PREMIUM STUDY EDITION

JAIIB — Junior Associate of the Indian Institute of Bankers

Indian Economy & Indian Financial System

Module A — Indian Economic Architecture

Concept Notes · Practice Questions · Answer Key with Explanations
Formula Sheet · Glossary · Clickable Bookmarks · Companion Mock-Test Book

Bank Exams with Swarnakshi | Career Boosters
2026 Edition · Aligned to the latest IIBF syllabus

Indian Economy & Indian Financial System — Module A: Indian Economic Architecture (Notes)

JAIIB Premium Study Series · 2026 Edition (v5 · July 2026)

Disclaimer

This is an independent study aid prepared for candidates of the JAIIB examination. It is **not affiliated with, endorsed by, or sponsored by the Indian Institute of Banking & Finance (IIBF)** or any of its publishing partners. 'JAIIB' and 'IIBF' are used solely to describe the examination for which this material is intended. The content is aligned to the latest IIBF syllabus and has been verified against RBI, Government of India and statutory norms current as of **July 2026**. Where the underlying examination textbook and a newer regulation differ, both positions are indicated.

Regulatory, tax and legal information is general in nature, may change after publication, and does not constitute professional advice. Readers must verify current provisions from official sources (rbi.org.in, iibf.org.in, incometaxindia.gov.in) before relying on them in practice. The publisher and authors accept no liability for any loss arising from the use of this material. Passing criteria, syllabus and examination patterns are set by IIBF and should be confirmed from iibf.org.in.

Quality & Errata

Every answer key in this series is programmatically verified, and content is audited unit-by-unit against the examination textbooks. If you spot an error, we will fix it in the next revision — write to **bankingwithswarnakshi@gmail.com** with the book name and page number.

Price

MRP (print edition): ₹399 — inclusive of all taxes · PDF edition: ₹299. Sold individually and as part of subject bundles and the complete JAIIB Premium set.

Bank Exams with Swarnakshi | Career Boosters — Printed and sold as part of the JAIIB Premium Study Series.

Contents

Indian Economy & Indian Financial System — Module A: Indian Economic

Page numbers refer to the numbers printed at the foot of each page.

UNIT 1 ★★ EXAM WEIGHTAGE – MEDIUM WEIGHTAGE

An Overview of Indian Economy

Unit 1: An Overview of Indian Economy Welcome to a new subject — Indian Economy & Indian Financial System (IE & IFS). This is the JAIIB paper that covers the history of the economy, concepts, the financial system and products. We begin with Module A — Indian Economic Architecture. The first unit gives a bird's-eye view of India's economy: the journey from 1000 AD to 2025, the plunder of the British period, post-independence growth, and structural changes. This unit is full of facts, figures and dates — in the exam, Angus Maddison's numbers, the Hindu Rate of Growth, the World Bank classification, and sector shares are frequently asked.

✦ REMEMBER (Memory Aid)

Top exam facts: (1) Angus Maddison — India+China 50.5% of global GDP in 1000 AD; India alone 23% in 1600, falling to 3% in 1947; (2) Global trade share 33% (1600) → <3% (1947); (3) The World Bank's 4 income categories; India = lower-middle income; (4) In PPP, India is 3rd (after the USA and China); (5) Raj Krishna coined the 'Hindu Rate of Growth' (~3.5%) in 1978; (6) Services overtook agriculture in 1980-81.

1.0 Objectives

From this chapter you will understand: the evolution of the Indian economy, its basic characteristics, the economy during the British period, the economy up to 2008 and after, and structural changes.

✓ QUICK CHECK

Which sector has the maximum contribution in the Indian economy?

