, 8, 7, 6, 5, 4, 0, and -1 tk. And you will not buy the 7th mango since it has no utility to you.

Task: Note down four differences between total utility and marginal utility.

3.3 The Diminishing Law of Marginal Utility

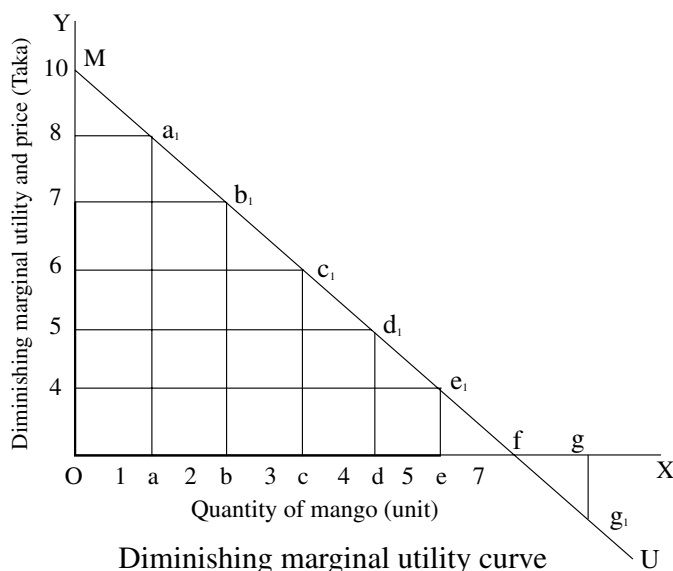
From the example above, it can be seen that if you eat the same quantity of mango repeatedly, your interest towards mango diminishes, and so does the utility. Since the utility falls, you want to pay less for one extra unit of mango. The utility of the 6th mango is 0 and the marginal utility of the 7th mango is negative. That means to consume the same product over and over again causes the marginal utility to diminish accordingly. This tendency of the marginal utility to fall due to the increment in the unit of consumption is known as the diminishing law of marginal utility.

The diminishing law of marginal utility maintains some conditions. These are, a) the consumer should have general capacity of judgement; b) the consumer can measure the utility of the good in terms of money if she/he wishes to; c) the price of the good is to be equal to the marginal utility; d) there will be no change in the income, taste and liking of the consumer while consuming the good.

Illustration of the Law by a Diagram

It is possible to show the diminishing law of marginal utility by a diagram. In the picture, the horizontal axis will show the quantity of mango and the vertical axis will show the marginal utility and the price.

Diagram:



In the picture, you get aa_1 quantity of utility or marginal utility from the 1st mango and you pay tk 8 for the 1st mango. With the increment of consumption, from the 2nd, 3rd, 4th and 5th mango, you gain bb_1 , cc_1 , dd_1 and ee_1 quantities of marginal utility respectively. That means, with the increasing consumption, you would agree to pay tk 7 for the 2nd mango, tk 6 for the 3rd, tk 5 for the 4th, tk 4 for the 5th. The marginal utility of the 6th mango is zero and the the marginal utility of the 7th is negative, i.e.- tk -1.00. The point f on the horizontal axis shows the zero marginal utility. And the marginal utility of the 7th mango is negative (tk -1) which is shown by gg_1 . Here, $ee_1 < dd_1 < cc_1 < bb_1 < aa_1$. From this we can understand that with the increasing consumption of mangoes the utility of the extra units gradually decrease for you. Now we can get the MU (Marginal Utility) line by connecting the points, a_1 , b_1 , c_1 , d_1 , e_1 , f_1 , and g_1 . The line is sloping on the right hand side. Here we can observe that with the increase in the quantity of consumption, the marginal utility is gradually decreasing. And that is why; the marginal utility line is sloping downwards.

3.4 Demand, The Law of Demand, Drawing the Demand Curve from the Demand Schedule (regular Goods): We, in our daily lives, want to get many things. Car, a beautiful house, good food, etc. But all of our wants are not demands. It is to show cruelty to the poor to give an example by a beggar. Three conditions are to be fulfilled in to make a demand in economics. e.g.- 1. the wish to get any good, 2. more than necessary capacity to buy, and 3. the wish to spend money to get that good. Therefore, if a buyer has the wish to buy a good, the capacity to buy it and the wish to buy it at fixed price, then it is called a demand in economics.

The Law of Demand: Your mother asked your father to bring hilsha fish from the market. Returning from the market, your father, annoyed, told her that the price of the hilsha fish is too high so it was not possible to buy it. That means, due to the rise in price, there is no demand for the hilsha fish to your father. Another day, your father returns home with two hilsha fish in his hand and said with a smiling face that today the price of the hilsha fish is low and that is why he bought it. So, there is a close relation between the demand and the price.

Therefore, by the law of demand, we understand, "all else being constant or unchanged, at a particular time, if the price of the good falls the quantity of demand rises and if the price rises, the quantity demanded falls." [price (↓) Demand (↑) again price (↑) Demand (↓)] . The other factors being constant means here, the taste of the buyer, habit, likings will not be changed and the income of the buyer and the price of the alternative goods will also remain unchanged, etc.

Drawing the Demand Curve from the Demand Schedule

We have seen the law of demand that there is an inverse or negative relationship between price and demand. That means, when price of the good increases, quantity demanded falls, on the other hand, when price falls, demand rises. This concept, when presented by a schedule, is called the demand schedule. Therefore, this can be said that, at a particular time, the different quantities of demand created at different prices for a good, when that is expressed by a schedule is known as the demand schedule or demand list.

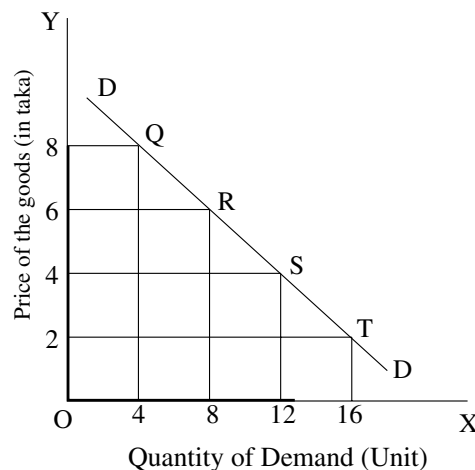
Demand Schedule or Demand List

Price of each unit of good (in taka)	Quantity of demand (unit)
8.00	4
6.00	8
4.00	12
2.00	16

In the schedule we can see that, when the price of one unit of a good is tk 8, a consumer buys 4 units of good. When the price falls to tk 6, tk 4 and tk 2, the demand rises to 8 units, 12 units and 16 units respectively. The inverse relation between price and demand is shown in the demand schedule.

From the demand schedule above, we can draw the demand curve.

Demand Curve



In the diagram above, the horizontal axis or the OX axis shows the quantity of demand and the vertical axis or OY axis shows the price of the good. When the price of the good is tk 8 then the quantity of demand is 4 units and the two lines join at the point Q. Likewise, 8 units at tk 6, 12 units at tk 4 and 16 units at tk 2 is shown at the points R, S and T. Now, if we join the points Q, R, S, and T, we will get the DD line. This DD line is the demand curve. The points on the DD line are indicating the different quantities of demand at different prices of a good.

This way we can draw the demand curve from the demand schedule according to the demand law. It is worth mentioning that we have drawn here the demand curve of a regular good. It is also possible to draw a demand curve for an irregular good. This, you can learn in your higher classes.

Task: Mention three differences between the demand schedule and the demand curve.

3.5 Drawing the Market Demand Curve

A personal demand curve can be drawn from a person's demand schedule. Similarly, it is also possible to draw a market demand curve. The sum total of the personal or different demands of all the consumers at a particular price in the market is known to be the market demand. For the convenience of our understanding, we will presume that the number of the consumers at the market is two. A market demand curve is drawn below from the personal demand schedules of the two consumers.

The Market Demand Schedule

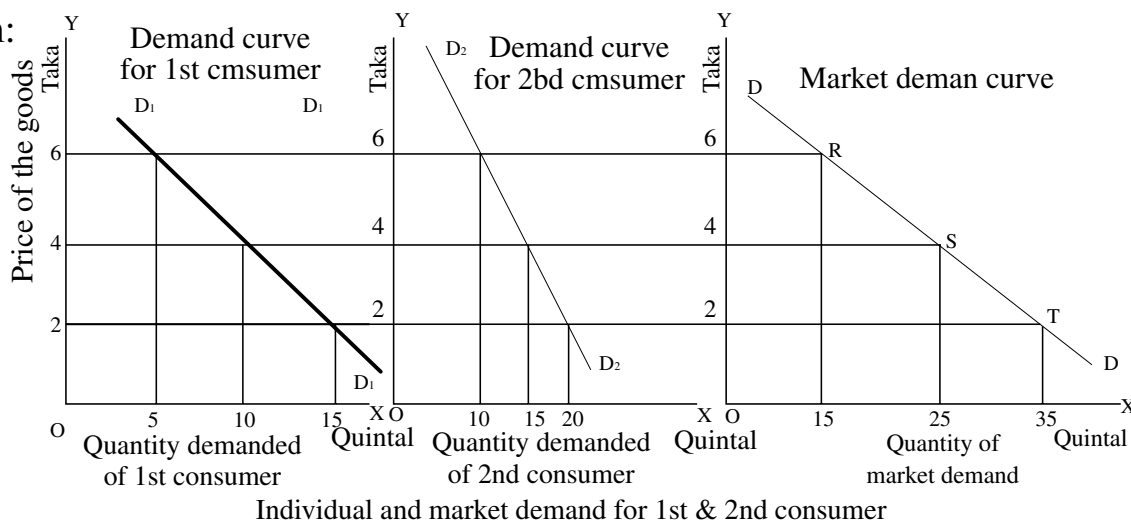
Price of the good (tk)	Demand of the 1st consumer (Q_1) Unit of the good (quintal)	Demand of the 2nd consumer (Q_2) Unit of the good (quintal)	Market demand (Q) ($Q = Q_1 + Q_2$) Unit of the good (quintal)
6.00	5	10	15
4.00	10	15	25
2.00	15	20	35

The schedule above shows the demands of the 1st and the 2nd consumer at different prices of a good. Now it will be shown how the market demand schedule is prepared from the individual demand schedule of these two consumers.

The demand curve that shows the quantities of a similar kind of good that different persons are prepared to buy at different prices is known as the market demand curve.

The market demand curve can be drawn by summing the demand curves of the 1st and the 2nd consumer side by side.

Diagram:



In the diagrams above, the personal demand curves of the 1st and the 2nd consumers are D_1D_1 and D_2D_2 respectively. When the price of the good is tk 6, the quantities of demand of the 1st and the 2nd consumers are 5 quintals and 10 quintals and the market demand, therefore, will be (5 quintals+10 quintals)=15 quintals, which is shown on the market demand curve by the point R. The price falling to tk 4 and tk 2 has resulted in the personal demands of the 1st and the 2nd consumer being (10 quintals+15 quintals)=25 quintals and (15 quintals+20 quintals)=35 quintals respectively, which has been shown in the market demand curve by the points S and T. Now let us join the points R, S and T to draw the DD demand curve. This is known as the market demand curve.

3.6 Supply, the Law of Supply and Drawing the Supply Curve from the Supply Schedule

Supply: When we go to the market we will find that the retailers have decorated their shops with various kinds of goods for selling. But we do not name this as supply. In economics, the quantity of a good that a producer is willing and capable to supply at a specified time and at a specific price, is known as supply. To mention, one good, a specified time and a specific price is considerable here. Therefore, the quantity of a product that a producer is willing to supply at a price is known to be supply in economic terms.

The Law of Supply

We buy and sell goods every now and then at the market. When will a producer/seller be interested to sell his/her product? Definitely when the price of the product is high at the market, only then the producer will be willing to sell the product. Suppose, when the price of potato is tk 15 per kg, the seller will sell 2 quintals of potato. If the price rises to tk 20 the producer is willing to supply more potatoes. Let us think, the supply then will be 30 quintals. That is with the rise of the price of the good the supply of the good also increases and with the fall of the price the supply decreases. Therefore, the relationship of price and supply is direct or positive. The way the price changes, the supply also changes that way. That means, all else being constant, (e.g.- stable technological and normal time is to be considered), as price rises, the corresponding quantity of supply rises and as price falls, the corresponding quantity of supply falls.

Drawing the Supply Curve from the Supply Schedule

When the price of the good rises, the quantity supplied increases and when the price falls, the quantity supplied also falls. This direct change of supply due to the change of price can be shown in a supply schedule.

The price of the good is shown mathematically on one side of the supply schedule and on the other, the supply.

The Supply Schedule

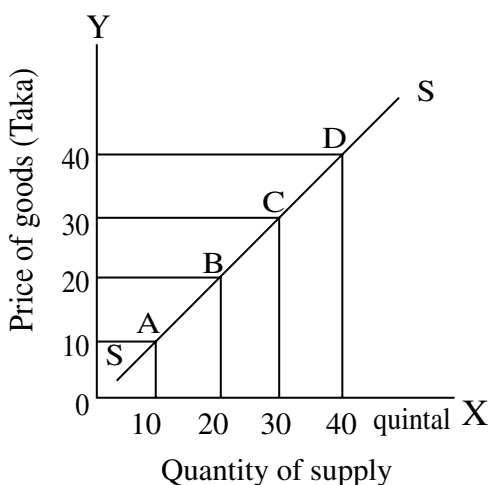
Price of each unit of the product (in taka)	Quantity of Supply (quintal)
10.00	10
20.00	20
30.00	30
40.00	40

It can be seen from the schedule that the supply of a good is 10 quintals when the price of that good is tk 10 per kg. When the price rises to tk 20, tk 30 and tk 40, the quantity supplied becomes 20 quintals, 30 quintals, and 40 quintals respectively. Thus the law of supply is reflected in the supply schedule.

The Supply Curve

The quantity of supply increases if the price of a product rises, and the quantity of supply falls if the price falls. When this direct change of supply in correspondence to the change of the price is shown by a curve or diagram, it is then called the supply curve.

How the supply curve is drawn from the supply schedule is shown below.



In the diagram, the supply of the good is shown in the horizontal axis or the OX axis and the OY axis or the vertical axis indicates the price of the good. When the price of the good is tk 10, the quantity of supply of the good is then 10 quintal. They connect at the point A. Thus, when the prices of the goods are tk 20, tk 30 and tk 40, the supplies of the goods are then 20 quintals, 30 quintals and 40 quintals respectively. They are connected at the points B, C and D. Now if we connect the points A, B, C and D, we will get the SS line. This is known as the supply curve.

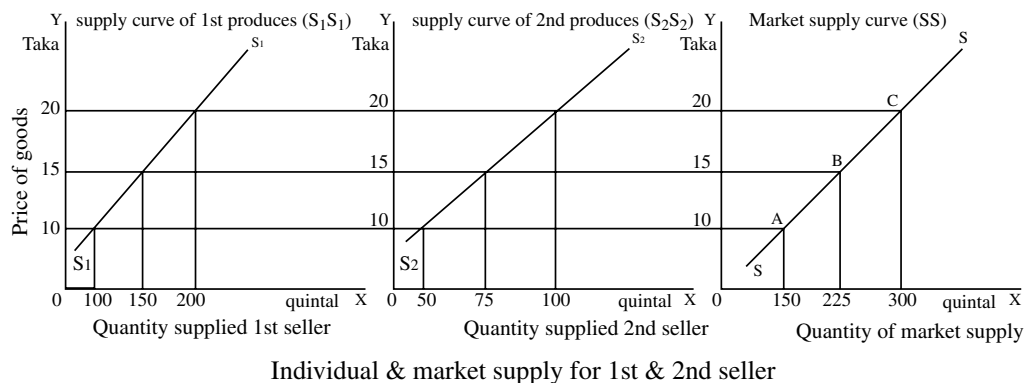
3.7 Drawing the Market Supply Curve

At a specified time, the different quantities of good that a producer supplies at different prices, is known as the personal or individual supply. On the other hand, the quantity of goods that all the producers supply at a specific time at different prices is known to be the market supply. Summing up the individual supply schedules of all the producers, the market supply schedule can be prepared. Here follows a brief and simplified market supply schedule-

Market Supply Schedule

Price of the Good (taka)	Supply of the 1st producer (S_1) Unit of good (quintal)	Supply of the 2nd producer (S_2) Unit of good (quintal)	Market supply $S = S_1 + S_2$ Unit of good (quintal)
10.00	100	50	150
15.00	150	75	225
20.00	200	100	300

In the table above, the supply of the 1st and the 2nd producers is shown. How it can be made possible to draw the market supply curve with the supplied goods of the two producers is shown below.

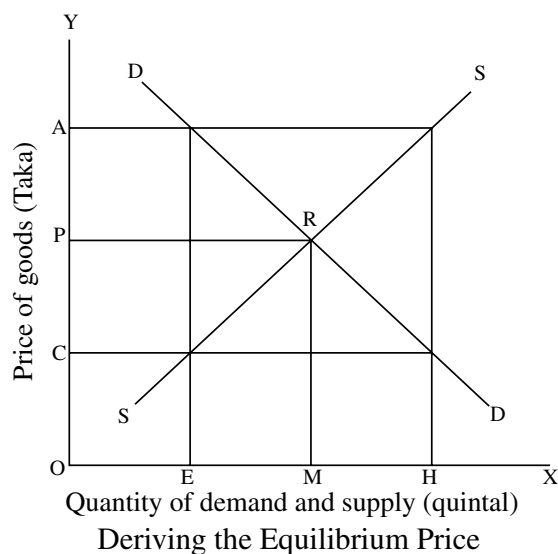


In the diagrams above, S_1S_1 and S_2S_2 are the individual supply curves of the 1st and the 2nd producers. When the price of the good in tk 10 the quantities of supply of the 1st and the 2nd producer are 100 quintals and 50 quintals respectively, and the market supply will, therefore, be $(100+50)=150$ quintals. This is shown by the point A in the diagram. When the price rises to tk 15, the quantities of the individual supplies of the 1st and the 2nd producers will be 150 quintals and 75 quintals and the market supply will be $(150+75)=225$ quintals. This is shown by the point B. When the price rises even more to tk 20, the quantities supplied by the 1st and the 2nd producers will be 200 and 100 quintals. The quantity of the total supply will be $(200+100)=300$ quintals, which is indicated by the point C in the diagram. Now we can draw the line SS by joining the points A, B and C. This is known as the market supply curve.

Task: Refer to 3 differences between supply schedule and supply curve.

3.8 : Deriving the Equilibrium Price

An ordinary picture of the market is that the bargain between the buyer and the seller for the price of the good. The buyer tries to buy the good at the lowest possible price. On the other hand the seller tries to sell it at the highest possible price. Through this bargain between the buyer and the seller, ultimately the good is bought or sold at a price where its demand and the supply are the same. The price at which the demand and the supply are the same is known to be the equilibrium price. At the equilibrium price the quantity of the good that is bought or sold is known as the equilibrium quantity.



In the diagram above, on the horizontal axis, the quantities of the demand and the supply are shown and on the vertical, the price of the good is indicated. In the diagram, the demand curve DD and the supply curve SS is drawn.

Suppose, at OA price, the quantity of the demand and the supply are respectively OE and OH. In this price, the quantity of supply is greater than the quantity of demand. When the supply is greater than the demand, a downwards pressure is created on the price. Thus, the price will fall from OA to OP. Here the demand and the supply will be the same. And if the price is OC, then the quantity of supply is OE and quantity of demand is OH. That is, here the demand is greater than the supply and therefore, the price of the good will definitely rise and the price will get stable at OP. There also, the demand and the supply are the same. Thus it can be seen that when the price is OP, only then the total quantity of the demand and the supply are the same that is OM. That means, at price OP, demand and supply are the same and there is no tendency of any rise or fall in the price. Therefore, OP is the equilibrium price and the equilibrium quantity is OM. The lines DD and SS intersect at the point R. This intersecting point R indicates the equilibrium price and the equilibrium quantity.

Task: Why the price does not move from the Equilibrium point? Mention some of the reasons.

Exercise

Short Questions

1. What is utility?
2. What do you understand by consumption and consumer?
3. What do you understand by total utility and marginal utility?
4. Define demand. What is the law of demand?
5. What is the market demand curve?
6. What is the law of supply?

Descriptive Questions

1. Discuss the diminishing law of marginal utility.
2. Draw a demand curve from a demand schedule.
3. Draw a market demand curve from a market demand schedule.
4. Draw a supply curve from a supply schedule.
5. Draw a market supply curve from a market supply schedule.
6. Explain the concept of deciding the equilibrium price by a diagram.

Multiple-Choice Questions

1. How many conditions are there for demand in economics?
 - a. 2
 - b. 3
 - c. 4
 - d. 5
2. Which of the conditions below is compulsory for market equilibrium?
 - a. the point where demand = supply
 - b. the point where demand > supply
 - c. the point where supply > demand
 - N. the point where supply \neq demand

Read the following passage and answer the question number 3 and 4

Tahsin bought a guava and ate it at the school. Here, the utility schedule of his guava is given below-

- c. Draw the demand curve from the demand schedule of the goods 'X', and explain it.
 - d. What kind of change may occur in the behaviour of Mr. Bashir if the alternative goods of the goods 'X' falls? Comment.
2. At the market Rahim finds that the price of potato per kg is tk 25. He wants to buy 120 kg of potato, but Karim wants to sell 160 kg of potato at the same price. When the price of potato falls to tk 20 the next day, Rahim buys 140 kg of potato and Karim sells 140 kg of potato.
 - a. What is demand?
 - b. Explain the law of demand.
 - c. Draw the supply curve for the potato of Karim and explain it.
 - d. Do you think that Rahim and Karim could reach at the equilibrium price at the market for potato? Give reasons for your answer.

Chapter Four

Production & Organisation

Production and organisation are two similar kinds of factors. Sharbat is a produced good. Water, lemon, sugar, etc are necessary to prepare sharbat. Utilizing ingredients, it is possible to produce goods or to create utility or satisfaction. And this job is done by organisation. For production, ingredients like water, sugar, lemon etc are needed, there has to be a planning how the production is to be done, different people perform different jobs while the production-these jobs are to be distributed according to the qualifications and skills, and finally the produced good has to be taken to the market. Organisation performs these types of jobs. If the organisation is not skilled, it is not possible to enhance production.



It can be expected that after studying this chapter, we will be able to-

- Illustrate the idea of production
- Explain the relation between production and producer
- Describe the factors of production
- Discuss about organisation and its growth
- Explain the relation between average and marginal production
- Illustrate the idea of production cost
- Identify visible cost and invisible cost
- Discern the difference between personal and social costs
- Be interested in productive works and enterprise
- Present the diminishing law of production with a schedule and graph

4.1 Production and Producer

Production basically means creating utility. The produced goods have to have an exchange cost. On the other hand, if utility is not produced, it is not called production. To create a new product or utility using the factors or the primary products is known to be production. e.g.- bread is made from flour, salt, water, roller, etc. Bread is a produced good. We satisfy our hunger eating bread. That is, making bread has created utility. We can get bread for money or in exchange of any other product. That is, there is an exchange cost for the new product, bread. If breads are produced for business purpose, then they need to be taken to the market. From collecting the ingredients to take the produced good to the market, all these jobs are supervised by organisation. e.g. which material is needed, from where these ingredients are to be collected, who will bring these, who will prepare the mould by mixing the flour, salt, water, who will roll the bread, who will bake it, who will then take it to the market, at what price it will be sold, organisation takes care of all these. If all these things are not supervised by the organisation skilfully, the highest quantity of production cannot be ensured from a fixed quantity of factors or ingredients. One individual can be the organiser and the producer. The process of production or creating utility is shown in five stages. e.g.-

1. **Transformative Production:** Producing new goods by transformation is known to be transformative production. e.g.- transforming wood conveniently into bed, chair, table, etc. Bed, chair, table, etc, therefore, are transformative production.
2. **Regional Production:** There are some goods, that, if moved from one place to another, their utility increases. For example, wood from the forest is usually used by the people who live near the forest as fuel. If brought to the city, people can make attractive furniture from this wood, thus its utility increases. Furthermore, flower is not appreciated in the forest. On the other hand, if that flower is placed on the compound of a house in the city, it is far more appreciated, that is, its utility increases.
3. **Time-Based Production:** The production and utility of many goods increase in the course of time. These are known as time-based production. e.g.- the outturn of paddy is more at the monsoon of Poush and Magh. On the other hand, at this time the price of paddy is less. Storing the paddy at this time to sell in the months of Vadra-Aswin, higher price can be offered.
4. **Service-Based Production:** The production that people produce by their services is known as the service-based production. The teacher makes educated people by giving lessons the doctor keeps the health of the people well by giving treatment, in other words, sustains or increases the production capacity.
5. **Ownership-Based Production:** It is possible to ensure superfluous production by changing the ownership of some of the economic goods and services. For example, a farmer can produce by buying an unused land and tilling it or can increase the production through better/improved cultivation by buying a used land.

You get the idea of production from above. Now you will know who the people are that do this production. Ramzan Ali is a farmer. He has 3 bighas of agricultural land. In this land, Ramzan produces paddy in one monsoon, and wheat in the other. In-between the production of paddy and wheat, he grows vegetables. As the factors of production for all

these, he uses seeds, fertilizer, water, insecticide, machines for harvesting. Mr Taher Ali employed many men and women as labourers after he established a garments factory. Exporting the produced cloths from his factory he earns a lot of money. The standard of living of all the workers involved in the industry increases.

Task: (1) Make a list of the factors of production and the produced goods.

Task: (2) Classify the changed situation given below according to the different types of production. (a) fish-pond, (b) work of the soldier, (c) affection of the parents, (d) giving the property of the father to the children, (e) making instruments from iron, (f) flour from wheat (g) sugar from the sugarcane, (h) rice from paddy, cakes from rice, (i) transporting the banana, fruits, vegetables from the village to the city, (j) selling the potato of the month Agrahayan in the month of Ashar.

Task: (3) Refer if Ramzan Ali is to be termed as a producer or organizer.

Task: (4) Explain the role of Taher Ali in solving the problem of unemployment.

4.2 Factors of Production

Let us suppose that in your area, wheat, potato, banana, rice and some other agricultural goods are produced alongside some industrial goods like cloths, biscuit, plastic, etc. To produce these agricultural and industrial goods, many factors are necessary. For the farmer, to produce rice, he needs land, seed, fertilizer, water, irrigation, labour, etc. On the other hand, to produce industrial goods, factory, building, cloth, thread, machine, electricity, gas, flour, sugar, oil, labour are necessary. To produce these goods, natural resources like soil, the fertility of soil, light and air, environment, mineral resources, sun light, water, and many other things are necessary. The goods that are mentioned here are factors of production. That means, the goods and services that are necessary for any kind of production, they are known as factors of production.

There are basically four types of production. For example, 1. Land, 2. Labour, 3. Capital, 4. Organisation.

