

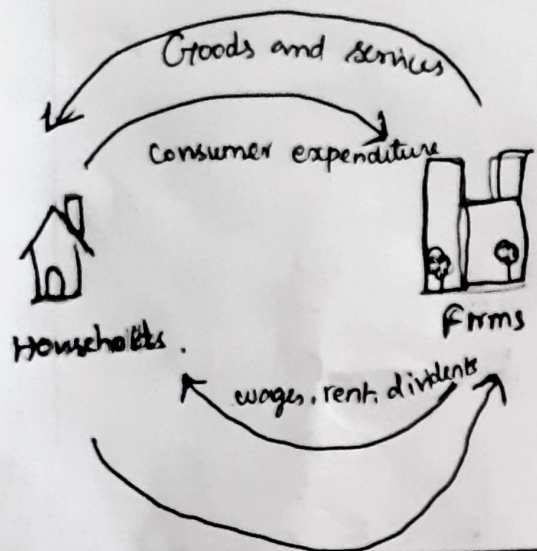
AUPET CHINMAYA VIDYALAYA  
PALAYAMKOTTAI

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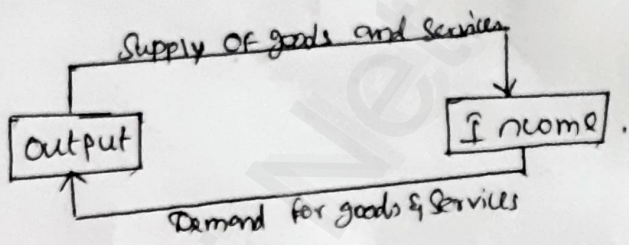
LAST MINUTE COMPANION

P. Arambammal MABED., Economics - XII (EACH DIAGRAM CARRIES 2 MARKS)

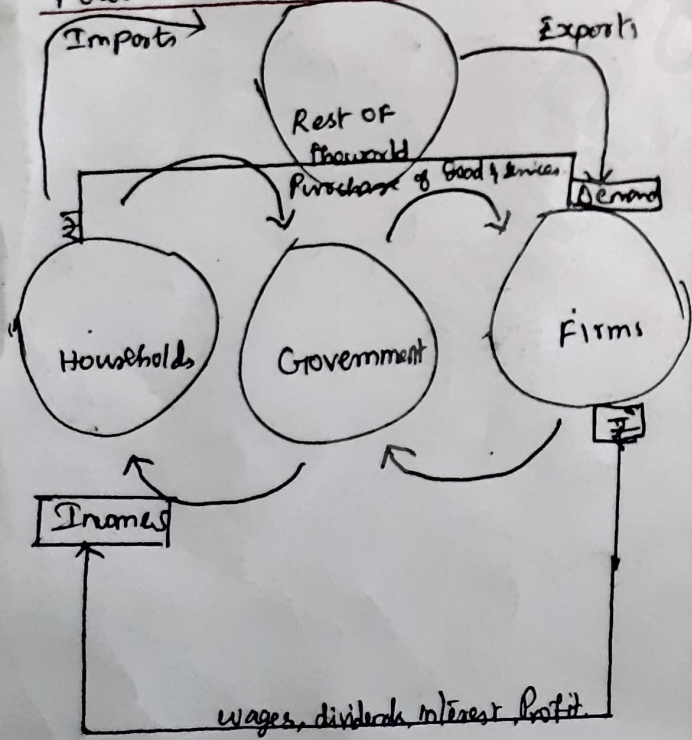
1. Circular flow of Income in a Two-Sector Economy.