(a) None of the above
(b) Primary sector
(c) Secondary sector
(d) Tertiary sector

Ans: (d) Tertiary sector — The tertiary (services) sector has the maximum contribution in the Indian economy — it has replaced the industrial sector

1.1 Evolution of Indian Economy — Angus Maddison's Figures

According to the Angus Maddison database (GDP in 1990 dollars, in PPP terms), India and China together contributed 50.5% of global GDP in 1000 AD. By 1600 AD this figure had risen to 52% — China 29% and India 23%. A century later China's share falls and India's rises to 24.4%. British colonialism changed the dynamics — by 1820 India's share had fallen to 16.1%.

❖ DEFINITION — Today's position (IMF/PPP)

According to the IMF, India's global GDP contribution reached 8.53% in 2025 (PPP based). In GDP Purchasing Power Parity (PPP) terms, India is ranked 3rd in the world — only after the USA and China. Today India is one of the world's fastest growing major economies.

During the British Raj, India's economic performance was dismal. Colonial policies were major barriers to growth. The recurring famines and disease outbreaks of the second half of the 19th century and the first half of the 20th century reflect the socioeconomic irresponsibility of the British government. The pre-independence period was characterised by near-stagnation — very little change in production/productivity. The British East India Company ignored industrialisation; infrastructure was built not to industrialise India, but to exploit its raw materials.

✓ QUICK CHECK

How did agriculture's GDP share change from 1990 to 2019?

(a) Rose from 26.9% to 40%
(b) Remained the same
(c) Fell from 26.9% (1990) to 17.7% (2019)
(d) Fell from 50% to 10%

Ans: (c) Fell from 26.9% (1990) to 17.7% (2019) — Agriculture's GDP share fell steadily: 26.9% (1990) → 21.6% (2000) → 17.8% (2010) → 17.7% (2019) — because of service-led growth

1.2 Basic Characteristics of Indian Economy

❖ DEFINITION — World Bank's Income Classification (4 categories)

The World Bank classifies economies on the basis of per capita income. There are 4 categories: (1) Low Income, (2) Lower Middle-Income, (3) Upper Middle-Income, (4) Higher Income. India falls in the lower-middle income category.

The lower-middle income category includes countries whose Per Capita Income (PCI) is between $996 and $3,895. India's PCI in 2024 was $2,696.7 (World Bank data). In PPP, India is the world's 3rd largest economy, but in PCI India ranks very low. The main reasons behind the low per capita income: high poverty, unemployment, illiteracy. At the time of independence India was a backward nation; the government addressed developmental issues through five-year plans by setting targets and allocating funds.

❖ DEFINITION — 6 Factors that Influence the Indian Economy

(i) Low per capita real income; (ii) Rapid population growth; (iii) High rate of unemployment, underemployment and disguised unemployment; (iv) Excessive reliance on the primary sector; (v) Vicious circle of poverty; (vi) Rising unemployment.

Macro-Economic Aggregates (RBI, 13 Sept 2024) — Quick Glance Some key figures from the RBI publication (base year 2011-12, current prices):

Item (Rs. Crore / value)	2017-18	2023-24
Population (in Lakhs)	13,140	13,950
Gross Domestic Product	1,70,90,042	2,95,35,667
Net National Income	1,51,40,418	2,56,96,663
Per Capita GDP (Rs.)	1,30,061	2,11,725
Per Capita NNI (Rs.)	1,15,224	1,84,205
Gross Saving	54,80,741	(8150008 in 22-23)

✦ REMEMBER (Memory Aid)

This table is only to show the trend — there is no need to memorise it. For the exam, understand the concept: GDP, NNI, Per Capita GDP/NNI are all rising. Source: National Statistical Office (NSO).

The journey of sector shares: After independence, agriculture's GDP share fell, while industry and services rose. In 1950 agriculture was dominant — 53.1% of GDP, industry 16.6%, services 30.3%. In 1980-81 the services sector (38%) overtook agriculture (36.1%) to become the largest contributor; industry remained third (25.9%). This was a clear compositional shift in favour of the services sector.

✓ QUICK CHECK

According to the IMF, what did India's global GDP contribution (PPP based) reach in 2025?