1. **Land:** The natural resources that help for the production, they are known as land. e.g.- land, soil and the richness of the soil, minerals, forests and water resources, sun-ray, rainfall, weather, and all the other types of natural resources are included in land.
2. **Labour:** Every kind of physical and mental labour of men that is used for the purpose of production are called labour. The physical labour of farmer, fisherman, blacksmith, potter and the labourer of the industry of ready-made cloths is labour. On the other hand, the physical and intellectual labour of the officer and staff are also called labour. Similarly, the teachings of a teacher, services of a doctor and counselling of a lawyer are all labour.
3. **Capital:** Capital is the only factor of production that is produced by men. This produced factor, man uses for further production and not for consumption. e.g.- instruments, raw materials, factories, office furniture and so on.

- 4. Organisation:** Organisation is known as a synthesizer. To direct the act of production by bringing a harmony amongst the other factors of production like, land, labour and capital is known as organisation. To adjust and to direct the course of actions is also termed as management. The person who conducts this work is known as the organiser or entrepreneur. Therefore, the varied works of an entrepreneur, like, planning for producing something, bringing the land, labour, and capital together and combining them and to direct the act of production taking the risk, all these are included in organisation.

Therefore, it is a must that in the entire production system, land, labour, capital and organisation, all these four factors participate. Production is not possible with any one of these being absent. However, in the production arena, the importance of all these factors is not equivalent. Depending on the situation, some of the factors are needed more, and some are needed less. Since Bangladesh is an agriculture-based and heavily populated country, land and labour are comparatively more important than capital here. On the other hand, in the industrialist countries like Japan, the United States and others, capital is more significant than land and labour.

Task: (1) What could be the important factors of production in the perspective of our country?

Name of the country used in production	Important factors
Bangladesh is an agriculture-based country
Japan is an industrialist country

Task: (2) Arrange the factors as per their importance in the production sector.

Sector of production	Factors according to their importance are
Agriculture
Industry

4.3 Organisation and Its Development

Ayesha Begum has built a poultry farm in her house amidst all her household works. All throughout the year, eggs are produced from this farm. One year later, Ayesha went to visit a governmental fisheries project and after that the idea of pisciculture drew her attention. Within one year, from the neat income of selling eggs from her poultry farm, which is twenty thousand taka, she built a pond on the two bighas of land beside her home and started a fisheries project. Some more labourers are recruited in both of the farms. Ayesha's income increases when fishes from her starts being sold after one year along with selling eggs from her poultry. Her savings also increase even after fulfilling the expenditures of the education of her three children and all those of her household. As Ayesha's works grow in volume, her husband, Rahmat Ali leaves his job in the city and comes to join his wife's farm. With both of their enterprises, they manage to acquire some land, poultry and fisheries. They also employ 12 men and women. They train each of the

labourers. By turn, Ayesha and Rahmat supervise the labourers and their farms. They also manage to market the eggs and fish arrange for those to be sold. Seeing their success, many other villagers follow their example and begin to develop poultry farms and fisheries all throughout the village and areas in vicinity. To take the eggs and fishes, the wholesalers from different areas now come regularly to Ayesha's village. Within a number of years, the whole area achieves economic success through agriculture, poultry farming and fishery projects. Poultry stock and fish are now produced in this area for business purpose.

Can we say that Ayesha Begum is an organiser? Have her organising capabilities developed?

We can be certain from the discussion above that to conduct and control productive activities for the purpose of business can be called organisation. In its true sense, it is almost impossible to control and manage production and mercantile without organisation. In the modern world, different people play different roles in the production activities. The organiser distributes these responsibilities skilfully according to efficiency. Thus, with the help of the workers, different jobs in the production and business are conducted. But while completing the tasks a kind of mutual authority and responsibility is created amongst the workers. This structure of reciprocal authority and responsibility is organisation. Therefore, organisation is the base of business.

It is the duty of the organisational structure to hold together the different parts of the organisation and to prepare the necessary arrangement to achieve the goal. Apart from that, distributing the responsibilities of different works, developing rules and regulations, etc are included in the structure of organisation. The organisational structure is dependent on the extent of the business, the nature and volume of the produced goods, the character of the industry, the process of production, skill of the labourer, and many other things.

The picture of the management structure of an institution is clearly visible when the posts of the superior and inferior workers are arranged hierarchically discerning the different divisions of the organisational structure of the business, the sub-divisions and the branches, which is called the picture of an organisation. The success of the business will grow as much as the management of organisation will be well-arranged and proper. Therefore, organisation is the fundamental and prior aspect of business.

Task: Make a list of the organisational tasks.

A good organisation has got some particular tendencies or characteristics. They are-

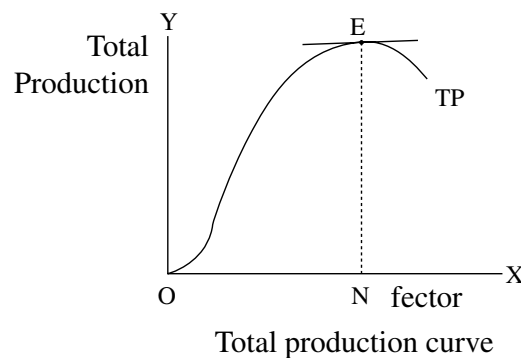
- 1. The Purpose and Nature of Business:** What the purpose of the business will be, that is to be decided in the first step of organisation. According to the purpose and nature of business, the organisational look of the business has to be built. It has to be discerned that among these possible purposes which is main and which is subsidiary, or which one is short-termed and which is long-termed.
- 2. Deciding the Business Activities:** After deciding properly the purpose and nature of the business, all the activities of the business are analysed. e.g.-production, buying and selling, arranging for money, employing labourer and workers, managing labourer and worker relationship, etc. For these, maintaining the finance, advertising and publicizing, storing the goods, managing, etc are necessary.

3. **Division of Activities:** After analysing the activities, according to the similarities in type and purpose of the activities, they are divided in some groups. The associate activities in one group are again divided into some sub-divisions. For example, the production sector, buying sector, selling sector, financial sector, publicizing sector, etc. Sometimes some businesses are divided regionally also. Some divisions together are considered as regional divisions.
4. **Distributing Responsibilities:** Each worker in the business is entrusted with one particular responsibility. The particular duty of each of the worker in each division and sub-division is set in accordance to his/her experience, capacity and skill and each is given the task in which she/he is expert and skilled.
5. **Distributing Authority and Duties:** To place a duty means to place the proper executive power of fulfilling a responsibility. Each worker is to be given the right to work freely, without any obstacle and properly. The superior officer hands over one part of his authority or power to workers working under his command. On the other hand, the junior worker is accountable for his works to his superior. An organization is successful when these two opposite streams are persistent.

4.4 Total, Average and Marginal Production

Mr. Kamal grows 600 quintals of wheat from his one bigha land employing 10 labourers. Here, 60 quintals of wheat is grown by each labourer on an average. This 60 quintals of wheat per labourer is called average production. In the next season 655 quintals of wheat is grown employing 11 labourers. Compared to the last year, the production has increased by 55 quintals. This production of $655-600=55$ quintals of wheat is known as marginal production. That is, employing an extra labourer (11th) the production is increased by 55 quintals. The 11th labourer is the marginal labourer. So, the production of the marginal labourer is 55 kg. Therefore, here, 600 quintals is the total production, 60 quintals is the average production and 55 quintals is the marginal production. The total, average and marginal production is shown by a diagram.

Total Production: The production that is acquired by the influence of employing different factors is known as the total production.



In the diagram above, the line TP (Total Production) shows the total production. Employing only one factor of ON amount, the highest NE amount of production is possible at the point E.

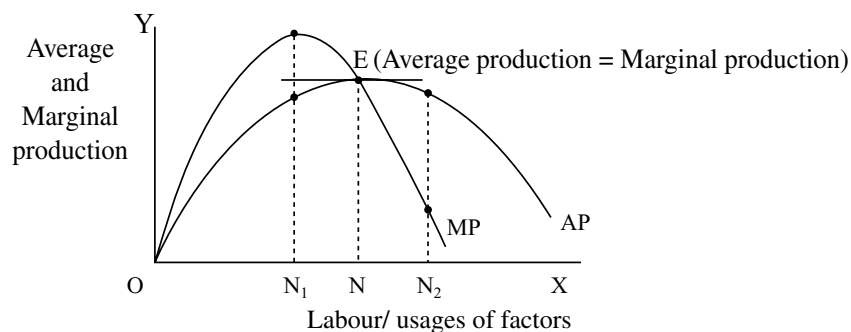
Average Production: We can get the average production when we divide the amount of the total production by the total amount of factors (Labourer). (Here, we have taken labourer as the factor. The average production can also be calculated by other factors of production).

$$\text{Average Production} = \frac{\text{Total Production}}{\text{Total Labour Factor}}$$

Marginal Production: With the change of one unit of a factor of production (i.e.- labour or capital), the change that happens in the total production, that is known as the marginal production. If labour is used then we shall call it marginal production of labour and if capital is used, it will be called marginal production of capital. That means, using a factor or labour, the change that occurs to the total production, that is marginal production. From the schedule that follows, it can be seen that when the labour factor increases from 10 to 20, the total production increase from 10 to 22 quintal. Here, the marginal production is $(22-10)=12$ quintal. Thus, if the usage of the factor is increased up to 30, the total production becomes 30 quintal. Here the marginal production is $(30-22)=8$ quintal.

The Relation between Average and Marginal Production: There is relation between the average and marginal production in the production system. In the diagram below, AP is the average production line, and MP is the marginal production line. We can see in the diagram that, 1. When the marginal production is more than the average production, then the average production is increasing. Therefore, the marginal production curve is usually above the average production curve. In the picture, at the ON_1 level of factor usage, marginal production is more than the average production.

2. When marginal production decreases, average production also decreases. In that situation, the average production curve remains above the marginal production curve. In the picture, at the ON_2 level of factor usage, average production is more than marginal production.
3. When the average production is at its highest, the marginal production curve then intersects the average production curve at its highest point. That means, at the highest point of the average production, the average production and the marginal production become equal. In the picture, at ON level of factor usage, the average and the marginal production are equal at the point E.



Relation between average and marginal production

In the picture, the horizontal axis (OX) indicates the labour factor usage, and the vertical axis (OY) indicates the average and marginal production. Before the ON amount of factor usage, at the level of ON_1 factor usage level, MP and AP both rise but the MP rises at an increasing rate. At the ON factor usage level, AP is at its highest point and AP and MP

are equal. On the other hand, after employing ON amount of factors, at the ON₂ factor usage level, AP and MP both begin to fall, but AP falls at a higher rate than MP. Therefore, the three types of relationship between average production and marginal production are, in the first stage, marginal production is greater than the average production, then marginal production = average production and later on, marginal production is less than the average production.

4.5 Law of Diminishing Marginal Returns

Keeping all the other factors stable in the process of production, if only one factor is increased, as a result, the production primarily rises at an increasing rate. At one point, if the factor is used more, production rises at a diminishing rate. This law of increasing production with the usage of factors is known as the Law of Diminishing Marginal Returns.

Usually in the agricultural sector, this law is applicable while attempting to increase production. It is worth mentioning that, in the first stage, production can grow more compared to the increase in the factors. Suppose, we have two factors which are, land and labour. The amount of land is stable. Primarily, when the amount of labour is less, as the marginal labour rises, there remains sufficient land for the marginal labour. Therefore, marginal production is more than the increment in the marginal labour. That is production rises at an increasing rate. But, to increase production, if the factors are continuously engaged in a higher amount, the marginal production diminishes. The reason behind this is, engaging extra labour, results in lesser amount of land for each unit of labour. Therefore, production increases at a diminishing rate. This is known as the law of diminishing marginal returns. The law of diminishing marginal returns can be illustrated by the diagram and table below.

The Law of Diminishing Marginal Returns by table:

Land (Amount of land is stable)	Labour factor (labour hour of the labourer)	Combination of factors	Total production (quintal)	Marginal production (quintal)
1 hector	10	A	10	10
1 hector	20	B	22	12
1 hector	30	C	30	8
1 hector	40	D	34	4

Labour hour = 10, 20, 30, 40.

The one hour of labour of a labourer is known as labour hour.

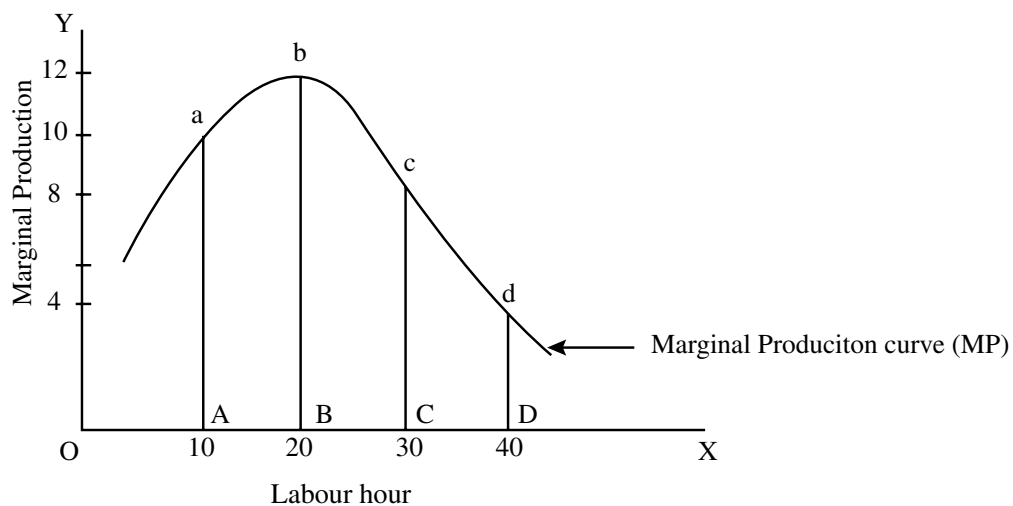
From the schedule above it can be seen that, if labour is continuously increased on 1 hector of land, although the production primarily increases at an increasing rate, but later on it increases at a diminishing rate. As per combination A, spending 10 hours of labour hour on 1 hector of land results in the total and marginal production of 10 quintal. As per B, when the labour hour is doubled, i.e.- 20, the total production is 22 quintals and marginal production is $(22-10)= 12$ quintals. Here, although the factor has been increases

1 Hector = 2.47 Acre

1 Quintal = 100 kg.

from 10 to 20, marginal production is 2 quintal more than the previous one. This production of the primary stage is known as increasing production. Similarly, in the case of combination C, total production increases at the same rate by increasing the labour hour (factor). But the marginal production falls from 12 to 8 quintal. That means, the marginal production is falling at a diminishing rate. Marginal production being less with the increased use of factors is known as the law of diminishing marginal returns.

The law of diminishing marginal returns is illustrated here by a graph:



Law of Diminishing marginal return

In the picture, the horizontal axis (OX) shows the labour hour, and the vertical axis (OY) shows the marginal production. In the picture, the stages of the labour hour are, 10, 20, 30 and 40. In accordance to these, the amounts of marginal production are Aa (10), Bb (12), Cc (8), and Dd (4) quintal.

When the marginal production combinations, i.e.- the points a, b, c and d are joined, the marginal production curve (MP) can be drawn. The MP curve appears to falling on the right hand side after the highest production. That is, here, the law of diminishing marginal returns has been effective.

4.6 Cost of Production

Nuru Mia of Rajshahi has built a leech garden on 2 acres of land. There are about 100 leech trees in the garden. This year, for different types of factors, 20 thousand taka has been spent. The production of leech was also good. Nuru Mia and his son protects the garden from the disturbances of bats and other birds leaving alone their sleep or comfort. There are two types of expenses for the garden. 1. Costs for the factors, i.e.- financial cost of production and 2. Leaving comfort and sleep, i.e- human sufferings, this is called the real cost of production.

1. **Financial Cost of Production:** To produce a good or service at a specific time the producer has to use different types of factors. Money has to be spent for these factors,

like expenditure for raw material, wage of the labourer, instruments, stable land, house, furniture, etc. These expenditures are known as financial costs of production.

2. **Real Cost of Production:** This type of expenditure is a humanly concept, which cannot be measured in terms of money. For example, the sacrifice of sleep and comfort of Nuru Mia and his son, or the sacrifice of comfort, pleasure, rest and sleep of the writer while writing a book. On the other hand, to supply labour, the sacrifice of the labourer of his rest and comfort. These types of costs, from the social perspective, are known to be the real cost of production.

4.7 Explicit and Implicit Cost

To rent or to buy materials, the visible cost that any production institution takes up, the sum of those costs is known as explicit cost. For example, the wages and allowances of the people working at the production institutions or farms, expenditures for buying raw materials and intermediate goods, different kinds of fixed costs, e.g.- house rent, interest of the capital, etc.

Implicit costs stand for the value of the entrepreneur's own labour and other costs, costs for self-employed resources, e.g.- the business institution at one's own home, establishing factory, building an office, etc. These costs are not included in the accounts book of the farm. For example, in a self-owned farm, the person counts the profit as the remuneration of his services rather than counting a separate salary. In this case any type of allowance of the owner is treated as the implicit cost of the farm.

Task: Make a list of the explicit and implicit costs of a production institution that you know.

4.8 Personal and Social Cost

From the discussion above, we have got the idea of financial cost of production, real cost of production, explicit and implicit costs of production. Now we will learn about personal and social costs.

To buy different kinds of resources and materials, the amount of financial costs and other implicit costs that any farm or production institution has to bear, the sum of all these costs are known as personal costs. Speaking briefly, the sum of all kinds of explicit and implicit costs related to production is personal cost.

On the other hand, to produce a specific amount of one good, the amount of some other good which has to be sacrificed, the cost of the resources employed for the production of the sacrificed production of that good is known as the social cost. So, in one sense, the social cost indicates the social opportunity cost. To produce one extra unit of one good, when the resource employed to produce another good is sacrificed, that is the social cost.

The difference between these two types of costs is that the personal cost sometimes creates social cost. For example, the smoke produced from the motor cars used by the people living in the urban area harms the health of the people of the cities. For this, the costs that the society has to bear for the health and treatment, that is the social cost. Although social costs can be reflected in the personal costs, but personal costs may not be reflected in social costs.

With one example the personal and social costs can be explained. Suppose, you live in Kushtia district. Much tobacco is cultivated in your area. 5 crores of taka is spent for the factors of cultivating tobacco in the entire district. Other than that, 10 crores of taka is spent as the wages and allowances of the employees (which is known as the explicit cost). Here, the $(5+10)=15$ crores of taka is the explicit cost. On the other hand, the owners of the lands, who work themselves, their wages and the sacrifices of their wives and children in the family, assume that cost for that is 1 crore taka. But these types of cost are the implicit cost. Here, the factor cost is 5 crores of taka, explicit cost is 10 crores of taka, implicit cost 1 crore taka. The sum of these, $(5+10+1)=16$ crores of taka is the personal cost. By the end of the year, it is reported that because of cultivating tobacco in the entire district of Kushtia and due to making cigarettes from that tobacco, 20 persons are suffering from cancer and many other types of diseases. For them, 2 crores of taka is spent by their families and the government. These 2 crores of taka is the social costs.

Exercise

Short Questions

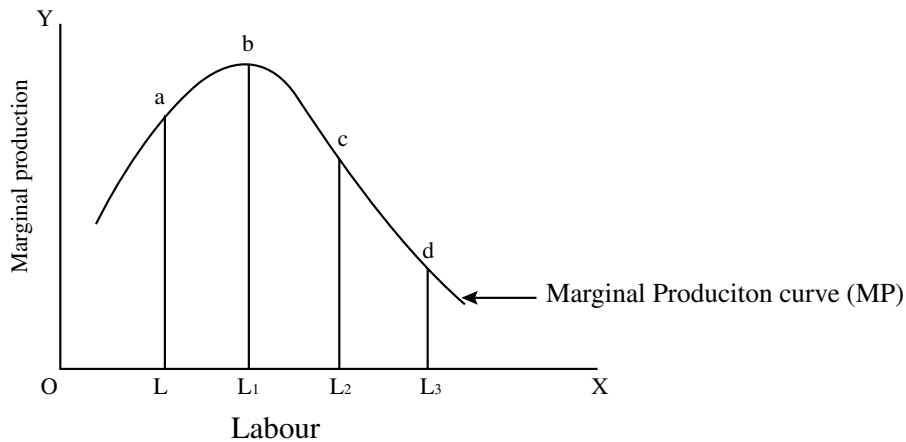
1. What do you understand by production and factors?
2. Name some of the factors in agricultural production.
3. Give an idea of the organiser.
4. Why is the marginal production diminishing?
5. What is the main idea of the law of diminishing marginal returns?
6. Give an idea of financial and real cost.
7. What are explicit and implicit costs? Explain the idea with examples.

Descriptive Questions

1. What is production? Explain five processes of creating utility in production.
2. What do you understand by factors? Illustrate the factors of production.
3. What do you understand by organisation? Illustrate with examples how organisation is developed.
4. Explain the characteristics of a good organisation.
5. Explain the relationship between total, average and marginal production.
6. Illustrate the law of diminishing marginal returns.
7. What do you understand by production cost? Explain with examples the ideas of personal and social costs.

Multiple-Choice Questions

- How many factors of production are there?
 - 2
 - 4
 - 6
 - 8
- What type of cost is not included in the accounts book of the farm?
 - Fixed cost
 - Total cost
 - Explicit cost
 - Implicit cost



Take a look at the diagram above and answer the question number 3 and 4

- What is the amount of labour at the optimum point of marginal returns?
 - OL
 - OL₁
 - OL₂
 - OL₃
- From the shape of the MP curve it can be understood that-
 - production rises in an increasing manner
 - marginal production diminishes gradually
 - production rises in a diminishing manner

Which of the following is correct?

- i
- ii
- ii and iii
- i, ii and iii

Creative Questions

1. Kabir is a businessman. He has a number of furniture shops at different parts of the country. With the help of 30 employees, he cuts wood and makes furniture from those and supplies to his shops. He employs different people for each of his shops. He participates in the exhibitions for expanding the market for the products. the demand for his products is rising day by day in the market.

- a. What is labour?
- b. What is law of diminishing marginal returns?
- c. Illustrate the process for creating utility as adopted by Kabir, in the light of your textbook.
- d. Can Kabir be called a successful organiser? Give reasons for your answer.

2. Hossain Ali has produced 50 kg of rice from his one acre of land employing one labourer in the first year. For better production, in the following years, employing more labour, the production that he gets is shown in the table below-

Number of labourers	Total production of rice (20 tk per kg)	The production cost of rice (taka)	Marginal production
1	50	1000	1000
2	100	-	-
3	130	-	-
4	150	-	-

- a. What is total production?
- b. What do you understand by personal cost?
- c. Fill up the table above and illustrate its main idea.
- d. How effective is the law that you can observe in the case of Hossain Ali in the agriculture of Bangladesh? Give your opinion.

Chapter Five

Market

In economics, the concept of market is related to the factors like time, place, period, demand, supply, etc. Therefore, the concept of market is explained from the perspective of time limit, in terms of area, the nature of the good and on the basis of competition. The development of market is not stable rather it is a dynamic stream. There are different types of market in Bangladesh. There grow changes in the thoughts and ideas of the buyers and sellers in the market because of many basic characteristics. The market system of Bangladesh is not developed and not yet has grown as a strong one.



It can be expected that after studying this chapter, we will be able to-

- Illustrate the concept of market
- Describe the method of development of market
- Explain the characteristics of a perfect competitive market
- Compare between monopoly market and monopolistic competitive market
- Identify the type of the market system of Bangladesh
- Be inspired to know about the reasons of the change in the price of goods and their influence
- Draw the market type chart on the basis of competition

5. Market

Subed Ali is a job holder. He went to New Market in the first week of the month of May to buy the necessary goods for his household. Scrutinizing the prices of fish, vegetable, rice, dal, sugar, oil, salt, etc, he bought these. The traders sold their goods to Subed Ali in exchange of money. Here it can be said that the place to buy and sell goods and products is the market. And bargaining is the way of the market. The shopper is the seller and Subed Ali is the buyer. Here, the place of the market is New Market.

In economics, market does not stand for just a specific place for buying and selling. Rather, market is a process. A process where goods and services are bought and sold between the buyers and the sellers in different ways. e.g.- buying and selling online, buying and selling over phone or fax. In these types of market, many types of goods can be bought and sold, or some specialised goods can be exchanged. For example, buying cement over phone.

Markets can be different as per the type of the product. e.g.- raw materials market, market for jute, market for paddy and rice, labour market, market for tea, gold market, share market, etc. On the other hand, there are very short term markets, short term markets and long term markets which are decided on the basis of the duration of time.

The price of the goods is decided through bargain between the buyer and the seller. This system is known to be the rule of price. The buying and selling of the goods is dependent on this price. Once the price is decided, the buyers and sellers buy and sell products and services. The demand and supply forces decide the price.

According to the French economist Kurnat, "the economists did not mean any specific place for buying and selling goods by the world market. Rather they mean goods from any region, where through free communication between the buyers and sellers, there grows the tendency for the price to become equivalent easily and quickly."

Task: Mention how the price of the goods is decided.

