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An Empirical Study on Economic growth and Unemployment in India

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ABSTRACT:

Unemployment has been a significant issue in India and at the global level for years. In 2020-2021, due to the adverse effects of Covid-19, it had become even more of a major concern for graduates, youths, and people who already possess work experience in their respective fields. This research attempts to find out the impact of economic growth on the unemployment rate in India. Gross Domestic Product (GDP) considering an indicator to gauge the economic growth for this study. The information regarding GDP and unemployment rate has been collected from secondary sources like the Reserve Bank of India (RBI) online bulletin, the textbook- Principles of Economics, and the ILO website. With the help of a Five-year analysis table of GDP, Unemployment, Inflation, and National Income the analysis method is structured. It has been found that all the economic factors are interlinked, a dip in any of these factors may affect a country's performance worse.

Keywords: *Unemployment, Gross Domestic Product, National income, Inflation, Economic growth, India.*

INTRODUCTION

Unemployment has been a serious problem for many years, particularly in India. The primary causes of unemployment are an increase in population, lack of essential skills, inadequate economic growth, labor immobility, and job specialization (the right training needed for jobs). Unemployment can be described as a condition that occurs when people are jobless. Not only in India but also across the globe day by day, it is becoming a challenge to get jobs. International Labor Organization (ILO) has downgraded its forecast for labor market recovery in 2022 citing the global deficit in hours worked globally equivalent to 52 million full-time jobs, similar to the fourth quarter of 2019. Also, the report shows global unemployment level will remain above pre-covid levels until at least 2023. The estimation of the 2022 level is 207 million, compared to 186 million in 2019. The global labor force participation rate is projected to remain at 1.2 percentage points below in 2022 than in 2019.

Unemployment can be measured by

$$UR = \frac{\text{No. of Employed persons}}{\text{No. of Employed persons + No. of Unemployed persons}}$$

Gross Domestic Product (GDP) measures the market value of the final goods and services produced within a country in a certain period. It adds together many different kinds of products into a single measure of the value of the economic activity. Both tangible products and intangible services would fall under GDP. It only includes goods and services that are produced currently, and does not include transactions involving items produced in the past. According to the 2021 reports by The Economic Times, India had a GDP growth of 8.3% in 2021.

Gross Domestic Product can be measured by

GDP = Consumption + Investment + Government spending + Net Exports

REVIEW OF LITERATURE

Prabhash K Dutta (June 2021 - India Today) stated that the public has limited knowledge of the economic concept of Gross Domestic Product, but it is discussed often. According to him, India's GDP rate has fallen from a peak of 8% in 2016-2017 to 4% in 2019-2020 due to the Covid-19 pandemic.

Ceyda Oner (May 2018 - F&D magazine**)** a deputy division chief in International Monetary Fund's finance department described Unemployment: The curse of Joblessness. According to International Labor Organization, in 2009 there were more than 200 million job seekers, or 7% of the worldwide workforce.

Joe Stiglitz -(New York Times, September 2009) mentioned in an interview "There are many aspects of our society that are not covered by GDP". He stated that it is a crude tool used for describing social health.

DR. Rubee Singh ("A study of the Indian Economy in 2011-2018". March 2018) identified that inflation may differ from economy to economy.

Ryan Barnes (June 2021) mentioned that Inflation and economic output (GDP) interact in a way that resembles a very delicate ballet. An important factor for stock market investors is annual GDP growth. Most businesses won't be able to improve their earnings if general economic activity is dropping or even holding steady.

OBJECTIVES AND RESEARCH METHODOLOGY

The purpose of this research is to examine how the economy affected the unemployment rate and national income between the year 2020-2021, owing to the Covid-19 pandemic. The investigative research design is the base for this paper. The information regarding GDP, unemployment rate, Inflation, and National income has been collected from secondary sources like the Reserve Bank of India (RBI) online bulletin, the textbook- Principles of Economics, and the ILO website. For the investigation of the study, the data about GDP, unemployment, inflation, and national income from 2017 to 2021 have been taken into consideration. All four factors were connected and annual changes were also mentioned.

ANALYSIS

IMPACT OF GDP ON UNEMPLOYMENT

GDP: The value of final goods and services produced in a country during the fiscal year. The law states that when the GDP of a country increases employment level also increases, when the GDP of a country decreases employment level will automatically fall.

Analysis of 5 years GDP annual: Percentage growth rate of GDP on local currency calculated based on the total product and services contributed by all the industries during a fiscal year minus taxes and subsidies and without deducting depreciation.