(a) 8.53 per cent
(b) 16.1 per cent
(c) 23 per cent
(d) 3 per cent

Ans: (a) 8.53 per cent — According to the IMF, India's global GDP contribution reached 8.53% in 2025 (PPP based)

1.3 Indian Economy in British Period

Under British colonialism, India's commerce, trade and investment were hampered by the unilateral transfer of capital and raw materials to Britain. The neglected social sector had a negative impact on production/productivity. India remained a low-quality labour market. Because of Britain's industrialisation, India's economic situation was dire — according to statistics, fewer than one-sixth of Indians were literate.

❖ DEFINITION — Dadabhai Naoroji — The First Estimate of National Income

Dadabhai Naoroji, in his book 'Poverty and Un-British Rule in India', published the first estimate of India's national income for 1867–1868. According to him, British India's national income was Rs. 340 crore and the per capita income was Rs. 20 per annum (current prices) — which works out to Rs. 142 in 1948-49 prices.

The estimates of other economists (William Digby, Findlay Shirras, V.K.R.V. Rao, R.C. Desai) were almost identical. According to the Cambridge economist Angus Maddison, India's global income share was 23% in 1600 AD, which fell to just 3% by the time the British left (1947). Similarly, India's share of global trade fell from 33% (1600) to <3% (1947). In Manmohan Singh's words, at the turn of the 20th century India was the 'brightest jewel in the British Crown' but, in per capita income, the poorest country in the world.

❖ DEFINITION — 3 Phases of the British Era

Phase 1 (Early British): 1600–1757 — the East India Company was established in 1600 AD. 2 goals: to procure raw materials for factories and to find a market for completed goods. Phase 2: 1757–1857 — begins with the Battle of Plassey (1757); the turning point of colonial control. The EIC's blatant robbery (in the name of 'trade'), exploitative land revenue policies. Phase 3 (British Crown): 1858 onward — after the 1857 Sepoy Mutiny was quashed, the British crown dissolved the company and took exclusive control of India. De-industrialisation, agricultural commercialisation, wealth drain, and the Westernisation of education systems.

Land taxation systems: The British introduced the Zamindari, Mahalwari and Ryotwari systems to extract excessive land tax from farmers. Commercialisation created a new class of intermediaries, the frequency of famines rose and farmers became landless labour.

❖ DEFINITION — Wealth Drain and Home Charges

Wealth Drain = the unilateral movement of riches from India to Britain, without adequate economic return — through remittances, home charges and revenue transfer. In 1776 Philip Francis classified the drain economy into 4 streams. Home Charges (1858–1947): official transfers of monies to the UK during direct British control. These included: dividends to EIC shareholders, interest on loans raised in England by the India government, the expenditure of the British army, pensions of retired officers, guaranteed interest to railway companies, and the salaries of the Secretary of State. According to Naoroji, India paid Britain Rs. 10 crore in house costs between 1829–1865.

✓ QUICK CHECK

What is the Per Capita Income (PCI) range for the lower-middle income category?

(a) $3,896 to $12,000 (b) Above $12,000
(c) $0 to $996 (d) $996 to $3,895

Ans: (d) $996 to $3,895 — Lower-middle income countries have a PCI between $996 and $3,895. India's PCI in 2024 was $2,696.7

1.4 Economy Till 2008 & After 2008

❖ DEFINITION — 1951–1980: 'Hindu Rate of Growth'

India's growth rate was slow in the first three decades. In 1978 Professor Raj Krishna coined the phrase 'Hindu Rate of Growth' — to describe the slow growth. It refers to the low annual growth rate of India's planned economy (around 3.5% in the 1950s–1980s); per capita income growth averaged 1.3%.