5.1 Market and Its Development

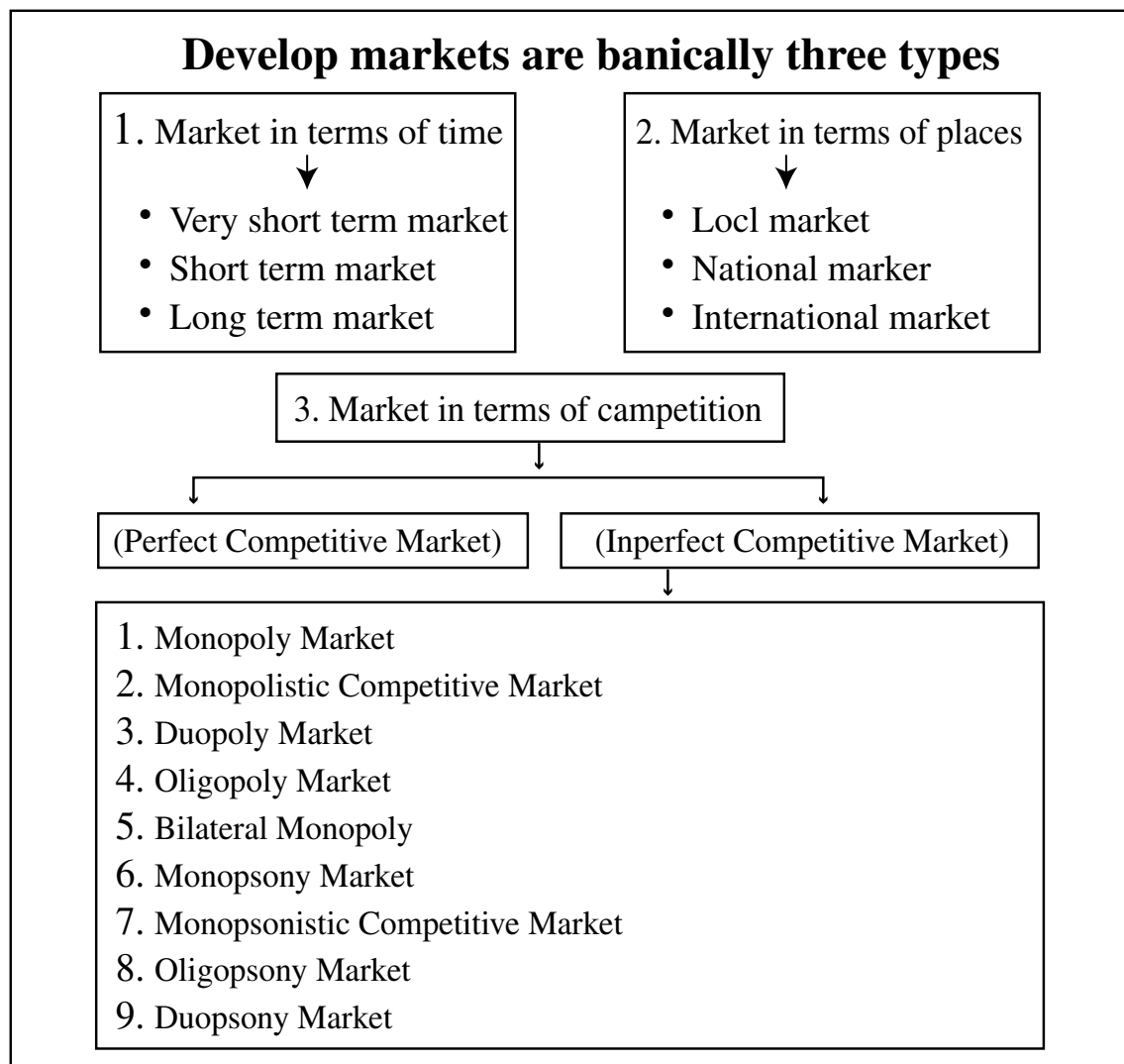
Realizing the significance of time along with the significance of demand and supply, Professor Marshall first began the discussion about the market. Earlier, many economists had the fixated idea that, to decide the price of the goods, knowing about the supply of the goods was enough, there was no significance of the demand of the goods.

Professor Marshall, for the first time managed a successful combination between the two conflicting opinions and said that, to decide for the price of the goods, both demand and the supply are equally important. But it is also correct that, although demand and supply are equally important to decide the price of a goods, but, for the change of time also, there occur differences in their influences on price. Therefore, there are three basic matters at work for the concept of market, demand, supply and time.

In the market system, at a specific time, by different mediums, through bargaining the buyer and the seller fix the price of the good or the service and exchange them, this is basically known as market. In the perspective of this idea, in the course of time, due to different situations, different types of market have been originated. And the market system has developed. The originations of market have been different over the time.

- 1. Very Short-Term Market:** Where the supply of the goods is stable at a fixed time. Even if the demand rises or falls, the supply of the goods cannot be changed. The raw material market can be taken as an example. In this type of market, within the short time in the morning, even when the demand or the price of the goods rise, the supply of the goods cannot be changed.
- 2. Short Term Market:** When there is a change in the demand, the supply may be able to respond a little. In this market, the farm, remaining the same size, can adjust the changeable factors and bring change to the supply to some extent. On the other hand, if the demand of the goods falls, the farm can still produce or if the demand in the market is even worse, can even stop producing for some time. Therefore, in the short term, because of any change in the demand of the goods, supply can respond to an extent.
- 3. Long Term Market:** With any change in the demand, any kind of change is possible in the supply. In this case, any production institution can bring a complete change in the size and factors of production. If the demand is growing for a long time, the production organization tries to bring a balance combining the demand and the supply by establishing new machinery and changing the usage of the other factors.

In terms of different places, the concept of market is discussed as local market, national market or international market. On the other hand, the concept of market is also discussed in terms of the nature of the product. e.g.- raw materials market, fish market, jute, tea or rice market, mango market, labour market, finance market, capital market, woven cloth market, fruit market, etc.



There are some basic factors associated with the idea of market-

Farm: When a business institution produces only one good, it is called a farm then.

Industry: An industry means such an economic institution under which, there may be numerous farms. Here, once the farms settle on a price and production, there is no opportunity to change the price and production. That is, the price and production of the farms incorporated in an industry get fixated.

Factor Market: Any basic material used in the production is known as factor. In other words, whatever is used in the production system is known to be factor. The process in which factors are bought and sold between the buyer and the seller is termed as the factor market. The selling and buying of the factors depend on the price of the factors. The price of the factors is decided by the demand and supply of the factors.

Finance Market: The process in which money is exchanged, that is known as finance market. The rate of interest is discerned by the equalization of the demand and supply of money.

Labour Market: The process in which labour is bought and sold is the labour market. The demand and supply of labour decide the wage of labour. In this case, the labourer or the labourers' union and the employer of the labour, these two sides decide the wage of labour or the price of labour.

Capital Market: In the capital market loan is exchanged. Financial institutions exchange loans.

The market structure has developed on the basis of competition. In the next section this topic will be elaborately discussed.

5.2 Nature and Features of Market

We have been introduced to the type of the market in the earlier section with respect to the time, place or size of the market. Now we will discuss the total market structure in the light of competition. Actually, this type of analysis is more important for economics. The types of the market on the basis of competition are: 1. Perfectly Competitive Market, 2. Monopoly Market, 3. Duopoly Market, 4. Oligopoly Market, 5. Monopolistic Buyers' Market, 6. Monopolistic Buyers' Competitive Market, 7. Oligopsoni Market, 8. Duopsoni Market, etc. Very briefly some ideas about a number of markets like these are given below.

5.2.1 Perfectly Competitive Market

Perfectly competitive market is a system of market where numerous buyers and sellers buy and sell similar kind of products. No buyer or seller can change the price of the good once it is decided by the demand and supply in the market. The demand of one buyer or the supply of one seller is an insignificant part of the market. Therefore, one or very few numbers of buyers or sellers cannot influence the market of the similar types of goods. So, the buyer or seller has to comply with the price that has been fixated in the perfectly competitive market.

Task: Make a list of the goods that are bought and sold in the perfectly competitive market.

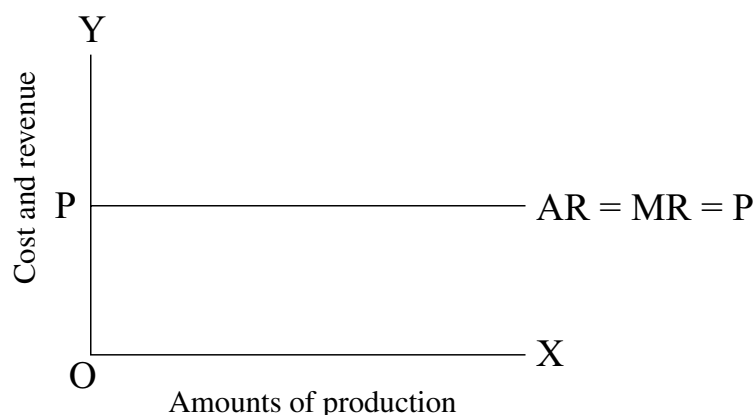
5.2.2 Characteristics of Perfectly Competitive Market

Let us take a look at the characteristics of the perfectly competitive market.

1. **Numerous buyers and sellers:** There are numerous buyers and sellers of a good in a perfectly competitive market.
2. **The unit of the good is similar:** The goods considered in a perfectly competitive market are similar or of the same quality. From the perspective of size or quality, one unit cannot be differentiated from another. The units of the goods which are the same according to their making and quality, but still can be differentiated, they are known as similar goods. e.g.- pen, rice, dal, shirt, pant, etc.
3. **The buyer and the seller are fully acknowledged about the market:** If the market system is perfectly competitive, the buyer and the seller, in that case are fully aware of the qualities of the unit of the good and the price.

4. **The free entry and exit of the farms in the industry:** In an industry under the perfectly competitive market, a farm can enter freely in the long run, and if necessary, can leave the industry. There is no impediment to that.
5. **No external influence:** There is no external or governmental influence on the setting of production or price in the perfectly competitive market. To sum up, government does not create any influence by taxation, giving subsidies, rationing.
6. **Full dynamism of factors:** There is free movement of factors in the perfectly competitive market. There is no obstacle in the movement of any of the factors including the labour factor. Due to the dynamism of factors amongst the industries, the price of the factors remains the same everywhere.
7. **The producer takes the initiative to minimize the cost at a fixed price:** The main objective of the perfectly competitive farm is to earn the highest profit at the lowest cost. Although the farm tries to take the profit to the highest at the given cost, in the long term, the industry earns the normal profit. It has to be kept in mind that when the total cost and the total income are the same, that is said to be the normal profit.
8. **Freedom of decision making:** Freedom is enjoyed in the perfectly competitive market regarding deciding for the price of the farm and amount of production. On the other hand there is no conflict or treaty between the farms included in the industry. Therefore, there is no problem to accept a decision in the market.
9. **Average Revenue (AR) and marginal Revenue (MR):** In a perfectly competitive market, no particular buyer or seller can change the price. Because they are the insignificant parts of the market. The buyer and the seller have to comply to the price of the similar goods once it is decided by the demand and the supply. Within the short term, the cost of production of an extra unit, i.e.- the marginal cost, the marginal revenue (MR) from the extra unit are equal and price (P) is also equal. That means, price (P) is equivalent to marginal cost. On the other hand the average revenue and the marginal revenue are also the same.

In the picture, the horizontal axis shows the production and the vertical axis shows the cost and return. In the perfectly competitive market, OP is $AR=MR=P$ at a fixed price, which is parallel to the horizontal axis.



10. **Unit of the produced good is divisible:** In different markets, different amounts of similar goods are produced. Each of the farms produces the goods dividing them in small parts. Therefore, it can be said that the market of the produced goods is divisible.

5.2.3 Monopoly Market

Mono means one and poly means seller. Therefore, meaning of the word monopoly is only one seller. The dictionary meaning of the word monopoly is the sole right to produce and sell a good by a person, government or corporation. Therefore, when a farm produces a good and supplies it to innumerable customers, then the farm is called a monopoly business and the market where that good is bought and sold is called the monopoly market. The farm that achieves the monopolistic right to sell a good, that farm controls the supply of the good in the market. Up to a fixed period of time, no other farm than this particular one can produce that good, so there is no difference between a farm and an industry in the monopoly market. A completely monopolistic market may be a bit difficult to be found. But a number of examples can be given of the almost monopoly market. For example, Bangladesh oxygen, Titas gas, etc.

Task: Make a list of the goods that are bought and sold in the monopoly market.

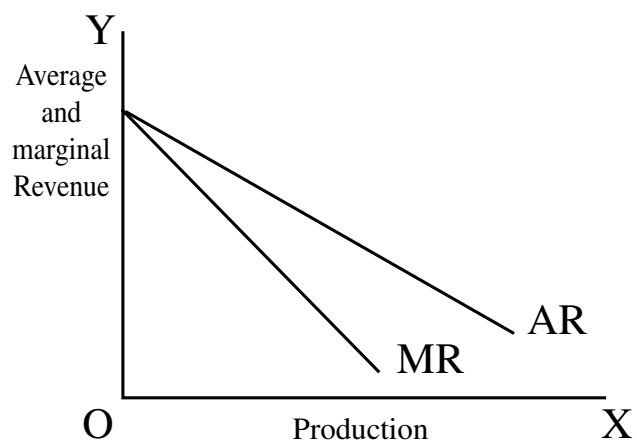
5.2.3 Characteristics of Monopoly Market

The following characteristics can be identified if the monopoly market is analysed.

1. **The seller controls the production or supply:** In a monopoly market, there is only one producer or seller. Therefore, the seller is the one who controls the production and supply of the good in the market entirely.
2. **There is no near alternative good:** There is no near alternative good for the product produced and sold by the monopolistic farm. That means, there is no similar or nearly similar good for that product.
3. **Try to acquire the highest profit:** The objective of the monopoly businessman is to get the highest profit.
4. **The farm and industry are the same for the monopoly business:** There is only one farm in monopoly market. Thereby, that farm is known as the industry.
5. **The average revenue curve and the marginal revenue curve in the monopoly market:** In the monopoly market, both the average revenue curve and the marginal revenue curve move downward. But the MR curve remains below the AR curve.

In the picture, on the horizontal axis, the production and on the vertical axis the average and marginal revenue are shown. The AR and MR curves stand for average and marginal revenue respectively.

It being the monopoly market, here the AR and the MR curves both are moving downwards and MR curve is below the AR curve.



6. **Singular controller of the price and supply:** The monopoly farm singularly supplies the production. Being the only producer, it can control the price and the supply of the product very easily. However, the farm either can control the price or the supply, it cannot control both at a time.
7. **The monopoly farm changes the production of a good to influence the price and decides for the profit:** The monopoly farm can produce less and sell at a high price or produce more and sell at a low price.
8. **The entry of a new farm is strictly prohibited:** In the monopoly industry, there is no opportunity for any new farm to enter. When there is possibility for a new farm to enter, the monopoly farm increases the production and allows the price to fall. Thereby, in fear of a tentative loss, the new farm does not enter. That is why in a monopoly market, no new farm can enter.

5.2.4 Monopolistic Competitive Market

In the monopolistic competitive market, a few characteristics of both the perfectly competitive market and the monopoly market are observed. In a monopoly market, the goods that the different farms produce may be similar but not completely the same. That is there are some differences between the products. And in this differentiation of the goods, the features of the monopoly market are prevalent. On the other hand, as there are numerous buyers and sellers, the features of a perfectly competitive market are also observed. Therefore, competition with the products that are almost similar but yet can be differentiated, and monopoly production, the market that grows with the combination of both of these that is known as the monopolistic competitive market. e.g.- body soap. Body soaps made by different companies are almost the same, yet it is possible to differentiate between them. e.g.- the covers are different or the scents used are different. If the price of any of these soaps rises, the demand of soaps may fall a little, but does not become zero. The fixed buyer of this soap always buys this soap. If there is a change in the price of these goods, the buyer does not leave to consume this goods or to use it.

5.2.5 Characteristics of Monopolistic Competitive Market

The major characteristics of the monopolistic competitive market are discussed below.

1. **Number of farms/sellers:** In monopolistic competition, one farm can control a small portion of the total production of the market. So, it is not possible for any farm to create considerable influence upon the price of the good or the total production. Therefore, there are sometimes unions or farms that belong to a group.
2. **Differentiation between the produced goods:** The goods that different farms produce under monopolistic competition, although they are quite alike, yet it is possible to differentiate between them. The goods are different to some extent regarding quality and some external factors. That is the meaning of differentiation between the products means that the goods produced by different farms are not the same. That is why the monopolistic competition starts off.

3. **The free entry and exit of a farm in the industry:** In the monopolistic competition, there is no restriction for any farm to enter the industry or exit. Usually if any farm obtains excessive profit over the short term, in the long term, new farms enter the industry. Alternatively, facing a loss, a farm can leave the industry in the long term. There is no internal or external objection regarding that.
4. **Advertisement and the cost of selling:** Each of the farms publicizes more to enhance its selling. The cost of advertising and other related costs of selling for these farms therefore increase. The farms compete with each other by advertising and the standards of qualities of the products.
5. **The nature of demand:** If a farm increases the price of a good, many consumers buy the alternative goods of other farms, but here are some consumers who continue to buy the products of the first farm even if that is in a smaller quantity. That means the demand for some goods do not fall to be zero even when the farms increase the price of that good. Some of the buyers have special preferences for some farms, therefore, the shape of the demand curves of each of the farms are not usually the same. The shape of the demand curve mainly depends upon how different the good of the farm that is being considered is from the goods of the other farms.
6. **Magnifying profit:** In a monopolistic competitive market, the objective of each of the sellers is to magnify the amount of the profit to its optimum limit.
7. **The presence of group balance:** Group balance can be observed in the monopolistic competitive market. Professor E. H. Chamberlin defines the institution made of the combination of these farms as the group balance rather than calling the combination of these farms as industry.
8. **Cost and demand:** The cost and demand of the goods produces by the monopoly farm can be differentiated. The farms can face similar kinds of demands for their goods. The situation of costs may also be similar for all the farms.
9. **Resemblance and similarity:** While discussing about monopolistic competition, Professor Chamberlin assumes at first that, the farms included in each of the groups have the same kind of costs and demand curves. That is each of the farms belonging to a group faces the similar kinds of costs and demand curves. Therefore the farms in a monopolistic competitive market are quite alike. In contrast, in this type of market, if one farm changes the price of the good or production, the impact is extended to many of the farms. So, the influence is minimum upon the other farms. Professor G. J. Stigler defines this characteristic as resemblance.
10. **Copying the goods:** In the monopolistic competitive market, one seller cannot copy the good produced by another seller completely. Thereby, each of the sellers or farms, like the monopoly farms, can control the supply of their own goods and thus, by controlling the supply can also control the price of their goods.
11. **Long term situation:** The balance of the farm in the long term in the monopolistic competitive market remains at the normal profit level like that of the perfectly competitive market.

Task: Prepare a chart of the market system on the basis of competition.
--

5.2.6 Market System of Bangladesh

The perfectly competitive market system, the monopoly market system, the monopolistic competitive market system have been discussed in this chapter. Because of the nature and environment of Bangladesh, different types of market and ways of buying and selling can be observed for different kinds of goods. The three types of market can be discussed as realistic examples.

1. There is no perfectly competitive market for any good in Bangladesh, but nearly perfectly competitive markets can be found. The retail market of agricultural goods in Bangladesh is a good example of this type of market. For example, in the primary market of rice there are numerous buyers and sellers and no single producer can influence the market of rice. Similarly, markets for other crops, fish, chicken, egg, milk, etc are also perfectly competitive or almost so. This market is also seen in cases of some services too. e.g.- bus, and rickshaw.
2. Monopoly market: Monopoly market is not found in Bangladesh for produced goods. But in cases of imported products or services, this type of market is there. e.g.- the only importer of fuel oil is Bangladesh Petroleum Corporation. This type of market is also prevailing in Dhaka city in the cases of water, electricity and gas supply. For railway transportation, Bangladesh Railway is the only institution.
3. Monopolistic competitive market: The market for different industrial goods in Bangladesh is monopolistic competitive. e.g.- different food products, cosmetics, etc. For some services also, this type of market can be found. e.g.- private hospitals and diagnostic centres.

Task: According to the list below, on the basis of the names of the goods of Bangladesh, write down the names of more than one region where these are produced.

Name of the goods	Name of the region
a. Mango
b. Jackfruit
c. Vegetables
d. Fish
e. Woven cloths
f. Lichee, pineapple
g. Guava, banana, boro
h. Coconut
i. Cow-milk
j. Orange

Exercise

Short Questions

1. What do you understand by market?
2. What is the rule of price?
3. What are the three fundamental things in the market system?
4. How many types of market are there from the standpoint of time and what are these?
5. How many types of market are there regarding place and what are they?
6. What is finance market?
7. What do you understand by labour market?
8. Give an idea of goods market.
9. Give an idea of farm and industry.
10. What is factor market?

Descriptive Questions

1. What do you understand by market? Illustrate the classification of market from the perspective of time limit.
2. Give an idea of a perfectly competitive market and partially competitive market. Mention 8 characteristics of the perfectly competitive market.
3. What do you understand by monopoly market? Explain the characteristics of monopoly market.
4. Give an idea of monopolistic competitive market. Illustrate its features.
5. Make a chart of the market structure basing on the competitions mentioned in your book. Give an introduction to the market systems of different products in Bangladesh.

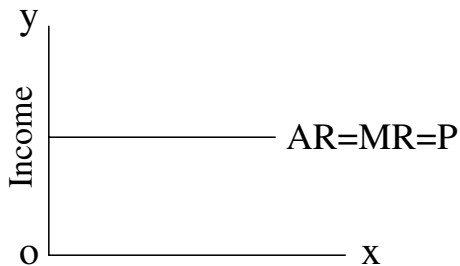
Multiple-Choice Questions

1. 'Both demand and supply are equally important for deciding the price of a good's, who said this?
 - a. Professor Marshall
 - b. L. Robins
 - c. Paul Samuelson
 - d. Professor Chapman
2. Buying and selling according to the law of price mean-
 - i. buying and selling through the bargain of the buyer and seller
 - ii. buying and selling by the mutual action and reaction of demand and supply
 - iii. buying and selling on the basis of a fixed price

Which of the following is correct?

- a. i
b. i and ii
c. ii and iii
d. i and iii

Take a look at the graph below and answer questions number 3 and 4



Where AR = Average Revenue
MR = Marginal Revenue
P = Price

3. Which market is being indicated in the picture?
- a. perfectly competitive
b. monopoly business
c. monopolistic competition
d. oligopoly
4. The reason for the average revenue and the marginal revenue being equal in that market-
- i. no particular buyer or seller can play a role in fixing the price
ii. creating balance by moving demand and supply in the long term
iii. no new firm can participate in this market

Which of the following is correct?

- a. i
b. ii
c. i and ii
d. ii and iii

Creative Questions

1. Kamal: Give me a Matador pen.

Shopper: Vaia, this week the price of the Econo pen is less. Would you like to have that?

Kamal: Why? Is Econo different in quality than matador?

Shopper: No, it's not like that. There are many companies in the market, all of their pens are almost the same just look a little different.

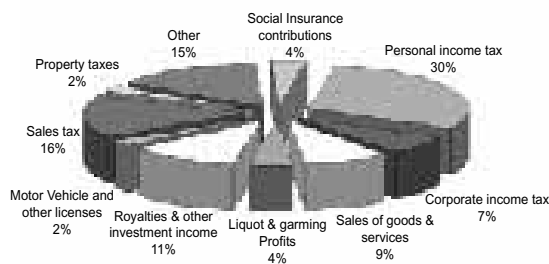
Kamal: In that case, give me Matador please. I like it better.

- a. What is a farm?
 - b. Explain the idea of short term market.
 - c. Which market does the product bought by Kamal belongs to? Explain.
 - d. Analyse the relation between the perfectly competitive market and the market of the goods bought by Kamal.
2. Rimi uses bags of one particular brand. When she goes to the market to buy a new bag she finds the price much higher than earlier. When she wanted to know the reason for this, the shopper answered that the bag is imported by only one company. They have got nothing to do if the company raises the price. Since there is no other bag like this in the market, Rimi has to buy the bag at a higher price.
- a. What is factor?
 - b. What does labour market stand for?
 - c. Of which market is the goods that Rimi bought? Explain.
 - d. What is the field of the goods bought by Rimi in Bangladesh? Analyse.

Chapter Six

National Income and Its Measurements

The economic situation of a country can be understood from the national income of that country. That is, it is possible to assume whether the country is developed or developing or underdeveloped. To know how much the national income of a country is, national income has to be measured. In this chapter, the system and technique of measuring the national income of Bangladesh will be discussed.



It can be expected that After studying this chapter, we will be able to-

- Illustrate the ideas of national income
- Show the differences between the national income (NI) and gross domestic product (GDP)
- Compare the national income (NI) and net national product (NNP)
- Illustrate the systems of measuring the gross domestic product
- Classify the determinants of GDP in two groups, which are factors and technology
- Prepare a list of the factors outside the GDP
- Describe the system to measure the GDP and the GDP per capita in Bangladesh

6.1 Gross Domestic Product or GDP

At a specific time, usually one year, the sum total of the market price of the final goods and services produced within the geographical boundary of a country is called the gross domestic product or GDP.

In cases of two sector economy-

Let us assume that three goods are produced within Bangladesh in a year. e.g.- 100 quintals of rice, 1000 dresses, and 1000 pens. $GDP = 100 \text{ quintal rice} \times \text{the market price of rice} + 1000 \text{ dresses} \times \text{market price of dresses} + 1000 \text{ pen} \times \text{market price of pen}$.

6.1.1 Gross National Income or GNI

At a specific time, usually within one fiscal year, the sum total of the market price of the total amount of the final goods and services produced by the citizens of a country is known as the gross national income or GNI.

The gross national income can be acquired by adding the gross domestic product and the net factor income. Net factor income means the subtraction result of the income of the citizens of a country from foreign investments and labour, and the income of the foreign citizens from their investment and labour in the country being considered.

6.1.2 Net National Product or NNP

In an economy, at a specific time, if the Capital Consumption Allowance or CCA or Depreciation is deducted from the monetary price of the final products and services, what is left is known as the net national product or NNP. The capital consumption allowance means the cost of the supervision for the wearing or decays due to the use of capital.

Task: (1) Describe fully the GNI, GDP, CCA.

Task: (2) What is actually CCA=Capital Consumption Allowance?

6.2 Measurements of National Income-Production, Expenditure and Income Method

The national income can be measured basically in three ways. They are- the Production approach, the Income approach and the Expenditure approach.

- 1. Production approach:** The economy of a country is divided into some important sectors. Adding the value of the final products and services produced in these sectors in one year, the gross domestic product can be calculated. The economy of Bangladesh can be divided into 15 sectors and value of the production is decided sector-wise. In the end, summing up the value of production in these 15 sectors, the gross national product is determined.

2. **Income approach:** National income in this system is the sum total of the income received by the factors used in production. The basic factors used in production are land, labour, capital and organisation. Their incomes are respectively, revenue, wage, interest and profit. Therefore, national income = revenue + wage + interest + profit.
3. **Expenditure approach:** In this system, the national income is the sum total of all kinds of expenditure in a society at a specific time. The total expenditure in a society stands for the cost of consumption and investment of the individual sector and the governmental expenditure and the net export. Therefore, consumption + investment + governmental expenditure + net export (= export - import) = gross domestic product. So, gross domestic product or $Y = C + I + G + (X - M)$. Here, C = consumption, I = investment, G = governmental expenditures, (X - M) (export - import) = net export.

The amount of the gross domestic product calculated in these three systems will be the same. Due to the mistakes in calculation, there may be some difference, but in the real sense, the result will be the same.

Task: Test the accuracy of the following

Professor Marshall calculates national income by the production approach

Professor Pigou calculates national income from income approach

Irving Fisher calculates income from the expenditure approach.

6.3 Per Capita Gross Domestic Product

GDP per capita means the annual GDP per person. In a specific fiscal year, if the total gross domestic product is divided by the total population, the GDP per capita can be calculated.

In filiform,
$$\text{GDP per capita} = \frac{\text{the total gross domestic product of one year}}{\text{the total population at that time.}}$$

GDP per capita is the primary indicator of the economic development and the standard of living of a country. By this indicator, if the country is developed or underdeveloped, or developing that can be discerned. If the GDP per capita is more than a particular level, then it has to be understood that the country is developed, and if the GDP is less, then the country is to be considered as underdeveloped or developing.