3. Says law of market

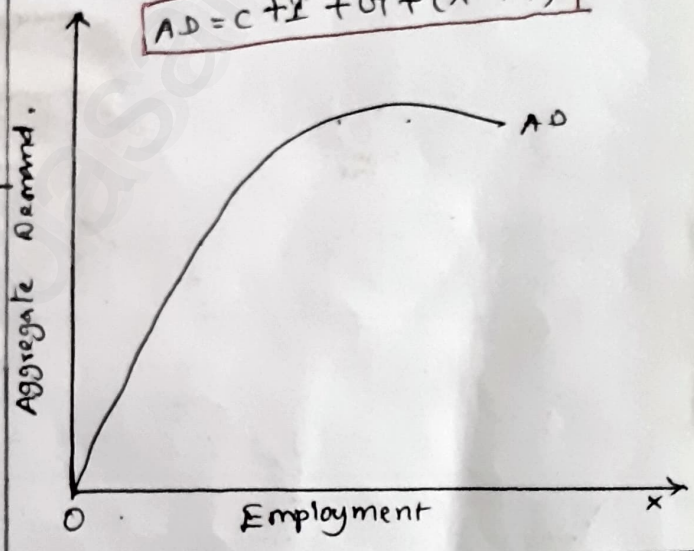


2. Circular flow of Income in a four-Sector Economy:-



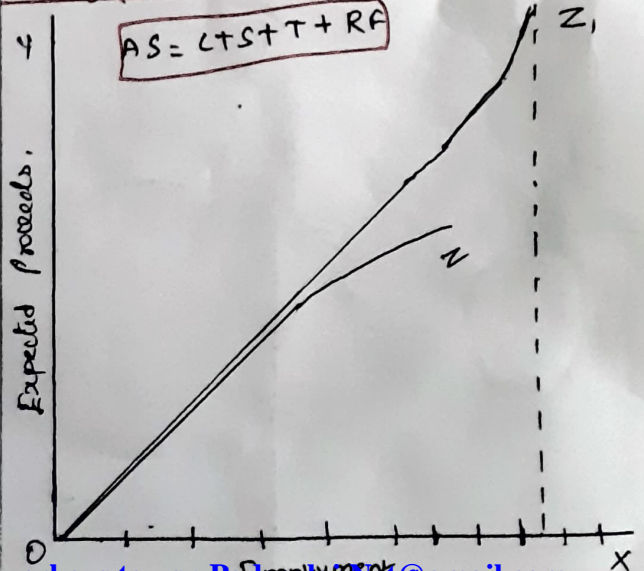
4. Aggregate Demand function.