1980–1990 (economic buoyancy): This was a period of recovery. It was during the 6th Five-Year Plan (1980–1985) that India managed to break the curse of the 'Hindu Rate of Growth'. Higher government spending (fiscal stimulus), liberalised import policies, and imports of capital goods/raw materials boosted growth. 1992–2008 (post-reform period): After the economic crisis of 1991, the reforms and LPG (Liberalisation–Privatisation–Globalisation) policies produced positive outcomes. GDP growth: 8th Plan (1992–97) 6.7%, 9th Plan (1997–2002) 5.3%, 10th Plan (2002–2007) 7.6%. From 2002–03 to 2006–07, GDP grew at an annual rate of 8.6% — the world's 2nd fastest growing economy after China.

❖ DEFINITION — 2008 to 2021 — GFC and After

Lehman collapse: 15 September 2008. To mitigate the effects of the crisis, the government provided 3 stimulus packages totalling Rs. 1.86 lakh crore (3.5% of GDP). The RBI eased monetary conditions and injected Rs. 5.6 lakh crore (~9% of GDP) of liquidity. Recovery happened, but at the cost of a larger fiscal deficit (the FRBM Act limit was crossed), and the CAD ballooned. In this decade, GST, the Insolvency and Bankruptcy Code (IBC), corporate tax cuts, and demonetisation were implemented. Before COVID (2008-09 to 2019-20), average annual growth was 6.5% (base 2011-12). In 2019-20 the economy expanded by only 4.0% (because of structural bottlenecks).

✓ QUICK CHECK

On what basis does the World Bank classify economies, and how many categories are there?

(a) Population; 3 categories
(b) GDP; 2 categories
(c) Area; 5 categories
(d) Per capita income; 4 categories

Ans: (d) Per capita income; 4 categories — The World Bank classifies on the basis of per capita income — 4 categories: Low Income, Lower Middle-Income, Upper Middle-Income, Higher Income

1.5 Structural Changes in Indian Economy

❖ DEFINITION — Indian Economy Post COVID-19

In the past 4 decades India has weathered 3 major shocks: the 1991 BoP crisis (after which the liberalisation drive raised trend growth); the 2008 global financial crisis; and the COVID-19 pandemic (which hit in early 2020). COVID timeline: WHO declared a pandemic on 11 March 2020 (first reported in Wuhan, China, at the end of Dec 2019). India's first case was in Kerala, 30 January 2020. The peak was 16 September 2020 (0.97 lakh new cases). India launched its vaccination programme on 16 January 2021.

Sectoral & recovery impact: Contact-intensive services (retail, hotels/restaurants, air transport, logistics, education) were the most affected. Agriculture remained robust during the pandemic (spared by the lockdown). In the first wave, GDP contracted by 23.8% in Q1 2020-21; for the full fiscal year the contraction was 6.6% — India was in a relatively better position within the G-20. There was 8.9% growth in 2021-22.

❖ DEFINITION — Recovery Projection

Pre-COVID trend growth rate 6.6% (CAGR from 2012-13 to 2019-20). The RBI predicted that India would offset its COVID-19 losses by 2034-35 — that is, over a period of 12 years.

Structural change = a fundamental change in the critical components of the economy. The primary sector's GDP contribution falls over time while the secondary/tertiary sectors rise; in the long run the tertiary (services) sector overtakes the secondary. In India the services sector has replaced the industrial sector. Agriculture's GDP share: 26.9% (1990) → 21.6% (2000) → 17.8% (2010) → 17.7% (2019). In 2020-21: services 60.9%, secondary 19.8%, primary 20.1% (during the pandemic only agriculture ran smoothly, so the primary share rose a little).

✓ QUICK CHECK

Who publishes the macro-economic aggregates data (Unit 1 source)?