According to the 2021 census of the World Bank, the GDP of India was worth 3173.40 us dollars.

Analysis of Five years of GDP

Year	GDP	Annual change
2012	5.46 %	0.22%
2013	6.39%	0.93%
2014	7.41%	1.02%
2015	8.00%	0.59%
2016	8.26%	0.26%
2017	6.80 %	-1.46%
2018	6.45%	-0.34%

2019	3.74%	-2.72%
2020	-6.60%	-10.33%
2021	8.95%	15.44%

Due to a shift in demand increase in the interest rate, government spending, and reductions causes a decline in GDP.

There are growth and fall in GDP as per the data of 10 years there is a decline in GDP in the years 2017, 2018, 2019, and 2020. After a continuous decline for 4 years, there is a huge increase in the percentage of GDP as per the 2021 census.

The maximum contributions from industrial and services government savings lead to an increase in GDP.

The unemployment rate is determined by GDP (Gross Domestic Product) as long as there is a growth in GDP or countries productivity employment rate of a country increases as the decline in GDP leads to falling in employment and this leads to unemployment.

Five years analysis of the unemployment rate in India

Year	Unemployment rate %	Annual change %
2012	5.41	-0.01
2013	5.42	0.01
2014	5.44	0.01
2015	5.44	0.00
2016	5.42	-0.01
2017	5.36	-0.07
2018	5.33	-0.03
2019	5.27	-0.06
2020	8.00	2.73
2021	5.98	-2.02

After the continuous decrease in the unemployment rate in 2012,2016,2017,2018,2019,2021. There was an increase in the unemployment rate in 2020, this increase may be due to the pandemic of Covid-19 and lockdowns. And also unemployment remains constant in 2015 as 2014

Therefore, the 4% increase in GDP leads to a 1% reduction in unemployment. The growth of GDP and the unemployment rate are related to each other, the change in GDP will automatically impact the unemployment

rate. India stands 7th in the GDP growth rate and 23rd in the unemployment rate as per the 2021 survey collected from the world bank.

IMPACT OF INFLATION ON NATIONAL INCOME

Inflation: an increase in a commodity's price reduces a consumer's purchasing power.

National Income: The value of goods and services produced in a country within a fiscal year is known as national income. National Income plays a major role in the economic growth of a country.

GDP plays a major role in the increase in national income of a country and inflation plays a major part in economic growth if a country's currency value is decreased compared to foreign currency, then it is inflation.

An example: if 1$ = 70rs of Indian currency, when increased to 1$ = 74rs of Indian currency it might be due to inflation.

Inflation leads to an increase in exports and a decrease in imports. When a country starts exporting more goods and services produced in a country during the fiscal year and receives receipts for the export made. Inflation even has pros and cons. The investors invested in foreign investment will be rewarded with a good rate of return.

The wholesale price index and consumer price index are the two major indicators to measure inflation.

Five years inflation rates in India

Year	Inflation %	Annual changes %
2012	9.48%	0.57%
2013	10.02%	0.54%
2014	6.67%	-3.35%
2015	4.91%	-1.76%
2016	4.95%	0.04%
2017	3.33%	-1.62%
2018	3.94%	0.61%
2019	3.73%	-0.21%
2020	6.62%	2.89%
2021	5.31%	-1.49%

Inflation and national income are interdependent. Inflation may affect the economic growth of a country through a constant price rise in goods and services.

If a country starts exporting more goods and reduces imports national income increases and other things remain constant.

National income is calculated by using the formula

National income= C+I+G+(X-M)

C = Consumption
I = Investment
G = Government
X = Exports
M = Imports

Analysis of National Income

Five tools are required to measure national income

1. Gross Domestic Product
2. Net Domestic Product
3. Gross National Product
4. Net National Product
5. Personal Income

Also, there are three methods to measure national income

1. Income method
2. Production method
3. Expenditure method

Conclusion

The study continues by noting the interconnection of all the indicators utilized in the study, including GDP, unemployment, national income, and inflation, and how changes in one tool have an immediate impact on other tools. Data from a few years are utilized to demonstrate how it changes from one year to the next. The study implies that increasing economic growth should be the primary goal in order to reduce the issue of unemployment in an economy. Through this research, we have identified a connection between a nation's unemployment rate and its economic growth rate by the change in the percentage of four factors with annual changes. The below-mentioned journals and web references are used for this research study.

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