6.4 Determinants of Gross Domestic Product-GDP

What the amount of the gross domestic product will be, that depends upon the mobility of the land and other natural resources, labour, capital, technology, resources of a country. Therefore, they are called the determinants of the gross domestic product.

1. **Land:** The gross domestic product depends on land and natural resource. Gross domestic product will increase if satisfactory usage of natural resources is possible and if there is necessary fertile land for producing agricultural products. Therefore, land and natural resources are significant determinants of gross domestic product.

2. **Labour:** The labour of any country is a significant determinant of the gross domestic product of that country. Skilled and efficient labour force is helpful for increasing the gross domestic product. If the labourer knows the use of technology, and is trained, then becomes the helpful for increasing gross domestic product.
3. **Capital:** Capital is the fundamental determinant of increasing the gross domestic product of a country. In the developed countries of today, capital works at the root of increasing gross domestic product. On the other hand, the developing and underdeveloped countries cannot increase their total national income and the gross domestic product due to their lack of capital. Therefore, capital is an important determinant of gross domestic product.
4. **Technology:** Gross domestic product immensely depends on technology. Technology can be developed in many ways. For example, new inventions, development of the design of the machineries and skill, invention of new products, etc. As it can be seen, the use of highly productive seeds instead of the regular seeds in the agricultural sector has increased the production of rice for many times. Similarly, the use of seeds of better quality has resulted in enhanced production of different vegetables, too.
5. **Mobility:** The gross domestic product depends on the capacity to move the resources from the economic activities that are lagging behind or diminishing, to the newly expanding economic activities in an economy. For example, the increase of land and other factors in rice, wheat, or corn decreasing their usage in jute cultivation.

6.5 Factors not included in GDP Calculation

The total market price of the final products and services in an economy at a specific time is known as the gross domestic product. The following factors are never included while calculating GDP.

1. **Capital gains and losses:** With the change of time there may occur changes in national resources or factors of a production institution or the price of the produced goods resulting into profit or loss. This profit or loss is not counted for in the case of calculating national income. Because, the profit or loss due to the change in the price of the resources in the course of time does not influence determining the national income. Besides, this profit or loss is recorded only in the cases of an individual business institution. While there is profit for one institution, the same amount of loss occurs for another. So, the influence of profit or loss in calculating the national income is zero.
2. **Intermediary goods and services:** To calculate national income, only the final goods and services are considered. Because, the prices of the intermediary goods and services are included in the price of the final goods and services. If the intermediary goods and services are considered again after the final products, there raises the problem of double counting. For this reason, the intermediary goods and services are not considered while estimating the national income.

3. **Goods and services free of charge:** There are some goods and services in economics which are not bought or sold through market. e.g.- a mother rearing her children, the cooking and other household works of women, a singer singing to his friends, these are not produced goods. Therefore, while estimating the national income, the value of these services cannot be included.
4. **No consideration for previous production and transaction:** The year, of which the GDP is being calculated, any production of any previous year is not included in the GDP of that year. e.g.- buying old cars, old houses or flats. The year in which these goods had been produced, their prices had been included in the GDP of those years. The problem of double counting will rise if these are calculated again. Similarly, the exchange of stock, bond or any paper is not included in the GDP.
5. **Interest of public debt:** The interest against a governmental loan is not to be included in the GDP. For example, the loan taken by the government during a war, does not contribute in the national production. The interest against this loan is taken to be the transferrable due. And therefore, it is excluded from the GDP.
6. **Illegal activities:** Income from any illegal activity is not included in estimating the national income. Illegal activities mean, any activity that is not acceptable socially and is against the prevailing law of the country. e.g.- drugs, gambling, buying and selling of goods in the black market, income by corruption, bribe, etc are not accounted for national production.

Task: Make a list of the goods and matters that are not included in the calculation of gross domestic product.

6.6 Method of Estimation of National Income in Bangladesh

Bangladesh Statistics Bureau is the government institution that is entrusted with the responsibility of estimating the national income of Bangladesh. Estimating the current market price and the fixed price of the goods and services, the Statistics Bureau measures the GDP and GNI every year. For these estimations the institution has to collect data from different sources.

Bangladesh Statistics Bureau estimates the GDP and GNI using the production approach and the expenditure approach. In the production approach, to estimate the GDP, the economy is divided into 15 different sectors. These are-

Estimation of national income by the production approach:

1. **Agriculture and forest resources:** Agriculture is an important sector of the domestic product. It is difficult to estimate in any formatted way. To estimate the GDP of Bangladesh, this sector is divided into three parts.
 - (a) **Crops and vegetables:** The amount of domestic product in this sector is estimated from the perspective of the current wholesale market price. For example, in 2010-11,

the product in this sector was of 85238 crores of taka and in 2011-12 it was estimated to be 92508 crores of taka.

- (b) **Animal resources:** The estimation of domestic product in this sector also is done on the basis of the current market price. In this sub-sector of animal resources, in 2010-11 the amount of domestic product was of 18470 crores of taka. In 2011-12, it was 20485 crores of taka.
- (c) **Forest resources:** In the forest sector, because of the lack of data regarding the factors, while estimating the GDP, 3% of the price of the total production is deducted and the rest is considered to be the value added. In 2009-10, the domestic production was 9874 crore taka and in 2010-11 is has been estimated as 10876 crore taka.
2. **Fish resources:** GDP is calculated from the perspective of gathering fish from the internal and sea sources. In 2010-11 the GDP in this sector was 26996 crore taka and in 2011-12, it was 30999 crore taka.
 3. **Minerals and mining:** Minerals and mining is taken as a separate sector in the industrial sector. In this sector, the market prices of (a) natural gas and unrefined oil and (b) other mineral resources and produced goods from mining are calculated. The income from this sector in 2010-11 was 9063 crore taka and in 2011-12, 10318 crore taka.
 4. **Industry (manufacturing):** In the case of estimating GDP in Bangladesh, the present market prices of the produced goods of all the industries are calculated. The amount of industrial production in Bangladesh is 135551 crore taka in 2010-11, of which, (a) production of the large and the medium industries is 97121 crore taka while (b) for the small industries it is 38430 crore taka. And in 2011-12, the production is taken to be 156590 crore, 112625 crore and 43965 crore taka respectively.
 5. **Wholesale and retail selling:** In this calculation, the GDP product is estimated by calculating the wholesale price of a goods. In 2010-11 it was 115959 crore taka and in 2011-12 it was 134860 crore taka.
 6. **Electricity, gas and water resources:** On the basis of the value of supplying the services, GDP is estimated in this sector. This sector is very important for Bangladesh. Alongside the government, this sector is extended privately, too. The gross domestic product in 2010-11 was 8211 crore taka. Amidst that, (a) in the sub-sector of electricity, it was 6775 crore taka, (b) in the sub-sector of gas it was 908 crore taka and (c) in the sub-sector of water it was 529 crore taka. In 2011-12, the total from these three sectors is taken to be 9773 crore taka.
 7. **Construction:** From the data received from the individual, the construction institutions, consumer and government, the gross domestic production in this sector is estimated. In reality, the amount of income from this sector is less compared to what it should be.

Because, the current market price is more than the price fixed by the government. But GDP is calculated basing on the price that is fixed by the government. 63982 crore taka was earned from this sector in 2010-11, and 75465 crore in 2011-12.

8. **Hotels and restaurants:** The matter of gross domestic product in this sector is estimated from the perspective of produced goods and the selling price of the services. In 2010-11 5998 crore taka was earned from this sector, and in 2011-12, 7178 crore taka.
9. **Transport, preservation and communication:** This sector is quite a big one regarding the estimation of the domestic income. A big portion of this sector belongs to the private sector. Even so, the gross income from this sector in 2010-11 was 85465 crore taka, of which, (a) the sub-sector, land ways was 66088 crore taka, (b) the sub-sector, water ways was 4532 crore taka, (c) the sub-sector air ways was 722 crore taka, (d) in the sub-sector of associate transport services and preservation, 2070 crore taka and (e) in the sub-sector of mail and cable communication, 12053 crore taka. In 2011-12, the total income in the transport, preservation and communication sector is estimated as 100053 crore taka.
10. **Financial institutional services:** The estimation of this sector depends on the price received from the services. In 2010-11, the amount of domestic product value was 14483 crore taka, of which- (a) 10621 crore taka came from the banking sector, (b) 3231 crore taka from the insurance sector, and (c) 632 crore taka from the other sectors in the fiscal year 2011-12, the amount was 116965 crore taka. As per the sub-sectors, the income was 12430, 3795 and 740 crore taka respectively.
11. **Real estate, rent and other businesses:** On the basis of the income received from services, the domestic production in this sector is estimated. In 2010-11 the domestic income was 50337 crore taka, and in 2011-12 it was 55546 crore taka.
12. **Public administration and defence:** The domestic income from this sector is actually calculated from the expenditures. The domestic product in 2010-11 was 22381 crore taka, and in 2011-12 was 25449 crore taka.
13. **Education:** In the education sector of Bangladesh the domestic product is estimated from expenditures. In 2010-11, the domestic production was 21308 crore taka and in 2011-12 it was 24809 taka.
14. **Health and social services:** The estimation of the health and social services is done by the expenditure approach. In this case, the total domestic product expenditure in 2010-11 was 17582 crore taka and in 2011-12 it was 20337 crore taka.
15. **Community, social, and personal services:** The estimation of this sector is also done from the expenditure approach. In 2010-11 was 77876 crore taka is taken to be the expenditure in this sector and in 2011-12, it was 91485 crore taka.

Exercise

Short questions

1. Give an idea of the gross domestic product.
2. What do you understand by the gross domestic product?
3. What do you understand by net national product?
4. Give the elaborated form of GNP, GDP and NNP.
5. What do you understand by CCP?

Descriptive questions

1. What do you understand by national income? Illustrate the approaches of estimating national income.
2. Give the idea of gross domestic product and net national product. Describe the determinants of gross domestic product.
3. Give the idea of the matters outside the estimation of the gross domestic product.
4. Make a list of the factors which are not calculated as the gross domestic product.

Multiple-Choice Questions

1. What is annual income per person?
 - a. national income
 - b. net income
 - c. average income
 - d. per capita income
2. Which one of the following is taken into the estimation of national income?
 - a. price of the final goods and services
 - b. price of the intermediary goods and services
 - c. interest of governmental loan
 - d. income by corruption

Read the following passage and answer question number 3 and 4

The amount of vegetables that Rumana gets in the first year from sowing ordinary seed on the compound of her house, in the next year, by sowing seeds of better quality, she gets more vegetables than that.

3. For increasing production, the use of which one of the following did Rumana change?
- a. land
 - b. labour
 - c. technology
 - d. capital
4. This type of change in production-
- i. increases GDP
 - ii. increases GNP
 - iii. decreases NNP

Which one of the following is correct?

- a. i
- b. ii
- c. i and ii
- d. ii and iii

Creative Questions

1. Incident: 1

Shihab is working in Bahrain for 10 years. Every month he sends a portion of his income to the his country.

Incident : 2

Mrs Brownie is a British citizen. She is working at a private organization in Bangladesh. She also send money to her country every month.

- a. What is net production?
 - b. How is national income estimated by the income approach? Explain.
 - c. How is the sending of money by Shihab related to the estimation of national income? Explain.
 - d. How would the income of Mrs. Brownie influence the national income of Bangladesh? Give your own opinion.
2. Zahir goes to his grandfather's home at Madhupur. His grandfather has fish in his pond. Zahir sees many trees and animals near his grandfather's house. He comes to know that it is a special kind of region.
- a. What is the elaboration for CCA?
 - b. What is understood by gross domestic product?
 - c. The region that Zahir finds near his grandfather's house, which sector of the economy it would be included in?
 - d. Analyse in the light of the textbook, the contribution of the pisciculture by Zahir's grandfather in the economy of Bangladesh.

Chapter 7

Money and Banking System

Nabil's father is a service holder. His monthly salary is 20000 taka. He keeps some cash for household expenses and deposits some money to the bank. After some days, he decides to set up a poultry farm. For this he takes some loan from the bank. The bank sanctions this loan to him on condition of repaying this within 36 months at 10% interest. Our income-expenditure, savings and loans, all are generated by money. Money and loan business are operated by bank and financial institutions. Bank receives the surplus money of the public as deposit and sanctions this to the debtor as loans. Different banks play significant role in our agricultural development, industrialization, self-employment and trade and commerce.



It can be expected that after studying this chapter, we will be able to-

- Describe the idea and classification of money
- Explain the functions of money
- Describe about commercial bank and its main functions
- Illustrate the procedures of opening and operating bank account
- Describe the major functions of the central bank
- Compare central bank with commercial bank
- Evaluate the role of some important banks of Bangladesh in agricultural development, industrialization and self-employment
- Show the banking system of Bangladesh by drawing charts.

7.1 Money and its classification

For a long time farmers used to collect their crops from weavers in exchange of cloths and fishermen used to collect utensils from potters in exchange of fishes. This system of fulfilling the necessities of certain goods in exchange of other goods is called the Barter System. This system is still practiced in some rural areas of our country. But this system created some problems sometimes (e.g.- problems in division of the goods and the dissimilarities in needs, etc). To overcome these problems money was invented. In modern economy money is unanimously approved and accepted as the medium of exchange. Money is used as a medium of trade, measure the value of goods and services and mode of savings.

So, money is an object promoted by government, which is generally accepted as a measure of value, accepted everywhere as a medium of repayment of debt, granted by all as the mode of saving and basis of loan. It is named differently in different countries, like- Taka in Bangladesh, Rupee in India, Dollar in America and Euro in Europe.

Classification of Money

Money can be classified from various points of view. It is discussed below:

According to the components of making, Money can be classified in 2 types, like:

- 1) Metal coin
- 2) Paper notes

Metal Coins:

The coin which is made by metals and used to conduct our day to day transactions is called metal coins. In Bangladesh there are metal coins of 5 taka, 2 taka, 1taka and 50 paisa available.



Metal Coins

Metallic coins can be classified into two groups based on material value. They are, (a) Authentic coin, (b) Symbolic coin. Authentic coin is the metallic coin which can be sold at its visible price if melted and sold as metal only. Symbolic coin holds less value as metal than its visible value. Generally metal coins are introduced and authorized by the government.

Paper Money:

The money which is made of paper is called paper money. The value written on the note is the monetary value of that note which is generally higher than its internal value. In almost all the countries, paper money or paper notes are introduced by the central bank

7.2 Functions of money

Money plays different types of significant roles in modern production system and social lives.

While describing the functions of money, the poet says,

'the thing that measures exchange and value

Paying the loans and savings,

Everyone knows that, Money it is'

(translated)

The following two lines of an English poem refers to the functions of money-

"Money is a matter of functions four;

A medium, a measure, a standard, a store."

This means that, money has four functions. Those are: medium of exchange, measure of price, means of savings and standard of delayed or postponed transaction.

Below is a description of the four major functions of money:

Medium of exchange:

Transaction is done through exchange of money as money is acceptable to everyone. A salesman takes money in exchange of things and a customer buys thing by paying money. In this way, by exchanging money anytime any product or service can be purchased. For that reason transaction becomes easy and fast. So, it can be said that money is the easiest and the most convenient medium of exchange.

Measure of price:

The way meter measures length and kilogram measures weight, money is also used as the scale to measure the price of product and services. For example, Amir buys a book with 50 taka. Here, 50 taka is the assessor of price of that book. Through money, we can easily measure the price of product and services and we can also make comparisons between the former and upcoming price of product and services.

Means of savings:

Savings cannot be built through products as most of the products are perishable. On the other hand, service is a living item for consumption so industry and services cannot be stored. But the price of these kinds of products and services can be stored by money as everything can be exchanged through money. Nowadays people can save their surplus after subtracting the consumption cost from the production wages because saving through money is more secure and comparatively stable.

Standard of delayed or postponed transaction:

Delayed transaction refers to future dealings. The calculation of these dealings is done through money. Moreover, taking and returning loan by money is more appropriate. As a result, economic activities can be done without any hindrance. At present, most of the business transaction cheques, bank drafts, exchange bills etc. are finalized through debentures. The bank circulates these debentures on the basis of the cash saved as fixed deposit. Thus, money is considered to be the basis of loan and the standard of delayed transaction.

Apart from the above mentioned tasks, money also works as price transmission medium, standard of liquidity and symbol of social status. These roles of money are not different; rather one has been arisen from another. Hence, it is said that the economic development of the society has become easily accessible because of the functions of money.

Task: Money has made our regular life easier- explain.

7.3 Commercial Bank

The bank which saves money from any individual or company as deposit and provides loan to an individual or a company for commercial purposes according to their demands is called a commercial bank. The main objective of a commercial bank is to earn profit. These banks give interest at a low rate on the deposited money. Alternatively, they charge interest at a comparatively higher rate from the debtors. The difference between these two interests is the profit of the bank. The bank gives loan for a short time from its reserve as it is bound to return money whenever the account-holder demands it back. That is why this type of bank is known as entrepreneur of short-term-loan.

Commercial banks of Bangladesh are: Sonali Bank, Janata Bank, Rupali Bank, Agrani Bank, Pubali Bank, Uttara Bank, City Bank, Arab-Bangladesh Bank, Dutch-Bangla Bank etc.



Sonali Bank



Janota Bank

Functions of Commercial Bank

In modern times, as a result of its performance of various activities, commercial bank has become an important organization of the state. Below is a discussion on the major functions of commercial bank:

1. Accepting Deposit

The first and foremost function of commercial bank is to collect deposit from individuals and company. Commercial bank accepts three types of deposits- (a) Current Deposit, (b) Savings Deposit, (c) Fixed Deposit.

- (a) **Current Deposit:** The account-holder of a current deposit can withdraw money anytime. For that reason, no interest is given on this deposit.
- (b) **Savings Deposit:** Money of savings deposit can be withdrawn twice a week after a certain period of time. Bank gives some interest on this deposit.
- (c) **Fixed Deposit:** This deposit is for a certain period. For example- 3 months, 6 months, 1 year, 3 years, 5 years etc. Bank gives interest at a higher rate on this deposit. Money of this deposit can even be withdrawn before the time elapses. Some terms and conditions are applicable in this case.

2. Providing Loans: For earning profit commercial bank retains a particular amount of the deposit to meet the demands of the account-holders and with the rest of the money it provides loans to individuals or companies for short periods. Commercial bank provides loans against appropriate surety and mortgage e.g. expensive metal, metal products, government and foreign debentures, and permanent assets. Commercial banks of our country provide loans for house-building, fisheries, trade and commerce and industry.

3. Creating medium of exchange:

At present commercial banks create cheques, bank-drafts, e-payments, money-laundering and travelers' cheques as easy mediums of exchange. Bank-issued cheques are vastly used in the mediums of exchange. In developed countries most of the transactions are accomplished through cheques.

4. Supporting local and foreign trade:

For supporting trade in both national and international levels commercial bank provides suggestions to businessmen besides supplying money. In addition, giving identification in exchange-bills to businessmen, bill-discounting, providing loans to importers-exporters, paying bill via mail and telegram is also arranged. In some cases, exchanging goods through banks, purchasing foreign currency and debit-credit of buyers and sellers are also solved. By performing these activities commercial bank plays a vital role for trading.



Technology in Banking Programmes

5. Money transfer: Bank transfer money safely and quickly from one place to another place on the demand of the client. The mediums of the sending money are cheque, bank draft, postal order, travelers' cheque, mail transfer and telegram etc.

6. Remittance: Commercial bank helps to provide proper service collecting foreign currency for the people who are working abroad and hand over to the local owner as soon as possible.

7. Increase savings: Commercial bank accumulates small savings which are spread throughout the country at different places and collects these as deposit. Bank helps to make capital to the business and production sector lending the amassed money. Thus commercial bank increase savings of the country at the same time fasten the development of economy.

Besides these, commercial bank does the following activities:

- a. Store safely the valuable accessories of people, for example deed copies and valuable ornaments etc in the locker.
- b. Help to trade share, debenture of different companies and public bond.
- c. Perform the task of a trustee by looking after of properties, arranging to collect and give taxes for the properties.
- d. Provide income certificate for the client and make it secret.
- e. Collect and pay cheque, exchange bill, house rent, income tax, insurance premium and current bill etc as a representative of the client.

By completing the above tusk commercial bank plays a vital role in the economic development.

Task: How does commercial bank accelerate the economic development of a country? Explain.

7.4 Rules of opening and maintaining bank account:

Rahim goes to deposit one part of his earning money to the branch of Sonali Bank situated in his upazila town. One employer of the Sonali Bank Mr. Masud helps him to open an account. At first Mr. Masud tells Rahim about the three types of account which are (1) current account, (2) savings account and (3) fixed deposit. He says that the rules are almost same for opening all the account. Except Grameen Bank all the Banks follow almost the same rules and regulations. Rahim decides to open the savings account. At first he collects a form from the branch and put the necessary information on it.



Debit card & credit card

According to the rules of the Bank he (applicant) has to take Sayem's signature for identifying himself. Because Sayem has an account in that Bank. Sayem is called as an identifier. Besides Rahim select his wife as a nominee and put her information in the form (nominee means in the absence or after the death of depositor his selected person who

7.5 Central Bank:

Central Bank is such an institution which controls the whole banking system situating at the top of the banking system and works as a guardian of money market. Having under the government ownership and control it works for circulating note and coin, controlling loan, preserving the standard of currency, creating and maintaining money market, and currency advisor and banker of government. Its main characteristic is that it is the most powerful economic institution of the government. So its main aim is not the earning profit rather preserving economic balance and the highest development and welfare.

Central bank is the national institution. There is one central bank in each and every independent country. For example: Bangladesh Bank is the central Bank of Bangladesh, reserve bank of India is for India, federal reserve system is for USA, Bank of England is for England.



Bank of England



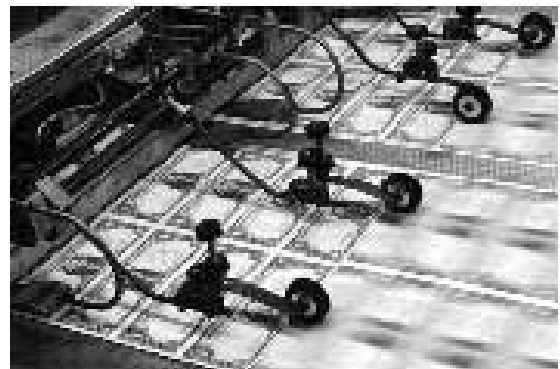
Federal Bank

The function of Central Bank

Central bank performs different types of important tusk as guardian and controller of money market. The main functions of the central bank are followed:

1. Circulation of note and currency

In some countries only central bank circulates note and currency. This bank circulates note keeping similarity with the needs. Earlier according to the law, gold, silver or foreign currency had to be deposited. At the present time the supply of the home currency and its controlling of the price is depended on the principles of the central bank in the most cases.



Printing of paper Money

2. Bank of Government

Central bank deposits the revenue of the government from the different sectors and pays the money in the different sectors according to the direction of the government. During the time of monitory crisis it provides long and short termed loan to the government. It works as a representative of the government maintaining the communication with the international economic institution. It plays a vital role giving information and advice to the economic activities, deciding principles of the government.

3. Bank of other banks

Central bank authorizes license for new banks and their (banks) branches. It provides with necessary directions and advices to the enlisted banks to be administered properly. According to banking law, the enlisted banks are to preserve a certain amount of their deposits in the central bank. In case of necessity the enlisted banks can loan from this deposited fund. In our country, the commercial banks are to deposit 5% of their current and fixed deposits according to the banking law of Bangladesh.

4. Controlling loan

Both excessive and paucity of loan is counterproductive for the economic development of a country. Since, the loans provided by the commercial banks are included to the integral stock which influences on the currency exchange and the value of currency. Central bank takes some measures such as, changing bank rate, open market policy, changing the ratio of cash deposit, prevalence, request, and order etc. to control the inflation and diffident of currency in the country.

5. The last moneylender

The enlisted banks go for the loan from the central bank when they are failed to manage loan from other sources. Central bank lends money to the jeopardized listed commercial banks according to the ratio of their deposits and by re-discounting their deposits. For this, the central bank is called the last moneylender.

6. Determining and controlling exchange rate

Central bank determines and controls the exchange rate of the currency of a country in relation to the foreign currencies to bring stability and stagnant state in the foreign transactions. For the convenience of business, central bank purchases and sells foreign currency and gold on behalf of the government to clench the exchange rate well-adjusted.

7. Clearance house

The commercial banks transact cheque, bank draft, postal order among themselves. Subsequently, one bank is either debtor or creditor to other and central bank preserves this record. This kind of debt or credit is paid or cleared from the fund that the enlisted commercial banks deposit in the central bank. Thus, central bank functions as a clearance house for the commercials banks.



Automatic Clearance House

Moreover, central bank accomplishes the following functions.

- a) Provides training to develop the standard of the involved man power in the enlisted commercial banks.
- b) After a certain period of time, looks into the economic activities of enlisted commercial banks to observe whether these activities are going properly or not.

- c) Prepares and implements various laws and principles for the betterment of the mass and to develop the banking system.
- d) Helps to found branches of commercial banks both in home and abroad.
- e) Conducts research, collects and preserves different economic records for the convenience of the mass and for drawing up the official economic policy.
- f) Takes measures for the development of the various aspects such as, agriculture, industry, service (business, education, health).