(a) IMF only
(b) World Bank only
(c) SEBI
(d) National Statistical Office (NSO)

Ans: (d) National Statistical Office (NSO) — The source of the macro-economic aggregates table in Unit 1 is the National Statistical Office (NSO) (through the RBI publication)

⋆ KEY TAKEAWAYS

- In GDP PPP, India is 3rd in the world — only after the USA and China.
- Angus Maddison: India+China contributed 50.5% of global GDP in 1000 AD.
- India's global income share: 23% (1600 AD) → 3% (1947); global trade 33% → <3%.
- The British EIC ignored industrialisation — infrastructure was built to exploit raw materials.
- The pre-independence period was characterised by near-stagnation.
- World Bank classification: India is a lower-middle income economy (low PCI, high poverty/unemployment/illiteracy).
- Home Charges = transfers of monies to the UK during direct British control (1858-1947).
- Raj Krishna (1978) coined the 'Hindu Rate of Growth' for slow growth.
- After the 1991 crisis, LPG policies opened the path to higher GDP growth.

Key terms: Economy; Poverty; Growth; Pandemic; Reforms; Globalisation; Deindustrialisation; Colonialism; State; Productivity; National Income; Sector; Taxation; Wealth.

✓ QUICK CHECK

During which Five-Year Plan did India manage to break the curse of the 'Hindu Rate of Growth'?

(a) 6th Plan (1980-1985) (b) 8th Plan
(c) 10th Plan (d) 5th Plan

Ans: (a) 6th Plan (1980-1985) — It was during the 6th Five-Year Plan (1980-1985) that India broke the curse of the 'Hindu Rate of Growth' — through higher government spending and liberalised import policies

Practice Questions

Q1. What was the 'Wealth Drain'? [Easy]
(a) The inflow of wealth into India
(b) The unilateral movement of riches from India to Britain without adequate economic return
(c) A merger of banks
(d) Aid from Britain to India

Q2. In GDP Purchasing Power Parity (PPP), what is India's rank in the world (2024)? [Easy]
(a) 1st
(b) 4th
(c) 7th
(d) 3rd

Q3. When did the Lehman collapse (the start of the Global Financial Crisis) happen? [Moderate]
(a) 11 March 2020
(b) 30 January 2020
(c) 16 January 2021
(d) 15 September 2008

Q4. Which systems did the British introduce to extract excessive land tax from farmers? [Moderate]
(a) GST, VAT, Excise
(b) Income Tax, Wealth Tax
(c) PAN, TAN, GSTIN
(d) Zamindari, Mahalwari, Ryotwari

Q5. In how many phases is the British Era discussed, and what is the period of phase 1? [Moderate]
(a) 3 phases; 1757-1947
(b) 2 phases; 1600-1857
(c) 4 phases; 1600-1700
(d) 3 phases; Early British 1600-1757

Q6. According to the sector shares, which sector became the largest contributor in 1980-81? [Moderate]
(a) Services (38%)
(b) Mining
(c) Industry (25.9%)
(d) Agriculture (36.1%)

Q7. By when, according to the RBI, will India offset its COVID-19 losses? [Moderate]
(a) 2034-35 (in 12 years)
(b) 2040-41
(c) 2025-26
(d) 2030-31

Q8. Which of the following is NOT a factor that influences the Indian economy? [Moderate]
(a) Excessive reliance on the primary sector
(b) Low per capita real income
(c) Rapid population growth
(d) High per capita income

Q9. What were the sector contributions in 2020-21 (the pandemic year)? [Hard]

(a) Services 38%, Agriculture 36%
(b) Services 60.9%, Secondary 19.8%, Primary 20.1%
(c) Primary 53%, Industry 16%, Services 30%
(d) All equal

Q10. According to Dadabhai Naoroji, what were British India's national income and per capita income (current prices)? [Hard]

(a) Rs. 250 crore; Rs. 30 per annum
(b) Rs. 142 crore; Rs. 50 per annum
(c) Rs. 1000 crore; Rs. 100 per annum
(d) Rs. 340 crore; Rs. 20 per annum

Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	B	2	D	3	D	4	D	5	D	6	A	7	A	8	D
9	B	10	D												