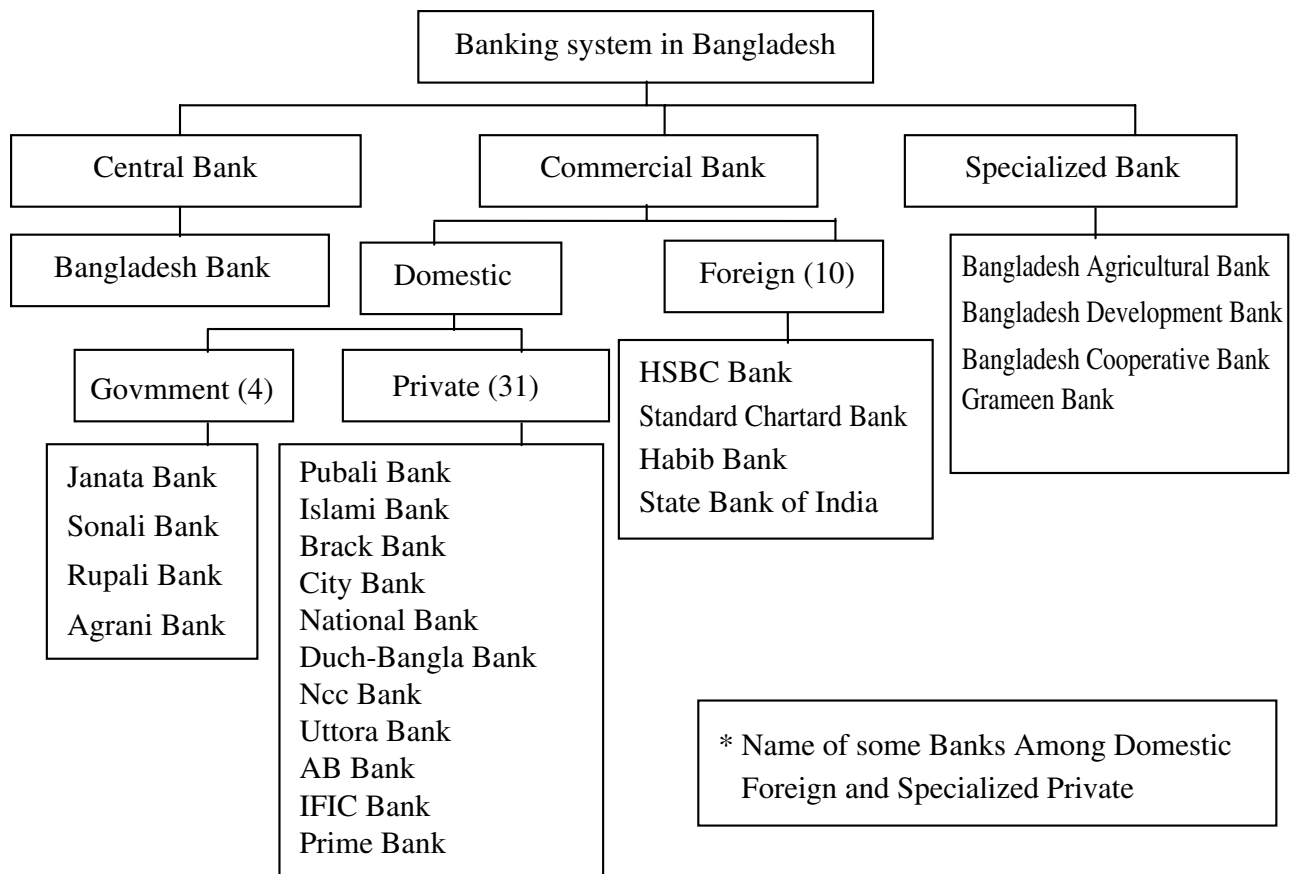
Thus, central bank contributes a lot to the entire socio-economic condition and preserving the stability in the economy.

Task: Central Bank can preserve the economic stability of a country- elucidate.

7.6 Banking System in Bangladesh

In our country, Bangladesh Bank acts as the official bank (bank of government) and the guardian of the monetary institutions. Commercial banks are administered to take and preserve deposits from people and to lend money in the necessary areas to make profit. On the other hand, specialized organizations are directed for developing special areas and besides reducing poverty.

Chart of the banking system in Bangladesh:



7.7 Role of Bangladesh Bank in Agricultural Development, Industrialization and Self-Entrepreneurship

In this regard, the contributions of some banks are discussed below:

Bangladesh Bank

The name of central bank of Bangladesh is Bangladesh Bank. Bangladesh Bank was established after the independence with the "Bangladesh Bank Ordinance 1972" certified by the then president. From then this bank is leading currency system and the other banks in the country. It is noteworthy that at its outset it possesses all the properties of State Bank of Pakistan.



Monogram (Bangladesh Bank)

Contributing to the development of agriculture, industrialization and entrepreneurship sectors Bangladesh Bank functions the following activities to the entire betterment for the people as well as for the country.

Bangladesh Bank lends loan on easy terms to the organizations that provides agricultural loan. Acting directly, Bangladesh Bank conducts research and prepares statistics for the development of agriculture.

For the sake prompt industrialization in the country Bangladesh Bank lends money the organizations that supply capital to industrial organizations. It also provide entrepreneurship encouraging loans.

In exchange of debt instrument the commercial banks carry out some important tasks such as, money lending, founding new bank, founding branches of commercial and agricultural bank in undeveloped areas, ensuring the stock of loan to facilitate loaning. In some special cases, bank, with the own accord, creates working opportunities for the unemployed young by providing loans on easy terms.

Task: As a guardian of monetary system Bangladesh Bank plays important role to the overall development of Bangladesh-elucidate.

Commercial Bank

Commercial bank is one of the main participants that plays a significant role to the extension and development of business, development of agriculture and industrialization. On the basis of ownership the commercial banks can be categorized into two types:

- a) Governmental
- b) Non-governmental



Commercial Bank in Agriculture & Industrial Sector

The contributions of the commercial banks are described below:

Agriculture is an important sector in Bangladesh. So the economic development of Bangladesh largely depends on the development of agriculture. Majority of the farmers of this country are poor. They need sufficient agriculture loan to carry out farming activities. For the development of agriculture, the commercial banks take active part in loan sanctioning activities in different times declared by the government. The commercial banks run different loan sanctioning program for promoting food production, standard seeds, fertilizer, pesticide, deep tube well and less-deep tube well for irrigation and for establishing cottage industry. At present, accorder of Bangladesh Bank, farmers get the facility of opening bank account giving Tk 10 as deposit. As a result, the data collection of all the farmers of Bangladesh becomes easier within short time.

The commercial banks take the scattered individual savings as deposit from different parts of the country. From this the bank provides loan for the construction and extension of small, medium and large scale industries. The commercial banks provide enough loans under easy condition for purchasing raw materials for industry and modern machineries. Besides, the bank assists in developing mills and factories purchasing the shares of the new companies.

Commercial banks help in creating employment opportunity. At present, this bank has started to provide loan against individual security for purchasing rickshaw, van, opening grocery shop, rice mill, wheat mill etc. It is hoped that this will create employment opportunity for many people.

Task: Commercial bank is a powerful partner in the economic development of a country- Exucidate.

Bangladesh Krishi Bank

Bangladesh Krishi Bank has been established for promoting the dynamism of agriculture, attaining self-reliance in agriculture and for the overall development of agriculture. This bank has been established after the independence of the country, according to Ordinance 1973 with the assets and liabilities of Pakistan Krishi Bank. It is a state-owned and semi autonomous institution. The role of Bangladesh Krishi Bank is discussed below.

Bangladesh Krishi Bank provides small, medium and large scale loan for promoting production of the sectors based on agriculture and related to agriculture.

- a. Majority of the farmers of our country are poor. So this bank provides short-term loan for fulfilling the little requirements of the farmers. For example: purchasing fertilizer, seeds, pesticides, ploughing land, weed-out, threshing crops, harvest etc. Generally this loan is to be paid within 18 months.
- b. This bank provides medium-scale loan for leveling land, setting semi-deep tube well, cattle for ploughing land and purchasing light agricultural machineries. Generally this loan is to be paid from 18 months to 5 years.
- c. Krishi bank provide long-term loan for purchasing loan, heavy machinery, (e.g.: tractor, harvester etc.), setting deep tube well, construction of warehouse, construction of coldstorage, digging canals for irrigation, developments of tea lands etc. This loan is to be paid from 5 years to 20 years.

This bank provides financial and technical assistance for establishing agriculture based small and cottage industry. This bank also provides loan for raising poultry, sericulture, and pisciculture and the unemployed youth get the facility of self-employment.

Task: Modernization of agriculture is possible through the agriculture loan of Bangladesh Krishi Bank- Explain

Bangladesh Development Bank

According to the decision of the government, the Vendors Agreement has been signed between the government and the Board of Directors of Bangladesh Development Bank Limited on last 31st December ,2009. Thus the two institutions - Bangladsh Shilpo Bank and Bangladesh Shilporin Songstha are unified as Bangladesh Development Bank. So the assets, liabilities and manpower of these two closed institutions have been handed over to the new institution. The role of this bank is discussed below:

Generally this bank provides loan for the development or extension of industries related to our country. For example: Jute industry, Leather industry, Sugar industry, fertilizer industry etc. This bank gives priority to agriculture based industry of the rural areas which is helpful for both production and development of agriculture.

This bank provides long term loan for introducing new industry, extension and modernization of old industry in both public and private sectors. The maximum timeline of repaying the loan of this bank is 20 years. It also provides short term loan for the necessity of mills, factories and industries. It supplies entrepreneur's free technical counseling and industrialization related research, statistics and information.

This bank provides different term based loans in small and medium scale industry with the aim of attaining self-reliance, promoting production and employment. It delivers important counseling and assistance in establishing small scale industry to make the women self-dependent. It gives investment facilities and formulates the blueprint of industrial activities so that business enterprise is taken privately.

Task: Write down the role of Bangladesh Development Bank in production and employment.

Grameen Bank

Grameen Bank is a specialized financial institution which has been established with the aim of providing banking service to the landless, helpless male and female, and the owner of less amount of land in the village. This bank provides micro credit to the general people for production activities. Grameen Bank was first emerged in 1983 as a specialized financial institution. The role of this bank is discussed below:

This bank gives loan to poor, landless and helpless farmers under easy condition and without any security. For the development of agriculture, it provides loan in the sectors of vegetable cultivation, raising cows, pisciculture, poultry, farming etc. As this bank gives loan under easy condition, the farmers need not to take loan from local richman under steadfast condition and high rate of interest.

Grameen Bank provides loan as well as supplies materials and required information to make the deprived section of the country attached to local small scale and cottage industry. For example: crafts of bamboo and cane, making cigarette, soap, cloths, sweet meats etc. Palliphone facility has been launched with the technical support of Grameen Phone to reach the facility of information technology to the people of remote area.



Small and cottage Industry
of Grameen Bank

Grameen bank is the bank which is directed to organize the unemployed deprived group under institutional structure and create employment opportunity. This bank provides the beggars the opportunity of self-employment giving interest free loan. It encourages women for job and helps them in flourishing their leadership qualities. It gives Palliphone to the poor and helpless women as loan. Rehabilitation for women is attempted after repaying the loan from its income.

Task: The role of Grameen Bank in changing the luck of deprived people is undeniable- Explain

Cooperative Bank

Cooperative bank is the bank which is formed and directed according to the principles of cooperation. The objective of this bank is to provide loan with little interest on the basis of mutual cooperation. Bangladesh Cooperative Bank Limited is directed with the joint ownership of the government and the cooperative section of the country. The cooperative institutions have 86% and the government has 14% ownership of the share of this bank. The role of cooperative bank is discussed below:

The bank provides agriculture loan to the members of cooperative society with the aim of alleviating poverty, promoting food production etc. The sectors of loan are - agriculture, land, land development, Aaush, Aamon, Boro cultivation, cultivation of the crops and vegetables of winter season, different agricultural instruments-seeds, fertilizers, pesticides, irrigation machine, tractor etc. There are three types of agriculture loan: short term for 6 months, medium term for 2 years and long term for 5 years.

This bank provides finance in agriculture based industries which are organized on the basis of cooperation and in construction industry. This bank undertakes microcredit activities for the employment of rural young male and female. The cooperative bank is the partner of the project named "Akti Bari Akti Khamar" undertaken by the government. It also provides finance for employment in the sectors of pisciculture, raising animals, poultry, processing and preservation of produced goods etc. Thus this bank plays important role in both reducing unemployment and alleviating poverty.

Task: Explain the role of Bangladesh Cooperative Bank in attaining self-reliance of the cooperative members.

Exercise

Short Questions

1. What do you mean by money?
2. What do you mean by commercial bank?
3. What do you mean by clearance house?

Descriptive Questions

1. Describe the functions of money.
2. Elucidate the functions of commercial bank.
3. What is central bank? State the tasks of central bank.
4. Mention the contributions of "Krishi Bank" in the development of the economy of Bangladesh.

Multiple-Choice Questions

- 1) Which is the prime and preliminary task of Commercial Bank?
 - a. lending money
 - b. taking deposit
 - c. transferring money
 - d. constructing the means of exchange
- 2) Which coin can be transacted at any amount?
 - a. coin of TK. 2 (made with metal)
 - b. coin of TK. 2 (made with paper)
 - c. coin of TK. 5(made with metal)
 - d. coin of TK. 5 (made with paper)

Read the following passage and answer the question number 3 and 4.

Arif deposits his saved money in an organization. At end of the year he withdraws his deposited money with some additional money.

3. What is the name of the organization where Arif conducts his transaction?
 - a. Bangladesh Bank
 - b. Shomobai Bank
 - c. Sonali Bank
 - d. Grameen Bank

4. The contribution of this institution to the economy of the country is-
- i. raising capital
 - ii. preserving the standard of coin
 - iii. economic development

Which of the following is correct?

- a. i
- b. i and ii
- c. i and iii
- d. i, ii and iii

Creative Questions

1. Ratna is appointed in a financial institution. Her institution cannot provide loan but acts as consultant for other financial institution in case loan sanctioning. On the other hand, her friend is engaged in another financial institution. It deposits the savings of people as well as gives extra amount against the deposits.
 - a. What is barter system?
 - b. Describe the function of money as the medium of savings.
 - c. Explain the nature of Ratna's institution.
 - d. Analyze the difference between Ratna's institution and her friend's.
2. Harun's wife badly needs a sari. But he has nothing but a goat. Harun took the goat to a weaver and the weaver wants the goat in exchange of the sari. But Harun is not agreed to get a sari in exchange of a goat. This problem is solved when a material is discovered and acceptable to everyone.
 - a. What is legal money?
 - b. What is meant by Clearing House?
 - c. Explain the reason of Harun's unwillingness to buy the sari from the weaver.
 - d. Analyze the role of the material acceptable to everyone in the light of your textbook.

Chapter 8

The Economy of Bangladesh

Ratan is a rich farmer. For a few years he is using the modern technology in farming which has increased the production. After spending the money in household expenditures he saves the excess money. Last year he established a small readymade garments factory which is conducted by her wife Jayanti. Lots of female workers of his village work there. They have enrolled their only son Roni in a good quality school. Roni is given treatment in the health complex of the union according to doctor's prescription when he becomes sick.

From the above discussion we get an overview of a certain portion of Bangladesh economy.



It can be expected that after studying this chapter, we will be able to-

- Explain main characteristics of Bangladesh economy
- Explain main sectors (agriculture, industry and service) of Bangladesh economy
- Analyze the comparative importance of the main sectors (agriculture, industry and service) of Bangladesh economy
- Identify the dependency of agriculture and manufacturing sectors on one another
- Discuss sector wise analysis of the data of the economy and use it mathematically
- Discuss the importance of various sectors through drawing graphs

8.1 Characteristics of Bangladesh Economy

Bangladesh was torn out due to 200 years of British reign and 24 years of Pakistani rule. As a result the development of Bangladesh economy was not at a great extent. Moreover, the economic infrastructure was damaged due to the long war of nine months in 1971. After the four decades of independence there has been significant development in the economy of Bangladesh. But it is still a developing country with low per capita income.

The main characteristics of Bangladesh economy is given below.

1. Importance of Agriculture

Agriculture is an important sector of Bangladesh economy. But the production capacity in agriculture of our country is very low compared with the developed countries due to primitive methods, lack of good quality seeds, irrigation and agricultural loans, and for natural calamities. But the situation is improving day by day. Now there is more availability of good quality seeds, fertilizers, pesticides and irrigation. Thus the production is also increasing. It is predicted that the share of agricultural sector (crops, fisheries, animal resource and forestry) in the GDP for the fiscal year 2010-11 will be 19.95%. 47.3% of the total labor force is involved in agriculture (MES, 2009, BBS).



Agriculture

2. Projects for Industrialization

The development process in industrialization in Bangladesh is very slow. Thus it is necessary to announce a new policy for industrialization to increase the rate of development. National policy was declared on this purpose in the year 2010. The aim of this policy is to increase the employment, participation of women in industrialization and reduce poverty. To achieve these goals the government has decided to reduce barriers on investment, tax free investment, encourage the private investment, ensure free flow of capital, increase foreign investment, create markets in abroad and establish labor intensive industries. The benefits from these projects can be seen now. In the fiscal year 2010-11 the estimated share of industry sector was 30.33% (provisional estimate of BBS). 24.3% of the total labor force is involved in this sector (employment survey-2009).



Industry

3. Rise in Per Capita Income

The per capita income in Bangladesh is low compared to developed countries as the production of agriculture and industry is lower in this country, population is high and opportunities of employment is low. At current rate the per capita income is 848 US dollar and per capita GDP is 772 US dollar. Though the rate is slow but our per capita income is increasing.

4. Rise in Standard of Living

Due to low per capita income 31.50% people live below the poverty line. Though the progress is slow but the standard of living is increasing for which the average life expectancy has increased to 67.2 years. 97.8% people drink pure drinking water and the literacy rate is (age 7+) 57.9%.

5. Rise in Supply of Capital for Investment

Our savings is low due to low per capita income. Thus investment or accumulation of capital is also low. Currently the government has taken many encouraging policies to attract investors. For this reason domestic and foreign investment is increasing. In the fiscal 2010-11 the total investment was 24.73% of the GDP. Increase in investment increases the production of our agriculture and industry sector. It is helpful to reduce poverty in our country.

6. Food Deficiency and Malnutrition

Though it is an agriculture based country, it is suffering from food deficiency and malnutrition for a long time. In the fiscal year 2009-10 total fish production was 28.99 lakh metric tons which is insufficient for us. Thus the government has given highest importance in agriculture sector to make Bangladesh self-sufficient in food production by the year 2013. For this reason the use of good quality seeds, fertilizers and technology has increased in the production over the past few years. In the fiscal year 2009-10 total 341.13 lakh metric ton food grain was produced. (Agriculture expansion directorate)

7. Decrease in Population Growth

Bangladesh is an over populated country. Total population of this country is 14 crore 97 lakh 72 thousand 364 (according to the estimate of the year 2011). The population density is 964 people per square feet and the population growth is 1.34%, which was 1.48% in year 2001. Though population is decreasing, it is a very small country and thus world's 9th most populated country.

8. High Unemployment

In our country savings is low compared with population. Thus the accumulation of capital is low. Unemployment is increasing as there is scarcity of capital which reduces employment opportunity in agriculture and industry sector.



Dhaka EPZ

But domestic and foreign investment is increasing in Export Processing Zone (EPZ). To attract the foreign investment various encouraging policies have been taken which is increasing foreign investment and the economy is in progress. Thus it can be hoped that the unemployment problem will be reduced in future. (25 lakh of our total population is unemployed).

9. Increase in the Use of Natural and Human Resources

Natural resources are the basic element in socio-economic development and in raising the standard of living. Currently the use and detection of these natural resources has increased. The combined contribution (approximate) of natural gases, unrefined petroleum and coal and other mineral resources will be 1.26% in the fiscal year 2011-12. 75% use of the fuel comes from natural gases. Till now total 23 gas fields have been discovered from which 18 gas fields are being used to extract gases through 79 wells. Gas is mostly used in the production of electricity. To ensure the fuel security the refining capacity of Eastern Refinery is being increased and SPM (Single Point Mooring) project has started to export refined and unrefined fuel in the deep sea. The total storage of our 5 coal mines (Khalashpir of Rangpur, Barapukuria of Dinajpur, Fulbaria and Dighipara and Jamalganj of Bogra) is almost 2700 million tons. 65% of the extracted coal is used in Barapukuria power station to produce electricity.



Coal Mine

Various public and private projects are in progress for the development of human resources. Among these family planning, women and children, social welfare, youth and sports development, culture, labor and employment etc. are important.

10. Deficit in Foreign Trade

To meet the various needs and development of our mass population we have to spend lots of money to import various products which is much higher than our export earnings. For this reason there is an imbalance in the trade. In the fiscal year 2010-11 overall balance was (-) 529 million US dollar (provisional estimate). Currently our export has increased thus the trade deficit is decreasing.

11. Dependency on Foreign Aid

It is not possible to collect all the money we require for the economic development from within the country. So, we have to depend on foreign aids. But the good thing is the dependency on foreign aid is decreasing. Because of inadequacy, uncertainty and lengthy

process of these aids the development process is hampered. So, the dependency on internal sources is increasing. In the 5th Five Year Plan (1997-2002) the accumulation of internal resources was estimated 61.45%.

12. Development of Economic and Social Infrastructure

To increase the production, components of production and proper distribution of products in the market and to maintain the stability in price level the economic infrastructure such as roads, railway and naval system, electricity and telecommunication system play a vital role. The government has taken various steps to improve these infrastructures. Constructing Padma Bridge, 26 kilometer long elevated expressway to reduce traffic jam, safe naval system, development of electricity sector and setting up modern telecommunication system through the establishment second submarine cable are some important projects taken by the government. Education, training, research, public health, cultural development, ethical views play an important role in the development of human resources. Current government has announced education policy 2010 to improve the quality of education and for the development of public health combined health, population and nutrition development sector would be in effect throughout the year 2011-16.



Dhaka Elevated Expressway

13. Privatization Programmes

Though our economy is a mixed economy the government has given importance on privatization to maintain free market economy. For this purpose the government has taken various steps. After the establishment of Privatization Board (now Privatization Commission) in 1993, total 76 institutions have been privatized till February 2011. Among these 55 institutions were privatized by direct selling and 21 institutions by selling shares.

14. Planning Various Projects

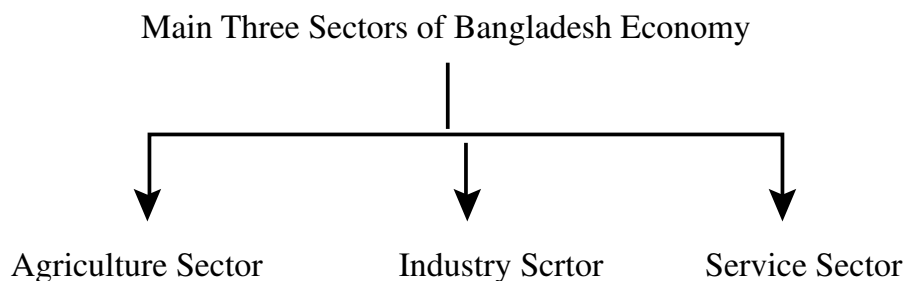
It is necessary to make proper planning for the economic development through combining public and private projects and efficient distribution of resources. On this purpose the government has taken "Bangladesh Vision (2010-2021) on the golden jubilee of our independence. The basic target of this vision is to increase growth, poverty reduction, making Bangladesh a middle income country and to reduce regional inequality.

Form the above discussion we can say that, the economic condition of Bangladesh is getting better. Various projects have been taken for this purpose. Through the expansion of education and technology, there is an increase in skilled labor and manufacturer group. These people play an important role in increasing the production of the economy through self-employment and raising awareness.

Task: What steps should be taken on the basis of current context for the economic development of Bangladesh?

8.2 Main Sectors of Bangladesh Economy

The branches or sections of an economy of a country that conduct economic activities within its own region and on the basis of their combined contributions an economy is formed. These branches or sections of an economy are called the economic sectors.



Agriculture Sector

Agriculture is the work that involves cultivation, roping seeds, nurturing of grains-trees, collecting crops and then storing, protecting and marketing these crops. Apart from growing crops agriculture sector also includes fisheries, bee breeding, raising livestock and forestry.



Fisheries



Livestock



Sundorbans

The introduction of sub-sectors of agriculture sector is given below:

Food Grains and Vegetable

Farmers of our country produce rice, wheat, jute, pulses, sugarcane, tobacco, tea, oilseeds etc. among food grains and potato, bean, peas, brinjals, patal etc. among vegetables.

Animal Resources

In our country chicken-ducks, cows, goats, lambs, horses, pigeons and other birds are raised for both domestic and business purposes. Meat, milk, egg, feathers and skins etc. of these animals are included in this sector.

Fish Resources

Various types of fish and fish products are obtained from the pond, river, haor and ocean. These are divided in two groups, for example: internal fish and marine fish.

Forestry

Only 17% of our country's land is covered with forests, whereas 25% of a country should be covered with forests. In these forests bamboo, cane, shal, shegun, shundori, goran, geowa, gamari, korai, kuchi and keora etc. trees can be found. We get wood, rubber, glue, oil, candles and honey from these trees.

Contribution of agriculture sector in GDP is given below:

Sector/Sub-sector	2009-10	2010-11 (provisional)
1. Agriculture and Forestry	15.81	15.52
a. Food Grains and Vegetable	11.42	11.24
b. Animal Resources	2.65	2.57
c. Forestry	1.73	1.71
2. Fish Resources	4.49	4.43

Thus, in the fiscal years 2009-10 and 2011-12 the contribution of agriculture sector in the GDP was 20.30% and 19.95% (provisional) respectively. In the same time almost 5.44% and 6.11% (provisional) of the total export earning of the country came from agriculture sector. Main export products of the agriculture sector are frozen foods, raw jute, jute-products and tea. Growth of overall agriculture sector of our country is given below:

Sector/Sub-sector	2009-10	2010-11 (provisional)
1. Agriculture and Forestry	5.56	4.82
a. Food Grains and Vegetable	6.13	5.04
b. Animal Resources	3.38	3.54
c. Forestry	5.23	5.35
2. Fish Resources	4.15	5.44

The economic growth of Bangladesh economy is dependent on agriculture sector at a great extent. The development of rural economy, food security that is self-sufficiency in food, poverty reduction, development of standard of living, and increase in employment all are directly related with the development of agriculture. Thus the government is trying everything for the development of the agriculture sector. On this purpose, development and expansion of technologies, ensuring that every single person gets required raw materials of agricultural, easy loans, agro-insurance and subsidy in agriculture etc. steps can be taken. Total 75% of our population is directly or indirectly dependent on agriculture. Total 341.13 lakh metric tons of food grains was produced in the year 2009-10 and the export earnings from fish and fish products were Taka 3408.52 crore. Total 43.6% of the labor force is employed in agriculture. Shan, golpata, straw, bamboo cane, and wood from agriculture are used as fuel supply, furniture and employment. On the other hand protein requirement of the people, raw material for industries and to create the market for industrial products etc. are playing vital role in the economic development.

Task: For the development of Bangladesh economy the role of agriculture sector is very high- explain.

Industry Sector

The conversion of raw materials into secondary or final goods through certain processes in the factory is called industry.

In calculating the national income of Bangladesh, industry sector includes minerals, manufacturing, electricity, gas and water supply, and construction among the 15 sectors.



Gas Field



Dhaka Metro Railway



Ship Industry

The introduction of industry sector is given below:

1. Minerals and mining

The sub-sectors of this sectors are-

- a) Natural gases and unrefined oil
- b) Other minerals and mining (coal, limestone, Chinaclay, sulfur, chalk, silica, Bronze etc.)

2. Industry (manufacturing)

a) Large and Medium Industries: Large and medium industries are separately mentioned below:

Garments industry, sugar industry, fertilizer industry, cement industry, ship industry, jute industry, paper industry all are included in large industries.

Leather industry, readymade garments industry, cigarette industry, plastic industry, hosiery industry are the renowned medium industries of Bangladesh.

b) Small Industry: Small industry is divided in 2 groups as below:

Industries that produce small parts of equipment, match industry, wooden industry, soap industry, cosmetics industry, vehicle servicing and repairing industry etc. are included in small industry.

Silk, bamboo, cane, pital and kasa, weaving industry and mrit shilpo are renowned cottage industries.

3. Sub-sectors of electricity, gas and water sector are- a) Electricity, b) Gas and c) Water
4. Construction industry is also included in this sector. Construction of bridges, roads, personal and business all types of housing are included here.

Industry sector is the combination of all four sectors mentioned above.

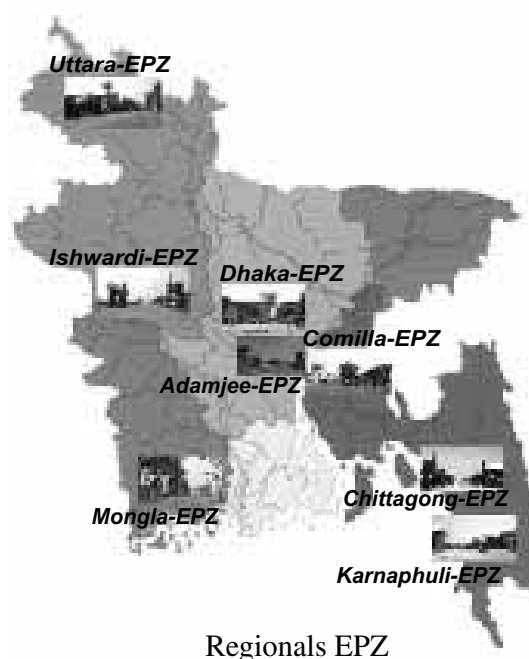
The contribution of industry sector was 29.93% of the GDP in the fiscal year 2009-10. For the year 2010-11 it is estimated to be 30.33% (provisional estimate of BBS). In the total industry sector the contribution of manufacturing is the highest which is estimated to be 18.41% for the fiscal year 2010-11. For the construction sector it is estimated to be 9.07%.

Overall growth of industry sector in GDP is listed below:

Sector/sub-sector	Growth rate 2009-10	Growth rate 2010-11 (provisional)
1. Mineral resources	8.80	4.85
2. Industry (manufacturing)	6.50	9.51
3. Electricity, gas and water resources	7.28	5.96
4. Construction	6.01	6.37

Bangladesh has established Export Processing Zone (EPZ) for socio-economic development, poverty reduction, and quick expansion of industry sector. It has attracted many domestic and foreign investors which has helped the expansion of industry sector.

Till January 2011 of the fiscal year 2010-11 total 351 industrial institutes are involved in production in 8 EPZ [Chittagong, Dhaka, Mongla, Comilla, Ishwardi, Uttara (Nilfamary), Adamji and Karnafuli]. Total 2,82,392 people are employed here. It has exported products that worth 1940.01 US dollar.



The government has announced industrial policy 2010 to speed up the progress in industrial sector. The main purpose of this policy is to create employment, involve women in the main stream of industrialization, poverty reduction and the expansion of small and cottage industries. According to vision 2021 the industry sector will emerge as a strong sector within year 2021 where its contribution in the total GDP will be 40% and contribution of industrial employment will be 25%.

In agriculture, industry, transport, household, service sectors, the demand for electricity, gas, oil and other natural resources are increasing day by day. For this reason the government has taken various long term plans in sector. The government has taken steps to include extra 14,773 megawatt electricity to the national grid by the year 2010-16. The government is determined to ensure electricity for everyone in the country within year 2021. In the total use of our fuel 75% comes from the natural gases. Gas is mostly used in

the production of electricity. Gas is used as the raw material for the production chemical fertilizers, and factories, transport and households use it as fuel. Limestone is used in the production of cement, glass, soap, bleaching powder etc; chinaclay is used in the production of cookeries sanitary and products; silica in colors and chemical products; sulfur in gunpowder, matches and refining factory oil. Due to increase in investment for infrastructural development, growth rate has increased in construction sector.

From the above discussion it can be said that with the development of overall industry sector national income and per capita income can be increased and it is also possible to reduce dependency on others, trade deficit and increase standard of living.

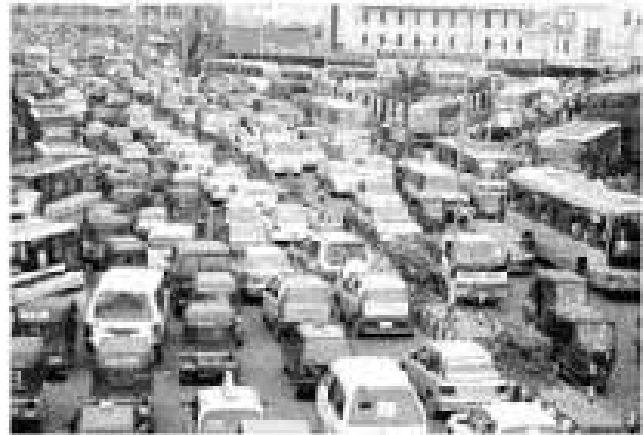
Task: The development of our country is possible through the overall development of the industry sector- explain.

Service Sector

Service sector provides a service, not an actual product that could not be held in our hand but it can satisfy our needs and it also has an exchange value.



Financial Institution



Transport system

In Bangladesh wholesale and retail trades, hotel and restaurants, transport, communication, banks, insurance and other financial institutions, housing, public administration and defense, education, health and social service, community, social and personal services all are included in service sector. These are services are provided to general people in exchange of money and people buy these to meet their needs. Like other countries service sector is the single largest sector in our economy. In the fiscal year 2010-11 the contribution of service sector is 49.72%.

The contribution of the sectors that are included in the overall service sector in the GDP is given below:

Sector	2010-11(provisional)
1. Wholesale and retail trade	14.27
2. Hotel and restaurant	0.73
3. Transport, storage and communication	10.91
4. Financial intermediation	2.00
5. Real estate, renting and other business activities	6.99
6. Public administration and defense	2.92
7. Education	2.78
8. Health and social work	2.41
9. Community, social and personal services	6.70

From the above list it can be seen that wholesale and retail trade has highest contribution and second highest is transport, storage and communication sector and sub-sectors of this sectors are given below-

a) Land Transport

It includes road and railway system. According to the estimate of 2011 the road includes national highway of 3492 kilometer, regional roads of 4268 kilometer and 13280 kilometer long district roads. Total railway is 2,835 kilometer long (broad gage 659 km, dual gage 375 km and meter gage 1,801 km).

b) Water Transport

97% of our export-import is conducted in our main sea port of Chittagong and our second sea port Mongla. Our internal naval transport corporation gives services to people through 189 water vehicles that include ferry service, passenger service, cargo service and ship repairing service etc.

c) Air Transport

The authority of private airways is conducting 3 international and 7 internal airports among which 2 internal airports are not being used. There are also 4 STOL (Short Take Off and Landing) posts in use.

d) Post and Telecommunication

Bangladesh Telecommunication Company Limited (BTCL) is conducting various projects for modernization, development and expansion of our telecommunication system. The number of customers is increasing after the establishment of Bangladesh Telecommunication Regulatory Commission (BTRC) since 2002. Numbers of customer exceed 5.47 crore in March 2011.

Postal department is at service through 9,886 post offices over the country. From this sub-sector expected growth rate is 17.63% for the fiscal year 2010-11.

Sector-wise growth rate of overall service sector in the GDP is given below:

Sector	Growth Rate 2009-10	Growth Rate 2010-11 (provisional)
1. Wholesale and retail trade	5.87	6.06
2. Hotel and restaurant	7.61	7.62
3. Transport, storage and communication	7.69	7.93
4. Financial intermediation	11.64	9.42
5. Real estate, renting and other business activities	3.89	3.96
6. Public administration and defense	8.35	9.56
7. Education	9.24	9.47
8. Health and social work	8.10	8.30
9. Community, social and personal services	4.72	4.75

From the above list we can see that the growth rate is estimated to be decreased only in financial intermediaries sector because growth rate has decreased in all three sub-sectors of this sector (Bank: total number- 47, domestic- 38, foreign- 9; Insurance: public- 2, private- 60 and Other financial intermediaries: 29) compared with last year. The government has taken various projects for the development of this sector.

Service sector plays an important role in raising the living standard of people, public protection, marketing of goods, and in the development of healthy trained and educated human resource and self-employment.

Task: What steps do you think should be taken for the development of service sector in Bangladesh?

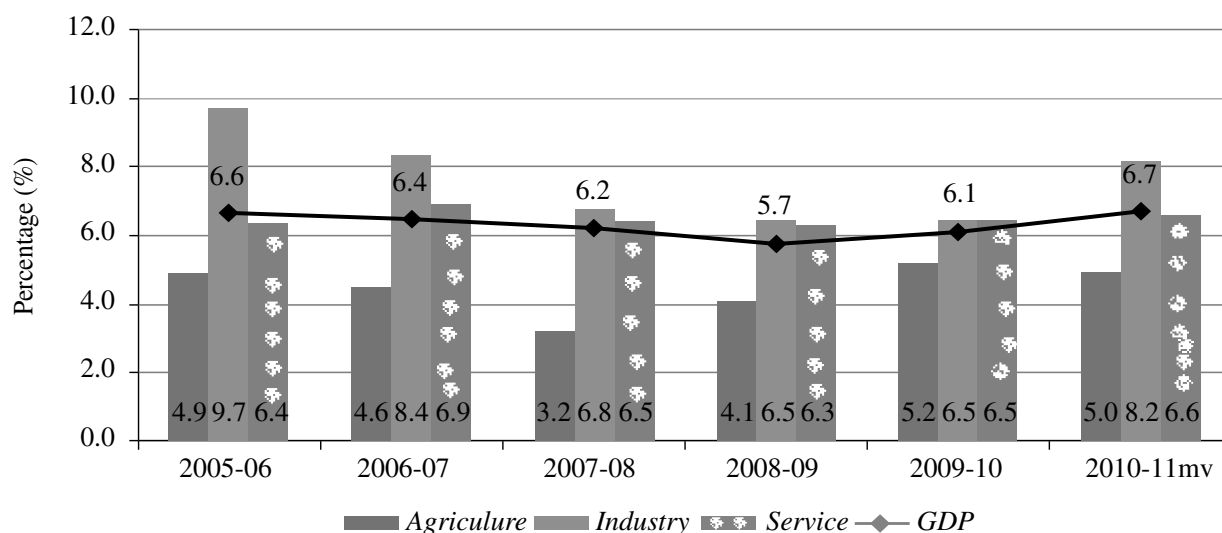
8.3 Relative Importance of Various Sectors

Our economy has 15 sectors in the Gross Domestic Product (GDP) on the basis of production. These sectors are divided into 3 bigger sectors such as agriculture, industry and service sector.

In Bangladesh agriculture is the main component of growth and economic development as our economic infrastructure evolve around agriculture. Food security, poverty reduction, development of standard of living, increase in employment of this huge population- all are directly related with the progress of agriculture. But dependency on agriculture is not a sign of stable economy, because there is always an uncertainty in the production every year due to flood, cyclone, tsunami, drought etc. Thus industry based economy is now required to promote free market economy and to face the challenges of globalization for the overall development. Because modernization of agriculture, efficient use of natural resources, less dependency on foreign countries, earn more foreign currencies and development a strong defense system- all are possible through industrialization. Along with the development of agriculture and industry, through the various projects of overall service sector for example generating educated and trained human resources, development women and children, youth development, sports development, infrastructure development, the development of information technology- achievement of vision 2021 is possible which will ascertain an economically strong better Bangladesh.

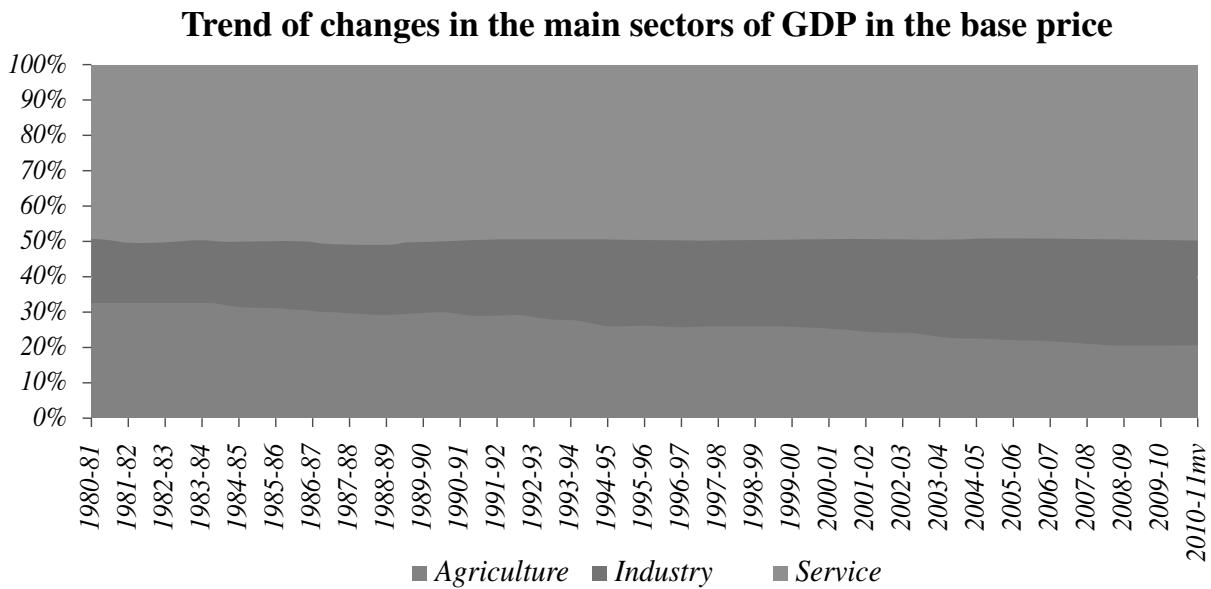
To achieve sustainable growth in agriculture the government has taken various steps such as granting more subsidies, ensuring continuous electricity connection for irrigation, increasing supply of loans, inventing new seeds that can cope with unfavorable weather and saline water and promoting industry based agriculture. Production in industry has increased due to increase in investment in electricity and other infrastructural sectors. The growth rate of overall service sector is also good as all other sectors that are included here have maintained their growth rates.

Growth rate of GDP is shown below through the bar diagram:



In the last three decades the contribution of agriculture sector in the GDP has continuously decreased and the contribution of industry sector has continuously increased. But the share of service sector is almost the same.

Trend of changes in the main sectors of GDP for the last three decades is shown in the following graph :



Task: Explain the contributions of agriculture, industry and service sector on the basis of data that are easy to find locally.

8.4 Dependency of Agriculture and Industry Sector on One Another

Ramiz is a rich farmer. He produces more rice in his land through the use of seeds that give high return, irrigation through deep tube wells and using required organic fertilizers. He supplies the rice in the market which he keeps in the sacks made of jute. Many people buy these to satisfy their food requirement.

From the above we can say that the industry sector supplies the equipments and fertilizers that are necessary for agricultural production. Similarly agriculture promotes industry sector by supplying raw materials and marketing the industrial product.



Agriculture Based Industry (Segar Industry)



Industry Based Agriculture

Dependency of agriculture and industry sector on one another is discussed below:

Most of our industries are agriculture based. The main industries of our country are jute, tea, leather, sugar and paper industries and all of these are dependent on agriculture for the supply of raw materials. For this reason region based industries have formed, for example, jute industry in Dhaka and Narayanganj; tea industry in Chittagong and Sylhet; sugar industry in North Bengal. With the expansion of these industries the production in agriculture will increase due to the increased demand of raw materials and farmers will get proper price for their products. This will increase the income and standard of living of the farmers. Savings and accumulation of capital will increase as the income of the people will increase and thus more investment will be possible in the industrial sector.

In our country the base of small industries is agriculture. Bamboo and cane produced in agriculture are raw materials for the cottage industries. On other hand, equipments produced in industries and fertilizers, pesticides, medicines etc. are used in agriculture. Thus agriculture plays an important role in marketing the industrial products. As the purchasing power of the farmers increases the demand for other industrial products also increases which helps the expansion of industrial sector.

Self-sufficiency in food through the modernization of agriculture will reduce the cost of import which can be used in industrial development.

From the above discussion it can be said that our agriculture and industry sector are dependent on one another and complement of each other. Thus the development in both sectors together is necessary for the economic development, self-sufficiency in food and self-reliance of our country.

Task: Identify the areas where agriculture and industry are dependent on each other.

Exercise

Short Questions

1. What are the characteristics of Bangladesh economy?
2. What are the sub-sectors of agriculture?
3. Make a list of sub-sectors of agriculture based on examples.

Descriptive Questions

1. Explain the characteristics of Bangladesh economy.
2. Discuss the relative importance of agriculture, industry and service sectors of Bangladesh economy.
3. Explain the dependency of agriculture and industrial sectors.

Multiple Choice Questions

1. What percentage of the total labor force is involved in agriculture?
 - a. 19.92%
 - b. 30.30%
 - c. 43.60%
 - d. 47.30%

2. The purpose of Bangladesh government to announce the Industrial Policy 2010 is-
 - i. increase per capita income
 - ii. increase women's participation in industry
 - iii. increase investment by increasing tax

Which of the following is true?

- a. i and ii
- b. i and iii
- c. ii and iii
- d. i, ii and iii

Read the following passage and answer the question number 3 and 4.

Moti lives in a remote area with his family. There is no electricity and gas. Everybody in the family live on the packets they produce.

3. Which sector of industry includes the activity of Moti and his family?
 - a. large
 - b. medium
 - c. small
 - d. cottage

4. For the development of manufacturers like Moti-
 - a. loans on easy conditions should be given
 - b. use of foreign goods should be reduced
 - c. trainings should be provided

Which of the following is true?

- a. i
- b. ii
- c. iii
- d. i, ii and iii

Creative Questions

1. Two sectors of the economy



Farmer is cutting Jute in the field



B (Jute made bags)

- a. What is industry?
- b. Why the rate of capital accumulation is low in our country?
- c. How economic growth is dependent on the development of sector 'A'?
- d. Sectors 'A' and 'B' are complement of each other- explain.

2.



Map

- a. What is service?
- b. Agriculture is the base of cottage industry. Explain.
- c. Explain the reason for the authority of EPZ to give importance to area 'A'.
- d. Discuss the importance of the industry situated in area 'A' on the basis of its contribution in the GDP.

Chapter Nine

Important Economic Issues in Bangladesh

Bangladesh is a developing country. By developing the important sectors of this country (such as- agriculture, manufacturing, business) there is a huge potential to develop the economic condition. By expanding the economic sectors, it is possible to bring basic changes in Bangladesh economy through reducing poverty and unemployment.



It can be expected that after studying this chapter we will be able to-

- Explain the relationship between economic growth and development
- Explain the characteristics of developed, less developed and developing countries
- Identify the stages of development of Bangladesh economy
- Make a list of obstacles to economic development of Bangladesh
- Explain the importance of development projects taken by Bangladesh government
- Explain the importance of development projects taken by non-government Organizations for national development
- Explain the type, reasons and reduction of poverty in Bangladesh
- Explain the concept of human resources
- Explain the way in which the population of a nation can become its asset

9.1 Economic Growth and Development

Though it seems the concepts of economic development and growth are the same, it is not. There is a basic difference between these two words.

9.1.1 Economic Growth

Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the continuous increase in the gross domestic product (GDP) or total national income.

9.1.2 Economic Development

Economic development means the continuous increase in per capita income of the people through overall changes in the economy.

So, for economic growth, only the increase in total national income is enough. And for economic development, with growth there are also qualitative changes in the economy. For this we can write, Economic development = Economic growth + Qualitative changes in economy.

Task: Distinguish between growth and development.

9.2 Characteristics of Developed, Less Developed and Developing Countries

There are different characteristics for developed, less developed and developing countries. Though the characteristics of less developed and developing countries seems almost the same, they have different characteristics from anticipatory perspectives.

9.2.1 Characteristics of Developed Countries

The characteristics of developed countries are given below:

- 1. Land and Natural Resources:** Developed countries are enriched with sufficient natural resources. These countries ensure the proper use and protection of land and natural resources. Developed countries like America, Japan, European countries are ruling the modern world through the efficient use and protection of natural resources.
- 2. Creation of Capital:** Creation of capital is the primary condition for economic development. Developed economies fulfill this condition. In the economy capital is created through savings. And this savings is then invested.
- 3. Skilled Manpower:** The requirement of skilled manpower is must for the economic development of any country. Even if a country is affluent of natural resources, capital etc., it cannot be economically developed if it lacks the skilled manpower. Developed countries keep a special eye on the development of skilled manpower. Skilled manpower can be build up through proper treatment, training and research.
- 4. Role of Entrepreneur:** In the developed countries entrepreneur come forward for investment and production due to political and economical stability. Entrepreneur and investors gather from different parts of the world. It does not happen in the less developed countries.

5. **Technical Knowledge:** The production capacity of the workers in developed countries has increased a lot and the main reason for this increase is the development of technical knowledge. A country that has more technical knowledge is more developed. People in developed countries control the nature through improved technical knowledge and get things that are desired from the nature.
6. **Political Stability:** Political stability is the prime requirement for the economic development. Economic development is restrained in the countries those do not have political stability. It is possible in the developed countries because they are politically stable.
7. **Development of Transportation System:** More production and development is possible where transportation system is more developed. Because the development of transportation system reduces production cost and increases investment. Thus production increases.
8. **Efficient Administration:** A developed country always keeps in mind that proper and efficient administration is a compulsory condition for development. It always tries to maintain an efficient administration for the stability in economic, political, educational and cultural sectors.

Task: Make a list of characteristics of developed countries.

9.2.2 Characteristics of Less Developed Countries

Maximum countries of Asia, Africa and Latin America are less developed. Most of the people of the world live in these countries. The characteristics of less developed countries are given below:

1. **Less Productive Agricultural Sector:** Most of the people in less developed countries live in the rural areas. They are directly or indirectly related to agricultural production and dependent on agriculture. The production procedure and technologies related to agriculture are primitive.
2. **Agriculture Based Economy:** A big portion of national income of these countries comes from agriculture.
3. **Unemployment:** Since the economy of less developed countries are agriculture based, disguised and seasonal unemployment problems are severely noticed there.
4. **Low Per Capita Income:** Per capita income and savings are low in less developed countries. For this reason investment and production is also low.
5. **Vicious Cycle of Poverty:** In less developed countries income is low since the production is low. It leads to low savings. Investment is low because savings is low. Thus there is shortage of capital. Thus the production decreases. This situation is called the vicious cycle of poverty. Because of this cycle the development process in less developed countries is slower.
6. **High Population:** In most of the less developed countries the population is high and per capita income is low. Food, cloth, shelter, education, transport, treatment and employment cannot be provided properly in less developed countries due to high population.
7. **Use of Land and Natural Resources:** Less developed countries cannot ensure efficient use of land and resources through the development of technologies and methods. Thus economic development is slow.

8. **Inefficient Communication and Transportation System:** The transportation systems in less developed countries are inefficient. Thus there exist the problems of product trans-shipment. Production cost increases. Entrepreneur are not interested in investment.
9. **Colonial Trade System:** The less developed countries are not developed in manufacturing sector. Thus they have to export agricultural goods, raw materials, primary goods and import manufacturing goods. Agricultural raw materials that are low in price are exported and same products are imported at high price when they are turned into manufacturing goods. For this reason there is an imbalance in trade.
10. **Weak Manufacturing Structure:** In less developed countries manufacturing structure is primitive and they lack of high capital based industries. In this weak structure of manufacturing industries the employment is low and the skills of workers are also low.

Task: Make a list of characteristics of less developed countries.

9.2.3 Characteristics of Developing Countries

Some important characteristics of developing countries are given below:

1. **Underdeveloped Agricultural System:** Most of the people are directly or indirectly dependent on agriculture for food, clothing and shelter. A big portion of the national income comes from agriculture. In agriculture primitive methods are used in the small farms. There is always a disturbance from flood, drought and natural calamities. Instability in the prices of agricultural goods creates problems in the production.
2. **Per Capita Income:** The per capita income in developing countries is lower than developed countries.
3. **High Population:** Rate of population growth in developing countries is higher than rate of increase in income.
4. **Shortage of Capital:** Per capita income in developing countries is low. So savings is also low. Low savings create problem in the formation of capital.
5. **Primary goods producing country:** Developing countries mainly produce primary goods and use labour intensive technologies.
6. **Backwardness in Manufacturing:** Progress in manufacturing is slow as they are dependent an agriculture.
7. **Deficit in Foreign Trade:** Every year in developing countries import expenditure exceeds the exports earnings. For this reason these countries have to face trade deficit every year.
8. **Lacking of Entrepreneur:** Most of the products in developing countries are from agriculture. The instability in the prices of these products is high. This creates risk for the investors. As a result development is hampered due to lack of domestic and foreign entrepreneur.

9. **Inefficient Communication and Transportation System:** The transportation and communication system in developing countries are inefficient and expensive.
10. **Dependency on Foreign Aid:** The structural development of developing countries depends mostly on foreign aids.
11. **Various Steps of development:** Developing countries are in different steps of development. Some countries are developing quickly in manufacturing and trade such as China, India and Malaysia. Whereas some countries are very slow in development process such as various countries of Africa.

Task: Identify the type of Bangladesh economy.

9.3 Obstacles to Economic Development of Bangladesh

Due to many socio-economic and political reasons, developing country like Bangladesh cannot prosper quickly.

1. **Dependency on Agriculture:** Though the economy of Bangladesh mostly depends on agriculture its production capacity is low. In spite of the need of development in agriculture is necessary its advancement is slow.
2. **Underdeveloped Agricultural System:** The agricultural system in Bangladesh is underdeveloped. The use of modern equipment in agriculture is limited. And there is instability in price of agricultural products.
3. **Lack of Capital:** Since the per capita income in Bangladesh is low, rate of raising savings and capital is also low. Thus it is not possible to invest as much needed for quick development.
4. **Lack of entrepreneur:** Entrepreneur are very important for development. In Bangladesh there is a lacking of entrepreneur who are efficient, experienced and ready to take risk. Due to lack of entrepreneur use of savings and capital is low. And for political and economical instability entrepreneur are not ready to take risks and do not come forward as the environment is not investment friendly.
5. **High Population:** Bangladesh is a country of high population. It is not being possible to use this population in production and work. A big portion of national income is used for this portion of population which creates obstacles in development.
6. **Vicious Cycle of Poverty:** One of the main obstacles in development of Bangladesh economy is the vicious cycle of poverty. According to Professor Narks, "A country is poor because it is poor." Low production, low income, low demand and savings, low investment and low capital are called the vicious cycle of poverty.
7. **Political Instability:** In Bangladesh there is political uncertainty and instability. It is not favourable for domestic and foreign investment. Not only this, the long term development plan is also hampered by this.