Answers & Explanations

Q1. Ans: (b) The unilateral movement of riches from India to Britain without adequate economic return
Why: Wealth Drain = the unilateral movement of riches from India to Britain without sufficient economic/commercial/material return — through remittances, home charges and revenue transfer
(a) — The reverse — wealth went out
(c) — Not related to a merger
(d) — Not aid, but a drain

Q2. Ans: (d) 3rd
Why: In GDP PPP, India is ranked 3rd in the world — only after the USA and China
(a) — 1st is the USA
(b) — Not 4th
(c) — Not 7th — 3rd is correct

Q3. Ans: (d) 15 September 2008
Why: The Lehman collapse happened on 15 September 2008 — a sign of the GFC. India provided 3 stimulus packages (Rs. 1.86 lakh crore, 3.5% of GDP)
(a) — This is the WHO COVID pandemic declaration date
(b) — This is India's first COVID case
(c) — This is the vaccination launch date

Q4. Ans: (d) Zamindari, Mahalwari, Ryotwari
Why: The British introduced the Zamindari, Mahalwari and Ryotwari land taxation systems to extract excessive land tax from farmers
(a) — These are modern indirect taxes
(b) — These are direct taxes, not land systems
(c) — These are tax identifiers

Q5. Ans: (d) 3 phases; Early British 1600-1757
Why: The British Era is discussed in 3 phases: Early British (1600-1757), 1757-1857, and the British Crown Period (1858 onward). Phase 1 begins with the establishment of the EIC (1600)
(a) — Phase 1 is 1600-1757, not 1757-1947
(b) — Not 2 but 3 phases
(c) — Not 4

Q6. Ans: (a) Services (38%)
Why: In 1980-81 the services sector (38% of GDP) overtook agriculture (36.1%) to become the largest contributor; industry remained third (25.9%)
(b) — Mining is not listed separately
(c) — Industry was third
(d) — Agriculture became second at 36.1%

Q7. **Ans: (a) 2034-35 (in 12 years)**
Why: The RBI predicted that India would offset its COVID-19 losses by 2034-35 — that is, over a period of 12 years. Pre-COVID trend growth was 6.6% (CAGR from 2012-13 to 2019-20)
(b) — Not 2040-41 — 2034-35 is correct
(c) — Not 2025-26
(d) — Not 2030-31

Q8. **Ans: (d) High per capita income**
Why: The factors are: low per capita real income, rapid population growth, high unemployment/underemployment/disguised unemployment, excessive reliance on the primary sector, and the vicious circle of poverty. ‘High per capita income’ is not a factor — India’s PCI is low
(a) — This is a factor
(b) — This is a factor
(c) — This is a factor

Q9. **Ans: (b) Services 60.9%, Secondary 19.8%, Primary 20.1%**
Why: In 2020-21: services 60.9%, secondary 19.8%, primary 20.1% (during the pandemic only agriculture ran smoothly, so the primary share rose a little)
(a) — These are the 1980-81 shares
(c) — These are the 1950 shares
(d) — They were not equal

Q10. **Ans: (d) Rs. 340 crore; Rs. 20 per annum**
Why: According to Naoroji, British India’s national income was Rs. 340 crore and the per capita income was Rs. 20 per annum (current prices; Rs. 142 in 1948-49 prices)
(a) — Rs. 250 was the per capita in 1947
(b) — Rs. 142 was the per capita in 1948-49 prices
(c) — These figures are wrong

BANK EXAMS WITH SWARNAKSHI

You've reached the end of the *free sample.*

The complete **JAIIB Premium Study Series 2026** continues exactly like what you just read — every unit of every subject, audited line-by-line and verified against RBI & Government norms current as of July 2026.

25	3,562	7,852	9,112
books	pages	solved questions	Qs online

Complete PDF Set **₹3,999** · Website + PDF **₹5,999** · Hardcopy (PDF included) **₹10,999** · Everything **₹11,999**

Launch prices, 1–21 August only. Online Mock Centre free demo — ID: JAIIBDEMO · Password: DEMO2026