8. **Dependency on Foreign Aid:** The economy of Bangladesh is dependent on foreign trade and relationship. It faces obstacles in trade for imbalanced competition of developed countries and various conditions. On the other hand dependency on foreign aid and investment on agriculture, manufacturing and business creates obstacles in development of self-reliance Bangladesh.
9. **Weak Marketing:** Weak marketing exists everywhere in Bangladesh. Market price is not profitable for producer due to lack of awareness, weakness in communication and transport system, fund.
10. **Obstacles in Application of Technology:** Modern technologies cannot be used in production due to lack of modern technology, imported technologies are costly and risky in use.
11. **Lack of Educated and Skilled Human Resource:** Bangladesh is still lacks the skilled man power and technically educated people. For this reason productive sectors have insufficient production.

Task: Make a list of main obstacles in economic development of a developing country like Bangladesh.

9.4 Development Programmes of Non-government Organisations

Non-government organizations mainly work for reducing poverty. Their works increases in the time of natural calamities. In Bangladesh many non-governmental organizations (NGOs) are working to reduce poverty by giving small loans. Many rural foundations, banks and NGOs are working to help the government in fulfilling its development plans. Main NGOs of Bangladesh are BRAC, ASHA, Proshika, Shakti Foundation, Shwanirvar Bangladesh, TMSS, Karitas, society for Social Service (SFSS) and Bangladesh Bureau.

1. **Bangladesh Rural Development Committee (BRAC):** Established in 1972, BRAC is the largest micro-credit giving NGO in Bangladesh. It works in 70 thousand villages and 2000 slums for the empowerment of the poor specially women and girls. Apart from giving microcredit it also works in other development programmes like reducing poverty, extreme poor, health, education, and socio-economic development. Among 80,54,415 of the microcredit taker 76,14,326 are women.
2. **Shwanirvar Bangladesh:** Shwanirvar Bangladesh was established in 1975. At first it worked as an adjoin cell of Bangladesh agriculture and forestry ministry. It started to work as NGO for the socio-economic development of the people from 1985. Working for self employment through all government banks and PKSF it has given loan to 16,06,144 poor people of Taka 1,04,461 till 2010 and taken the repayment up to Taka 84,256 crore. From this 80,30,720 people are directly or indirectly benefited.

3. **Proshika:** Proshika started to work in few villages of Dhaka and Comilla district. For economic development of its members Proshika gave microcredit of Taka 4495 crore to 1 crore 23 lakh people till 2010 for environment friendly agriculture, irrigation, increase of domestic animals, bee breeding, fisheries, social forestry, gardening at homes, production of seeds, small business and in many other sectors.
4. **ASHA:** ASHA is conducting microcredit since 1992. It is emerging as the largest self-reliance microcredit giving organization in the world. ASHA is the only organization that gives small loans at lowest interest. At the end of 2010 it distributed loan of Taka 41,121 crore and took repayment of taka 37,479 crore.
5. **Shakti Foundation:** It was established in 1992 and it gives loans to the poor women in slums of large cities such as Dhaka, Chittagong, Rajshahi, Khulna, Comilla, Bogura, etc. It also works for the development of health, business and social welfare of these women. It distributed loan of Taka 513.89 crore till June 2010 and took repayment of Taka 413.96 crore.
6. **TMSS:** Thengamara Mohila Shabuj Shangothan is the largest organization for women development. It is working for women to reduce poverty and development of socio-economic condition since 1980. Women who are illiterate, deprived and tortured and owner of land less than 0.5 acre are member of this organization. It distributed loan of Taka 3888.02 crore till June 2010 and took repayment of Taka 3457.08 crore.
7. **Society for Social Service (SFSS):** It emerged in 1986 for the development of poor, deprived man and women, reduction of poverty of children, and their education and health increase. Its purpose is the development of poor, deprived man and women, reduction of poverty of children, and their education and health increase.
8. **Bureau Bangladesh:** It is working in 9026 villages of 1149 unions of 245 police stations of 42 districts in Bangladesh to reduce poverty through loan and savings projects. Moreover it also works in health care, pre-primary education, development and empowerment of women, sanitation, family planning, social forestry and tree plantation, disaster management etc. projects.

9.5 Poverty

Poverty makes a country and its people dependent on others and makes the base of development weak. So it is necessary to know about the concept of poverty, its measurement and how to remove it.

9.5.1 Concept of Poverty

It is difficult to define poverty in one word. But on the basis of some conditions the concept of poverty becomes clearer. People of a country, who are not able to cope with the changing environment, unfavorable nature like flood, drought, lack of resources and lack of balance in distribution of resources, favors inequality in income- this situation is called poverty. Due to lack of information, if most of the people of a country are below the poverty line they are called information poverty. According to Bangladesh Bureau of Statistics on the last income-expenditure survey done in 2010 the poverty in Bangladesh was 31.5% and according to the survey of 2005 people lived below poverty line was 40.0%. In 1991-92 it was 50.1%. In this situation Bangladesh is still a poor country.

Table-1

Poverty and Chronic poverty (%) according to calorie intake

Type of poverty		1995/96	2005	2010
Poverty	National	50.1	40.0	31.5
	Rural	54.5	43.8	35.2
	Urban	27.8	28.4	21.3
Chronic poverty	National	35.2	25.1	17.6
	Rural	39.5	28.6	21.1
	Urban	13.7	14.6	7.7

9.5.2 Poverty Measurement in Bangladesh

In recent years poverty is measured in Bangladesh as the cost of meeting basic needs. In this measurement both food and non-food products are included. In this chapter mainly the information of income-expenditure survey of 1995/96, 2005 and 2010 conducted by BBS are presented.

A. Trend of Poverty

From years 1995-96 to 2010 (measured by CBN upper poverty line) percentage of poverty is reduced from 50.1% to 31.5% that means at average annual rate it is reduced by 3.3%. But poverty declined more in rural areas (at average annual rate of 3.1%). On the other hand it declined only at an annual average rate of 1.9% in urban areas. In this period chronic poverty declined more quickly at an annual average rate of 4.8%.

9.5.3 Programmes Adopted for Poverty Alleviation

There are many government and non-government (NGO) programmes for the employment and income increase and development of poor people. The government of Bangladesh has taken the following programmes to reduce poverty.

1. Social Protection Programme

The main challenge of structural development is to include women, children and disabled people in the main stream of development programmes. Total 64 ongoing programmes are being conducted under various ministries for social protection and empowerment. In these programmes providing cash (special and various pensions), food security, small loans and various funds are included. To conduct these programmes Taka 22,556.05 crore was allocated in the revised budget of year 2011-12. Taka 4,830.64 was distributed up to January 2012.

Classification of Social Protection Programmes is given below:

- a. Aid through providing cash (various pensions)
- b. Aid through providing cash (special)
- c. Food security programme
- d. Providing small loans for self-employment
- e. Various funds for poverty reduction

a. Programmes Under Aid Through Providing Cash:

1. **Pension for Elderly People:** Around 0.25 crore people are benefited through this programme under social welfare ministry in year 2011-12 and the amount given is Taka 300 per month.
2. **Programmes of Providing Pension for Widow and Deprived Women Abandoned by Husbands:** Under this programme in year 2011-12 rural women who are poor, deprived and abandoned by husbands are given Taka 300 monthly and in the budget of fiscal year 2010-11 Taka 331.20 crore was allocated for this purpose.
3. **Pension for Freedom Fighters:** Under this programme Taka 360 crore was allocated for 1 lakh 50 thousand freedom fighters and they were given Taka 2000 monthly.
4. **Programmes of Self-employment and Training of Freedom Fighters and their Wards:** For the employment of freedom fighters and to raise their standard of living small loans are given through BRDB by the ministry of development of freedom

fight. 25 crore Taka was allocated to BRDB in the year 2006-07. 23914 freedom fighters and their wards were given training in 64 districts up to year 2010. The target of this programme is to ensure the dignity of the freedom fighters and their wards through the training for various jobs to make them part of skilled human resources. Taka 35.09 crore was allocated till December 2011 under this programme.

5. **Special Programmes of Small Loans and Rehabilitation of Acid Effected and Disabled People:** Social welfare ministry has started rehabilitation fund for acid effected women and disabled persons. This fund was allocated with Taka 2 crore in the year 2010-11.
6. **Fund for Poor Disabled People:** Social welfare ministry is in charge of this programme. Taka 102.96 crore was allocated in the year 2011-12 and Taka 51.48 crore was distributed till January 2012. Under this programme 2.86 lakh disabled people are benefited and they are getting Taka 300 monthly.
7. **Maternity Allowance for Poor Mothers:** This programme is for poor pregnant mothers. In the year 2011-12 total 10200 mothers got Taka 350 monthly. For this purpose this year Taka 42.50 crore is allocated for this fund. Taka 32.60 crore is allocated for poor mothers in urban areas.

8. Current Situation in Various Programmes of Food Aid

- a. **Food for Work Programme:** In the fiscal year 2011-12 under this programme 3.71 metric ton food grains was allocated under the ministry of food and disaster management.
 - b. **VGD:** In the fiscal year 2011-12, under this programme 749689 people got trained and 30 kilograms of food as aid and 2 lakh 70 thousand metric ton food grain as relief.
 - c. **VGF:** In the fiscal year 2011-12 under this programme 4 lakh metric ton food grains was allocated under the ministry of food and disaster management. In the same fiscal year under T.R. programme 4.10 lakh metric ton food grain was allocated.
9. **Various Projects under Animal Resource Sector in Poverty Reduction:** In the development of animal resource, artificial breeding process projects are taken and for the change in milk sector fund were given for the establishment of dairy firms under private sectors. Other than this training and suggestions were given to the farmers and poultry owners.
 10. **Various Projects in Fisheries:** To bring the positive change in fisheries sector government has taken various projects such as breeding of fish, training for the

development of human resource, fisheries management (closed, open and social and marine), law for the protection of fisheries, research on fisheries etc. were taken.

- 11. Loans and Grants for Homeless:** Under the projects of home building for the homeless in the period of 1997-98 Taka 50 crore was allocated for housing. Till February 2009, total Taka 190 crore 43 lakh was allocated in against of sanction of Taka 114 crore 27 lakh till February 2009 and 46 thousand 61 houses wear built which benefited 2.30 lakh people. Under this project in the fiscal year 2011-12 Taka 15,000 crore was allocated against which Taka 104.33 crore was sanctioned till March 2012.
- 12. Employment Bank for the Employment of Unemployed Youths:** Employment Bank is working to make unemployed specially educated young man and woman productive and to involve them in income increasing works through loans to reduce poverty. The authority of this bank has given loan till March 2012 and 92% was earned back.
- 13. Sheltering (Poverty Reduction and Rehabilitation) Projects:** Sheltering project was started in 1997 through rehabilitation and employment of 50 thousand families who were affected by cyclone, homeless and extreme poor. Housing project with expenditure of Taka 716 crore was taken under this programme. Another project is taken with the name of Ashroyan-2 for the period of June 2010 to 2014 with allocation of Taka 1169 crore which is now running.
- 14. Overall Activity of Cooperative Society in Poverty Reduction:** By establishing cooperative societies it works to make people with various jobs independent to reduce poverty.
- 15. Information and Communication Technology (ICT) in Poverty Reduction:** The government has acknowledged the information and communication technology as the Thrust Sector to reduce poverty at a faster rate in order to achieve millennium development goal that is announced by United Nations by 2015.
- 16. Rural Infrastructural Development:** Local government, under local government, rural development and cooperative ministry has taken many infrastructural development programmes specially for development of rural roads, bridges, developments of local markets, building dams etc. and this also created employment opportunity for rural people which has helped to reduce poverty.
- 17. Polli Daridro Bimochon Foundaton (PDBF):** The objective of Polli Daridro Bimochon Foundaton (PDBF) is to unite the rural deprived people and giving them loans, increasing their efficiency, ability to command and social development and empowerment of women.
- 18. New Projects:** In the period 2010-11 new projects were taken to reduce poverty. a) Poverty reduction and employment for the people of backward areas (budget of Taka 11 crore). b) Poverty reduction through social forestry (budget of Taka 9.42 crore).

- c) Development of the seeds of rice, wheat, corn (budget of Taka 109.73 crore). e) Promotion of legal and social employment (budget of Taka 21.14 crore).

9.6 Unemployment

9.6.1 Definition of Unemployment

A person who is able to work, interested to work at current wage rate, but unable to find a job- is called an unemployed person.

- (1) Is unable to get a job at current wage
- (2) Is interested to work at current wage rate
- (3) Unable to earn money
- (4) Suffers from economical and emotional stress

9.6.2 Trend of Unemployment

Type of Unemployment :

1. **Seasonal unemployment:** This type of unemployment occurs at a certain time of the year due to natural calamities. For example, rural workers do not have job except the time of planting the seeds and harvesting. In the period of time when the rural workers remain unemployed, are called seasonal unemployed workers.
2. **Disguised Unemployment:** Though it seems there are lot of workers who are employed in agriculture sector, in reality many of them have zero marginal productivity. People who have zero marginal productivity are called disguised unemployed person. Suppose, a farmer has two bighas of land. He works alone on that land and produces a certain amount of crops. If his two of his sons join him it will seem that three persons are working. But in reality three of them produce the same amount of crop that the farmer alone used to produce. So the extra two people have the zero marginal productivity. The reason for this is that three of them are dividing the work load of a single person. Thus these extra two people are called disguised unemployed person. Therefore, disguised unemployment is a situation where it seems people are working but actually they have zero marginal productivity.
3. **Permanent Unemployment:** A person, who is unable to find a job in the whole year, is called permanently unemployed person. The existence of this type of unemployment in Bangladesh is almost zero. Rural people who are able to work do not remain unemployed for the whole year. They are engaged in a job if they able to work. From the research work of Dr. Barkat-E-Khuda, it can be seen that in the busy season only 13% of the male workers and 18.8% of the female workers remain unemployed. But these people are engaged in working at some another period of time.

- 4. Women Unemployment:** In rural areas very few women (married) remain unemployed. They are busy except the time of roping seeds and harvesting. Even if they do not work outside they are busy all through the year in household chores, drying the crops and keeping them with care, raising children etc. 95% of these married women are engaged in various works.

Total 30% of rural and urban married women are not involved in working in agriculture or any other job. On the other hand, 15%-20% women are at the age of working but not married or married but not involved in working.

Due to lack of works aside from farming in the rural areas various types of unemployment mentioned above exist.

15.5 Reduction of Unemployment

For the reduction of unemployment development in agriculture and non-agriculture sector are necessary. In agriculture improvement in irrigation, farming in arable lands and many other agricultural works such as raising animal, forestry, raising chicken and ducks and fisheries is possible. In non-agricultural sector there are possibilities of employment in construction of roads, housing, expansion in small and cottage industries, small businesses etc. Other than these it is possible to get reduction of unemployment by taking following steps.

- 1. Reduction of Disguised Unemployment:** Disguised unemployment exists in the agriculture sector of less developed countries. To reduce this unemployment higher wages can be given to workers of manufacturing sectors so that labor supply in manufacturing sector will increase. Thus excess labor from agriculture will shift to manufacturing sector.
- 2. Invest Capital and Reduction of Unemployment:** For the reduction of unemployment if more capital is invested in manufacturing sector the marginal productivity of labors will increase and thus employment will also increase.
- 3. Establishment of Small and Cottage industries for Producing Equipments of Farming:** Small equipments that are necessary for farming can be prepared in small and cottage industries. And establishment of these types of industries in rural areas will reduce unemployment.
- 4. Use of Modern Technology in Agriculture:** After analyzing the unemployment problem in Bangladesh it can be seen that use of high breeding seeds (ufshi) in agriculture and modern fertilizers and irrigation system, development of land etc. has increased the use of excess labor of 5 million from year 1975 to 2000. On the other hand in manufacturing sector it increased by only 3 million. Use of modern technology can reduce this unemployment problem.
- 5. Establishment of Industries Based on Agriculture in Rural Areas:** Establishment of Industries Based on Agriculture in Rural Areas will increase employment in these industries which will increase the production and employment in agriculture. That is unemployment will be reduced.

6. **Growing Multiple Crops:** Apart from growing only seasonal crops if other crops are also grown in between times or growing one crop after another no agricultural will remain unemployed.
7. **Farming Other Than Crops:** In most of the areas in Bangladesh there are lots of rivers, ponds and other lower lands. In these places lots fisheries can be established. On the other hand in the high lands where crops cannot be grown, poultry can be built.
8. **Compulsory Work Oriented Education Policy:** To solve the unemployment problem in a country like Bangladesh education policy must be changed. Technical and practical training should be given at all levels to increase the employment in agriculture and manufacturing. Technical and vocational institutes should be established in every district to create the opportunities for the less educated people.
9. **Proving Enough Loans:** After technical and vocational training if loans are given it would be easier to raise poultry firms, fisheries and animal breeding firms to reduce unemployment. It can also be solved by establishing small and cottage industries.

9.7 Human Resource

Human resource is very important for economic development. It is required in every sector of development and technology. The value of efficient and trained human resource is very high. Thus for the development of all developed and developing countries the importance and value of human resources is very high.

9.7.1 Definition of Human Resource

The part of population which is included in the labor force through proper education and efficiency it is called the human resource. That is land and capital of a country is called tangible resource and educated and workable labor is called the human resource. Supply of human resources is required for the utilization of natural resources for economic development. For economic development both tangible and human resources are necessary. Increasing working capability and efficiency through proper education, training, healthy shelter, treatment etc. is called development of human resources. Efficient human resource is a necessary element for economic development.

9.7.2 Methods of Human Resource Development

For economic development it is necessary to increase the quality of human resource. For this purpose following steps can be taken.

1. **Education:** To make people workable and efficient it is necessary to expand education and technical education. Education is necessary for private and national development. Therefore, it is necessary to change the whole education system and encourage vocational education. A person can be illiterate but he is not useless. If he is given proper training, he can be a part of human resource. An illiterate person can become good and efficient farmer and increase the production.

Developing country like Bangladesh lacks vocational or technical education. Thus it is necessary to increase technical education in everywhere. People educated with technical knowledge can utilize their learning in real life.

2. **Training:** Educated and trained people of a country are able to increase the production more. It is possible to develop the quality of a person who is not trained. Training is necessary for human resource development. If trained people are utilized in more technical works high returns are possible. Moreover trained people can take proper decision quickly when needed.
3. **Development of Public Health:** Balanced diet, healthy environment etc. are the basic requirement for maintaining good health. Every person in the country should be introduced with these requirements. People who have poor health, weak and do not want to work, with proper treatment it is possible to improve their health.
4. **Food and Nutrition:** It is necessary to introduce people with balanced diet and nutrition to make them part of human resource. The government, political parties, doctors, scientists, farmers, labors all should come forward on this purpose.
5. **Proper Shelter:** Healthy environment is necessary for increasing working capacity. Thus the government should take proper steps to ensure proper housing system through public and private sectors.
6. **Making Women the part of Human Resource:** It is necessary to involve women in the work force through education and training. Half of total population in Bangladesh is women. Economic development is not possible while these people remain at home. It is possible to increase human resources through proper education and training of women.
7. **Plan for the Development of Human Resource:** To increase the working capacity and quality of human resources of Bangladesh proper plan and its application is required. Necessary steps should be taken to put these at work. That is economic development of a country is possible if it is possible to take proper plans.

Exercise

Short Questions

1. Explain the concept of economic development and economic growth.
2. Is growth part of development? Explain your answer.
3. Mention 6 characteristics of less developed countries.
4. Mention 6 characteristics of developed countries.
5. What are the obstacles of economic development?
6. Mention few names of NGOs.
7. How can we measure poverty?
8. Explain the concept of poverty.
9. Mention few names of various types of unemployment.
10. Mention few methods of reducing unemployment.

Descriptive Questions

1. Explain the concept of economic development and growth. What are the characteristics of less developed countries? Explain.
2. What do you mean by economic development? What are the characteristics of developed countries? Explain.
3. Explain the main obstacles of economic development?
4. What is non-governmental organization (NGO)? Discuss about these.
5. What do you mean by poverty? Discuss the methods of measuring poverty in Bangladesh.
6. Discuss the programmes taken by Bangladesh government for poverty reduction.
7. What do you mean by unemployment? Explain the types of unemployment in Bangladesh.

Multiple Choice Questions

1. What is development?
 - a. part of growth
 - b. per capita income
 - c. increase in national income
 - d. development in other sectors with growth

2. Due to instability in agricultural products-
 - i. farmers are discouraged in production
 - ii. disguised unemployment increases.
 - iii. small industries increases

Which of the following is true?

- | | |
|---------------|------------------|
| a. i | b. i and ii |
| c. ii and iii | d. i, ii and iii |

Read the following passage answer the question number 3 and 4.

Karim drives a rented scooter. His income from this does not allow him to save anything after his expenditures on household chores. He is unable to save money even after driving the scooter for a long time. Finally he purchased a new scooter for himself by taking loan from the bank.

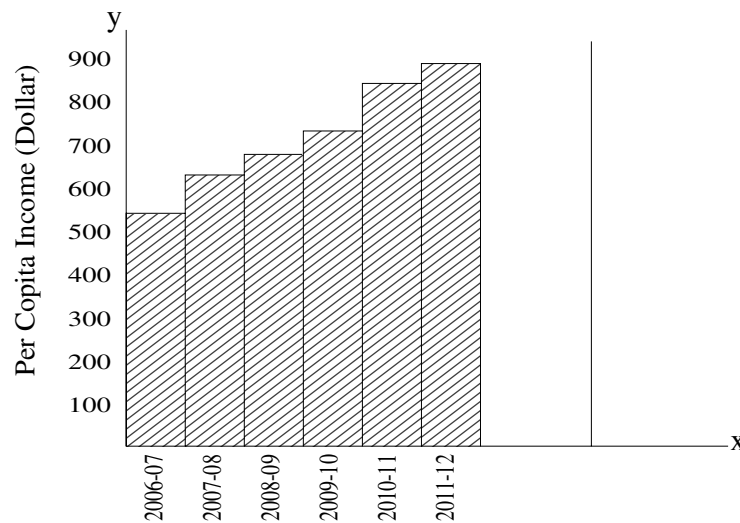
3. Karim's situation is related with which concept of economics?
 - a. trend of poverty
 - b. reduction of poverty
 - c. vicious cycle of poverty
 - d. decrease in poverty
4. By buying new scooter Karim's
 - i. unemployment problem will be solved
 - ii. capital will be formed
 - iii. consumption will be increased

Which of the following is true?

- | | |
|---------------|--------------|
| a. i | b. ii |
| c. ii and iii | c. i and iii |

Creative Questions

1.



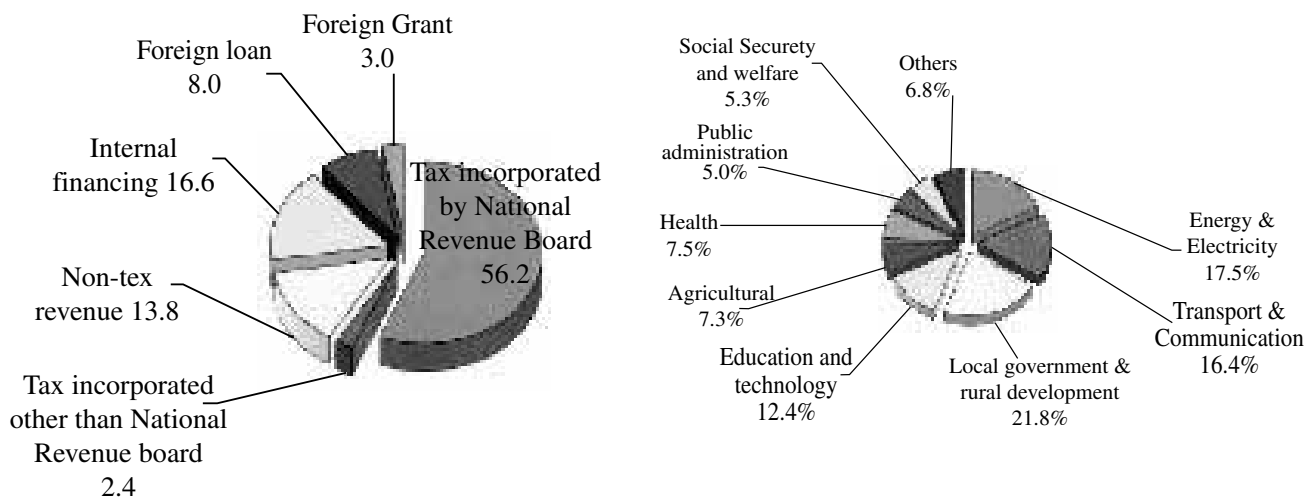
Source : Bangladesh Economic Review (June/12)

- a. What is human resource?
 - b. Explain the concept of vicious cycle of poverty.
 - c. Which characteristics of the economy does the graph show?
 - d. What is the driving force you think that is responsible for the economic condition shown in the graph? Explain.
2. Tamanna has done her M.A. from National University. But she is still unable to find a job. Now-a-days she helps her mother in handiwork. She passes a good time with her mother but their production or income from the handiwork is the same as before.
 - a. What is unemployment?
 - b. Explain the programme Food for Work.
 - c. Explain the type of work Tamanna does in the economy.
 - d. Technical education can improve the situation of Tamanna- explain.

Chapter Ten

The Public Finance of Bangladesh Government

Bangladesh government spends lots of money to run the administration properly, maintaining the rules and regulations within the country, save the country from external attacks and in many projects for the social welfare. The government has to earn revenue from different sources to finance these costs. A budget is the financial plan and a list of all planned expenses and revenues of the government. And these things are discussed in Public Finance.



It can be expected that after studying this chapter, we will be able to-

- Explain what is public finance
- Explain what are the sources of government revenue
- Explain what are the sectors of government expenditure
- Explain the concept of budget
- Differentiate between current budget and capital budget
- Compare between balanced budget and unbalanced budget
- Explain the budget of Bangladesh government and its classifications
- Identify the sources to finance the development budget of the Bangladesh government
- Participate in the discussion of the national budget

10.1 Public Finance

The branch of economics, in which the revenue and expenditure of the government and things related to loans are discussed, is called the public finance. To ensure the maximum social welfare of the people and for economic welfare in which sectors the local government will spend, how much it will spend and which policies it should follow are discussed in public finance. If expenditure exceeds the revenue, how much and from which sectors it will earn revenues to finance these expenditures, and from where it will borrow are discussed in public finance.

Thus the branch of economics in which government's revenue-expenditure and the sources of public debt and problems related to these and solutions to these problems are discussed, is called public finance.

10.2 The Sources of Revenue of Bangladesh Government

Bangladesh is a developing country. The government has to spend lots of money for socio-economic development, public welfare, ruling the administration and maintain country's defense system. To finance these expenditures the government has to collect revenues from different sectors. The government of Bangladesh has two main sources of revenue. For example: a) tax revenue b) non-tax revenue.

a) Tax Revenue

The revenue that the government collects from the public as compulsory but for which the public cannot demand any direct benefit from the government, is called the tax. The tax, which is imposed the residents of the country or the non-residents the country, on different industrial companies and on the products is called the tax revenue.

The sources of government revenues are-



Board of Revenue

1. Taxes on Income and Profit

The tax that is imposed on the personal income of a person is called the income tax. One of the main sources of the revenue of the Bangladesh government is income tax. Currently the people whose income is above Taka 2, 00,000 (for male); Taka 2, 25,000 (for female); Taka 2, 75,000 (for disabled), are bound to give the income tax. Moreover, taxes are also imposed on the profits of the different enterprises. In the fiscal year 2011-12 the government earned Taka 28061 crore from this sector.

2. Value Added Tax (VAT)

Bangladesh, like other developed and developing countries, started the system of value added tax from the year 1991-92. In the case of production, there exist lots of stages from producing the raw material to the final product. In the case of this production process, the tax that is imposed on a certain rate on the value added in different stages of production, is called the value added tax (VAT). Recently, in our country value added tax is imposed on

imported goods and locally produced goods and fixed thirty service sectors. In future, the areas of the value added tax will be expanded. In the fiscal year 2011-12 the government earned Taka 34304 crore from this sector.

3. Custom Duties

One of the major sources of income of the Bangladesh government is custom duties. The tax imposed on imported goods and services is called the custom duties. In the fiscal year 2011-12 the government earned Taka 12634 crore from this sector.

4. Excise Duties

The tax imposed on domestically produced and used goods is called excise duties. Excise duties are imposed to earn the revenue and also to reduce the consumption of harmful goods. In Bangladesh excise duty is mainly imposed on the goods such as tea, cigarette, sugar, tobacco, kerosene, medicine, spirit, matches etc. In the fiscal year 2011-12 the government earned Taka 450 crore from this sector.

5. Supplementary Duties

For many reasons the government imposes extra tax on some goods even after imposing the excise duty or the value added tax or the custom duty, this extra duty is called the supplementary duty. In the fiscal year 2011-12 the government earned Taka 16220 crore from this sector.

6. Other Taxes and Duties

Other than the five taxes and duties discussed above, the government collects some extra taxes and duties. For example: wealth tax, taxes on petrol and gases, taxes on visiting a foreign country, vacation tax etc. In the fiscal year 2011-12 the government earned Taka 671 crore from this sector.

7. Narcotics and Liquor Duty

The government earns revenue from imposing duty on narcotics and liquor. By doing this the government earns revenue as well as increase the social welfare. In the fiscal year 2011-12 the government earned Taka 65 crore from this sector.

8. Tax on Vehicles

The taxes given for various vehicles are called the vehicle tax. The government earns revenue from this sector every year. In the fiscal year 2011-12 the government earned Taka 900 crore from this sector.

9. Land Revenue

The tax that is paid by the land owner to the government for owing and using the land is called the land revenue. Bangladesh government has imposed development tax on land. In the fiscal year 2011-12 the government earned Taka 550 crore from this sector.

10. Non-Judicial Stamp

Non-judicial stamp is used on wills and the application forms of the cases. The government earns a lot of revenue from this sector every year. In the fiscal year 2011-12 the government earned Taka 2400 crore from this sector.

b. Non-Tax Revenue

The government earns a lot of revenue other than taxes and duties. Revenue collected from these sources is called non-tax revenue.

The sources of non-tax revenue of the government are-

1. Dividend and Profit

The government gets dividend and profit at the end of the year from its organizations such as- insurance companies, non-financial organizations (for example: nationalized industries, parks, zoos etc.). In the fiscal year 2011-12 the government earned Taka 2517 crore from this sector.

2. Interest

The government gives loan to the public service holders, many financial and self-governing organizations. So it earns some revenue as the interest of that loan. In the fiscal year 2011-12 the government earned Taka 696 crore from this sector.

3. Administrative Fee

The government earns different types of fees from the public for giving them administrative services. In the fiscal year 2011-12 the government earned Taka 2782 crore from this sector.

4. Fine, Penalty and Confiscation

The government collects some revenue through fine, penalty and confiscation for committing misdeeds that are against the rules and regulations of the country. In the fiscal year 2011-12 the government earned Taka 288 crore from this sector.

5. Economic Services

The government gives services to the people through its organizations. Among these services the important sources of the revenues are the fees for import-export services, registration fees, fees from insurance companies. In the fiscal year 2011-12 the government earned Taka 939 crore from this sector.

6. Rent and Lease

By giving public property on rent and lease the government earns a lot of revenue each year. In the fiscal year 2011-12 the government earned Taka 125 crore from this sector.

7) Toll and Levy

The government also collects revenue through toll and levy imposed on various bridges. In the fiscal year 2011-12 the government earned Taka 650 crore from this sector.

8) Non-Business Sell

Sometimes the government sells products without any profit for the wellbeing of the people. In the fiscal year 2011-12 the government earned Taka 340 crore from this sector.

9) Railway

Bangladesh railway earns money through the services of transportation of public and products. The profit in this sector has increased due to the expansion and modernization of railway service. In the fiscal year 2011-12 the government earned Taka 518 crore from this sector.

10) Postal Department

Bangladesh postal department is run through by the Bangladesh government. For this reason it is a revenue source of the government. This department gives varieties of services, thus its income has increased from the fiscal year 2001-02. In the fiscal year 2011-12 the government earned Taka 223 crore from this sector.

The revenue sources of the government mentioned above are not enough to finance its expenditures. For this reason the government has to borrow to meet its expenditures. It has to depend on foreign grants, loans etc.

Source: Finance department, Finance Ministry

Task: Make a list of revenue sources of the Bangladesh government.

Task: Find out the ways of increasing revenue sources of the Bangladesh government.
--

10.3 The Sectors of Expenditures of Bangladesh Government

Bangladesh is a developing country. For socio-economic development, human resource development, poverty reduction, protecting the country from external forces and ruling it and for the wellbeing of the people, the government has to pay a lot of money every year. The field of work of the government has increased with the rise of the democracy. For this reason many new sectors have been included in the expenditure sector of the government.

The main sectors of expenditures of Bangladesh government

1) Education and Technology

For increasing the human resources the government has to pay a lot of money in increasing primary education, quality development, and expansion of technical and vocational education, development of female education, increase the number and amount of scholarship to encourage the students and to increase the tertiary education. The

government spends a good quantity of money on information and technology to develop the socio-economic condition by associating technology with education. In the fiscal year 2011-12 the government expenditure on this sector was Taka 18769 crore.

2. Defense

To protect the country from external forces the government has to spend a huge amount of money to buy weapons for the wars, to facilitate the people in defense with proper training, salary, shelter and treatment. Some expenditure in sector remains hidden for the betterment of the nation. In the fiscal year 2011-12 the government expenditure on this sector was Taka 12240 crore.



Naval-craft

3. Public Administration

To rule the country the government has to accomplish the works related to public administration. It has to spend a great amount of money for the people working in the administration as it has to provide salary and bonus for them and to manage the office. In the fiscal year 2011-12 the government expenditure on this sector was Taka 53237 crore.



Public Administration Building

4. Public Control and Protection

The government has to bear a great expenditure in maintaining the peace and protection inside the country and for this it has to pay a lot of money to the police and other security workers for the public protection. In the fiscal year 2011-12 the government expenditure on this sector was Taka 8602 crore.

5. Agriculture, Agro-based Industry and Agricultural Research

The allocation of subsidy on agriculture and loan is increased by the government to enhance and develop the agriculture and agro-based industry. Bangladesh government has started to contribute in the agricultural research from the year 2007-08. In the fiscal year 2011-12 the government expenditure on this sector was Taka 14353 crore.



Agriculture

6. Public Health

To ensure the public health the government has to establish hospitals and medical colleges, give free medicine, prevent plague, train the doctors and nurses etc., so it has a great expenditure in this sector. To ensure the health services in the rural areas health complexes have been built and one M.B.B.S doctor and health instructor has been appointed. For this reason the expenditure has increased. In the fiscal year 2011-12 the government expenditure on this sector was Taka 8169 crore.

7. Social Security and Welfare

Bangladesh government tries its best to provide social security to helpless and socially deprived people to meet their basic needs, such as: providing allowances for elderly people and widows, rehabilitation of the acid-wounded women and disabled people, allowances for the freedom fighters, reduce the unemployment problem of the geographically back warded people (specially people in Monga areas), providing fund for the skill development of the readymade garments employees and refugees and conducting verities of programs for the deprived people. For this reason the government spends a lot of money. In the fiscal year 2011-12 the government expenditure on this sector was Taka 10716 crore.

8. Electricity and Fuel

To meet the increasing demand for the electricity the government spends a lot of money to distribute and produce more electricity, making fund for the renewable energy and in many other sectors. In the fiscal year 2011-12 the government expenditure on this sector was Taka 7957 crore.



Electricity Supply

9. Transport and Communication

To develop the transport and communication system in Bangladesh the government spends a lot of money through the different projects of the ministries of communication, road, railway, navy, private airways and tourism, postal and telecommunication department. In the fiscal year 2011-12 the government expenditure on this sector was Taka 10486 crore.

10. Poverty Alleviation and Employment

Our current government has started to give various technical trainings to the little educated and physically powerful youths for two years through 'National Service' project to solve the unemployment problem. It has distributed more than 10 lakh metricton to food grain through the projects of (T.R), (G.R), (B.G.F), and V.G.D. The government has given small loans to many ministries to fight unemployment. It has to lot of money for these sectors.

11. Repaying the Loan and Interest

The government borrows a lot of money from both the domestic and foreign resources to finance its development projects. So it has to pay a huge amount of money to repay these loans and the interests of these loans. In the fiscal year 2011-12 the government expenditure on this sector was Taka 19796 crore.

12. Industrial and Economical Services

For the development of the country's various industrial and economic service sectors the government spends a lot of money. It spends money through the ministries of industry, business, labor and employment. With the help of banks and financial institutions of Bangladesh Bank the government has taken a reinvestment plan to attract the small money lenders to distribute loans to small and cottage industries. In the fiscal year 2011-12 the government expenditure on this sector was Taka 1764 crore.



Garments Industry

13. Environment and Forestry

To protect the environment, saving it from industrial pollution, industries that produce liquid wastages, establishing refinery for them etc. causes a huge expenditure to the government and it spends this money through ministry of forestry.

14. Entertainment, Culture and Religion

Every year government spends a lot of money on information, culture, religion and youth and sports development. In the fiscal year 2011-12 the government expenditure on this sector was Taka 1539 crore.

15. Local Government and Rural Development

To rule the local government department, rural development and cooperation department and Chittagong Hill Tracts ministry the Bangladesh government spends a lot of money. In the fiscal year 2011-12 the government expenditure on this sector was Taka 12009 crore.

Other than above sectors the Bangladesh government also spends money on woman and children, water resources, fisheries and animal resources, housing, food and disaster management. According to the government statement the government of Bangladesh spends revenue on non-development expenditures in 55 sectors and under the development projects nearly in 18 sectors. In the light of modern social welfare, the government should spend more on development projects and reduce expenditures on non-development projects.

Source: Finance Department, Finance Ministry

Task: Make a list of expenditure sectors of the Bangladesh government.

Task: Find out the reasons of increasing expenditures of the Bangladesh government in recent years.

10.4 Budget

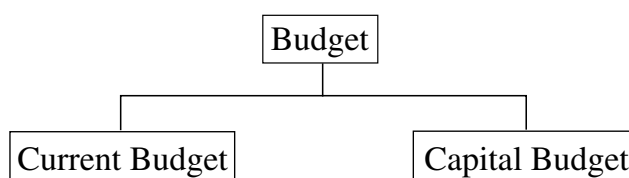
The planned estimate of income and expenditure is called budget. If a person designs systematically the income he gets from different sources and how he spends them, it is called the personal budget. In the same way the government's revenue of a particular year, how much it expects revenue from different sources and how much it wants to spend in different sectors is called the government budget. The fiscal year of Bangladesh is from July to June.

The budget is the main instrument of the economic system. It shows the political view of the government and also the economic condition of a country. It not only reflects the actual calculation of the income and expenditure but also the systematic plan of the income and expenditure of the government. It also lists the way how the deficit will be covered if expenditure is more than income and the way of using the surplus money if income is more than expenditure.

When the budget is ready it has to be passed in parliament and with the permission of the president the new fiscal year is started according to the new budget.

Types of budget

According to type of income-expenditure of the government the budget is mainly of two types.



Current Budget

The budget which shows the current income and current expenditure of the government, it is called the current budget. Current income is collected from tax and non-tax revenue. Value added tax, income tax, wealth tax and land tax are important in tax revenue. The dividend and profit of various companies and interest on loans are the main sources of non-tax revenue. The income from this budget is used to finance the expenditures of the administrative jobs properly and for national defense. Main expenditure sectors of this budget are education, public administration, police department, health and family planning etc. Since these sectors remain unchanged, reallocation in these sectors in every year is required. Usually there is always surplus in the current budget.

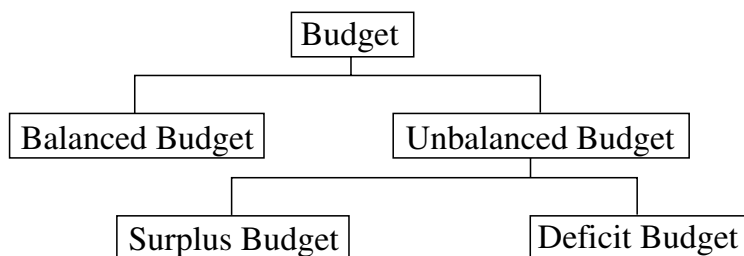
Capital Budget

The budget which shows the capital income and expenditure of the government is called the capital budget. The main purpose of this budget is the socio-economic development. For this reason the government plans a yearly development programs and collects revenue from various domestic and international sources to finance it and to put it in an action. The sources of income from the country are surplus revenue, private savings and charging extra tax etc. and the sources of income from outside the country are foreign loan, grants

etc. Under the annual development programs, agriculture, industry, current and fuel, woman and youth development, transport and communication, rural development and construction are important. The main purpose of this budget is socio-economic development and growth.

Task: Differentiate between current budget and capital budget.

According to the balance between income and expenditure, the budget is mainly of two types.



1. Balanced Budget

At a certain time, if the expected income and expected expenditure of the government are equal, it is called the balanced budget. In this budget if expenditure is coordinated with the income there is a less possibility of inflation or rise in price level and thus there is stability in the economy. But in a developing country like ours, this type of budget is not helpful to reduce unemployment problem, development of the economy and to fight the emergency condition.

Formula: $\text{Balanced Budget} = \text{Total Income} - \text{Total Expenditure} = 0$

Therefore, $\text{Total Income} = \text{Total Expenditure}$

2. Unbalanced Budget

At a certain time if the expected income of the government is not equal to its expected expenditure, it is called the unbalanced budget. There are two types of unbalanced budget according to the inequality of income and expenditure of the government.

- a) Surplus budget
- b) Deficit budget

a) Surplus Budget

In a fiscal year if the expected expenditure of government is less than its expected revenue, it is called the surplus budget.

That is, in this budget income is more than the expenditure.

Formula: $\text{Surplus Budget} = (\text{Total Income} - \text{Total Expenditure}) > 0$

Therefore, $\text{Total Income} > \text{Total Expenditure}$

b) Deficit Budget

In a fiscal year if the expected expenditure of the government is more than its expected revenue, it is called the deficit budget. To cope with deficit the government borrows money from the public, creates new money, borrows money from the central bank, take foreign loans and grants.

This type of budget is useful for developing countries like ours for the efficient allocation of resources; increase in employment, per capita income and to raise the level of standard of living of the people. But the creation of new money may cause the rise in price level and inequality in income.

Formula: Deficit Budget = (Total Income - Total Expenditure) < 0

Therefore, Total Income < Total Expenditure

Task: Write down the differences between surplus budget and deficit budget.

Task: Write down the differences between balanced budget and unbalanced budget.

10.5. Budget of the Bangladesh Government

Bangladesh is a developing country. The fiscal year of this country is July-June. Every year in the first week of June the finance minister presents primary budget in the parliament which is finalized after being discussed, criticized and being changed if required and then passed in that very similar month in the parliament.



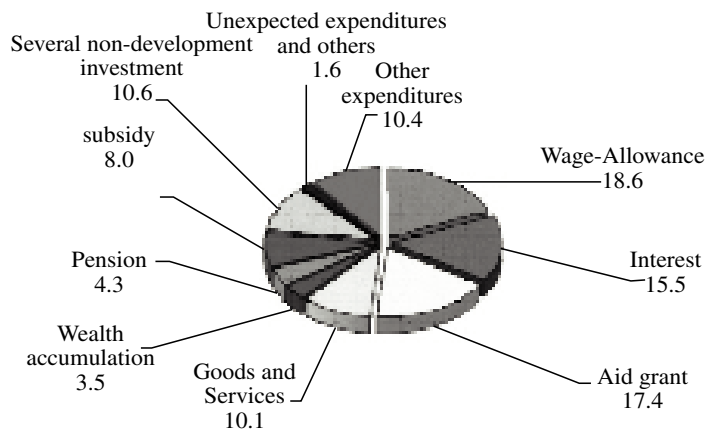
Jatiya Sangsad

In our country the budget is represented in two parts.

- a) Non-development budget
- b) Development budget

a) Non-Development Budget

The part of the budget in which the government's regular income-expenditure is shown and the expenditures are not directly involved with the development is called the non-development budget. The main purpose of this budget is to maintain the country's defense system and conducting the economy properly. Economical plans are not part of this budget.



Expenditure sectors of non-development budget

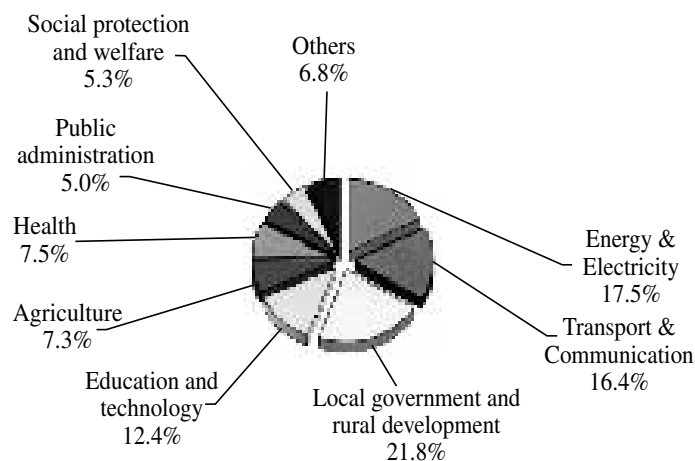
The income of the non-development is earned from the tax and non-tax revenue. The sources of income given below:

Revenue from Tax	Non-Tax Revenue
Tax on income and profit	Dividend and profit from state owned enterprises
Value added tax	Interest
Custom duty	Administrative fee
Excise duty	Fine, penalty and confiscation
Supplementary duty	Revenue from various services
Land tax	Rent and lease
Tax on vehicles	Toll and levy
Selling stamps	Railway
Narcotics and liquor duty	Postal department
Other taxes and duties	Wire and telephone department
	Other non-tax revenue

Expenditure sectors of non-development budget	
Education and technology	Social security
Public administration	Repaying loan and interest
Defense	Health and family planning
Public control and protection	Entertainment, culture and religion
Transport and communication	Unexpected expenditure

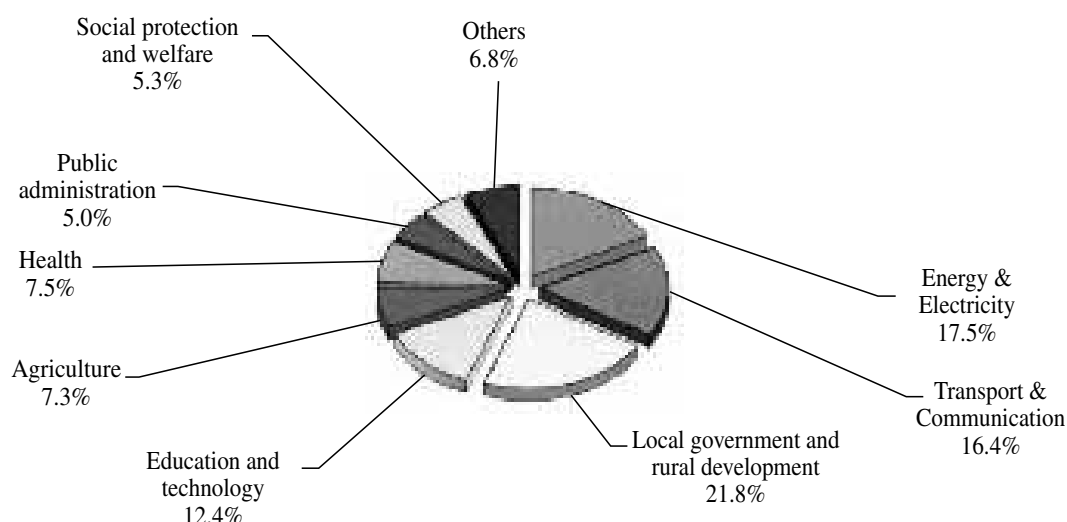
2) Development Budget

The part of the budget which shows the income-expenditures of the development projects is called the development budget. It shows the details of the government's annual development projects and the sources of expected income and expenditure. The purpose of this budget is to achieve economic development and growth in a planned way. For this reason, it's necessary to take new projects in every year.



Revenue and expenditure sectors of development budget

Revenue sources	Expenditure sectors
<p>Internal sources:</p> <ol style="list-style-type: none"> 1. Surplus of non-development budget 2. Revenue from charging extra tax 3. Loan from internal banking system 4. Borrowing through bonds <p>External sources:</p> <ol style="list-style-type: none"> 1. Foreign grants 2. Foreign loans 	<ol style="list-style-type: none"> 1. Agriculture and industrial development 2. Local government and rural development 3. Transport and communication development 4. Electricity and fuel 5. Education and technology development 6. Water resource and flood control 7. Housing 8. Labor and human power 9. Woman and youth development 10. others



Task: Identify which part of the budget of the Bangladesh government is in the non-development sector and which is in the development section.

10.6 At a glance the budget of year 2011-12 of Bangladesh government

(in crore Taka)

Description	Budget 2011-12
Revenue earned	1,14,885
Tax revenue	96,285
Non-tax revenue	18,600
Foreign grant	4,460
Total revenue:	1,19,345

Expenditure:	
Non-development	1,01,106
Non-development expenditure of revenue	91,403
Non-development expenditure of capital	9,662
Development expenditure	45,571
Development expenditure financed from non-development budget	1,145
Projects apart from A.D.P	2,142
Annual development program	41,000
Food for Work project (apart from A.D.P) and transformation	1,284
Total expenditure:	1,61,213
Total deficit (with grants)	-41,869
Percentage of G.D.P	-4.5
Total deficit (without grants)	-46,318
Percentage of G.D.P	-5.1
Funding	
Foreign grants (Net)	7,399
Foreign grants	14,036
Repaying foreign grants	-6,636
Internal borrowing	34,469
Funding from banking sector (Net)	29,115
Funding apart from banking sector (Net)	5,354
Total funding	41,868

Some important sides of the budget of year 2011-12

Total budget	1,61,213 crore Taka
Total revenue earning	1,14,885 crore Taka
Total deficit	46,318 crore Taka
Annual development program	41,000 crore Taka
Total Aggregate funding	41,869 crore Taka
Internal borrowing	34,469 crore Taka
Funding from banking sector (Net)	29,115 crore Taka
Funding apart from banking sector (Net)	5,354 crore Taka
Foreign grants (Net)	7,399 crore Taka (total grant was 14,036 crore Taka from which 6,636 crore Taka was used to repay the former loan)

There are mainly two parts in this budget. For example: non-development budget and development budget. According to the balance between revenue-expenditure, the budget of the Bangladesh government of the year 2011-12, it is a deficit budget.

Task: Give your opinion about the funding of the development budget of Bangladesh.

Exercise

Short Questions

1. What is public finance?
2. What do you mean by value added tax?
3. What is meant by budget?
4. What do you mean by current budget and capital budget?

Descriptive Questions

1. Explain the revenue sources of the Bangladesh government.
2. Explain the expenditure sectors of the Bangladesh government.
3. What is budget? Explain the types of budget according to pattern of revenue-expenditure of the government.

Multiple-Choice Questions

1. Income tax is imposed on-
 - a) Personal income
 - b) Income of the company
 - c) Income from the vehicles
 - d) Income from the land tax
- 2.



Figure : A



Figure : B

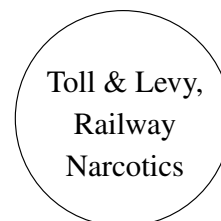


Figure : C



Figure : D

Which figure has the non-tax revenue sources?

- a) figure-A
- b) figure-B
- c) figure-C
- d) figure-D

Read the following passage answer the question number 3 and 4

Roni fails to go to the abroad after passing his H.S.C exam. He takes loan from a local bank and sets up a fish firm and gives jobs to a lot of people. Roni's friend Sunny joins as an officer to Chittagong Paper Mill after completing his Study.

3. In which sector of the Bangladesh economy Sunny's job is included in?

- | | |
|--------------|----------------|
| a) education | b) agriculture |
| c) service | d) technology |

4. Roni contributes to the economy more than Sunny because-

- i) he earns more than Sunny
- ii) he creates new employments
- iii) contributes to the national income

Which of the following is true?

- | | |
|---------------|------------------|
| a. i | b. ii |
| c. ii and iii | d. i, ii and iii |

Creative Questions

1. Ishrat goes for shopping in a departmental store. She has to pay more than the actual price. When she asks the salesman about this, he replies-

"It is charged by the government upon sales from the customer."

- a) What is land tax?
- b) Explain supplementary tax?
- c) Extra tax charged from Ishrat is a part of which revenue source of the government?
- d) Compare between excise tax and the tax given by Ishrat.

2. Jahid studies in a school. Everyone in their school is happy. Because a new building is being constructed. He finds out that this year the government has sponsored a big budget for their school. He does not know what is budget. So he asks his teacher and he told him that, this is also an expenditure of the government like their salary which is also provided through the budget.

- a) Give a definition of budget.
- b) What do you mean by public finance?
- c) The construction of new building in Jahid's school is part of which budget? Explain.
- d) How can the salary of Jahid's teacher be a part of surplus budget? Explain.

2013

Academic Year

9-10 Economics

সমৃদ্ধ বাংলাদেশ গড়ে তোলার জন্য যোগ্যতা অর্জন কর

-মাননীয় প্রধানমন্ত্রী শেখ হাসিনা

মিতব্যয়ী কখনও দরিদ্র হয় না



For free distribution from academic year 2010 by the Government of Bangladesh

Printed by :