$$AD = C + I + G + (X - M)$$

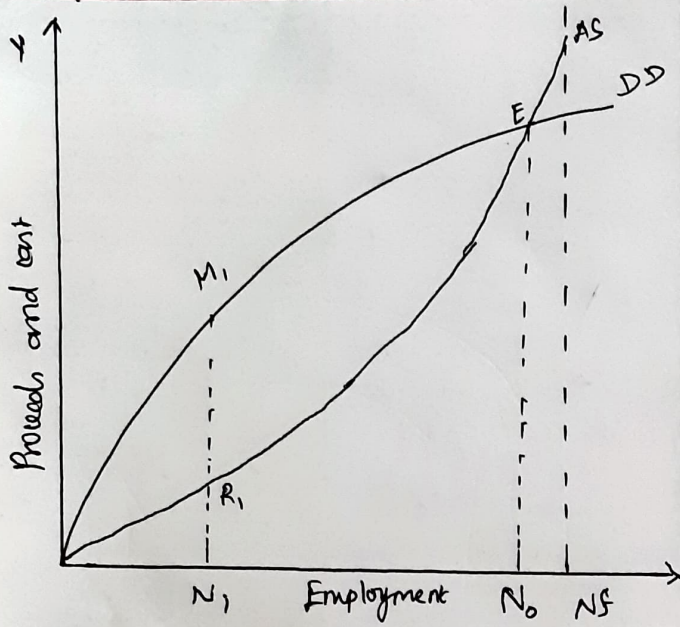


5. Aggregate Supply Function (ASF)

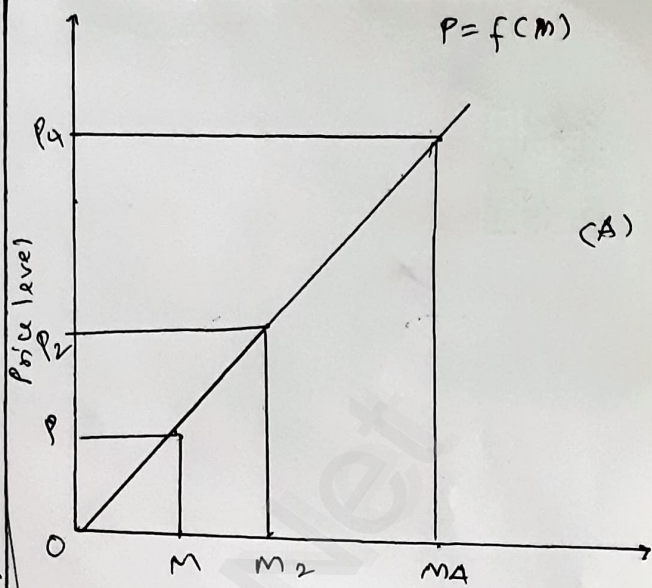
$$AS = cT + T + RA$$



6. Equilibrium between ADF & ASF

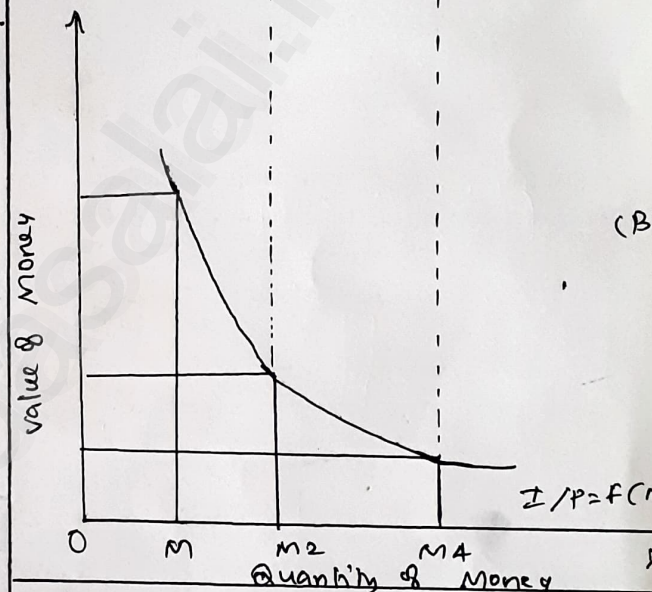
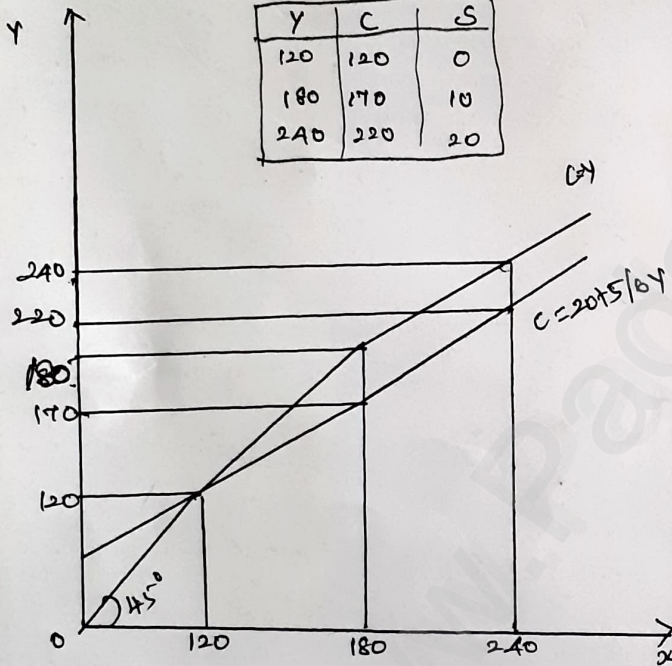


9. Quantity theories of Monop (2)

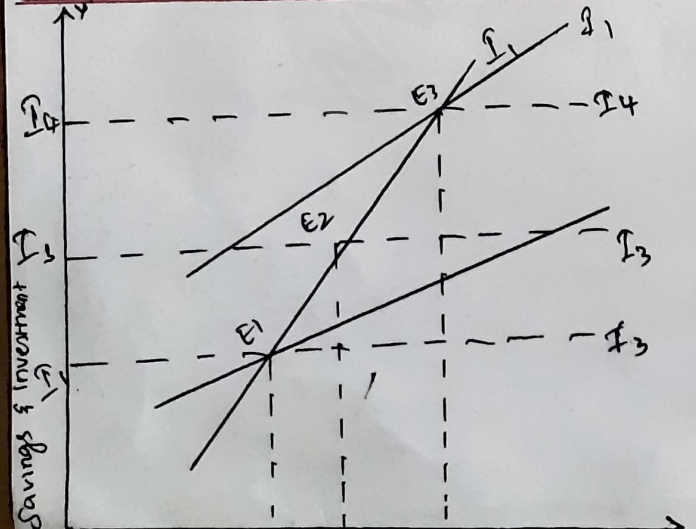


7. Keynes's Psychological Law of Consumption

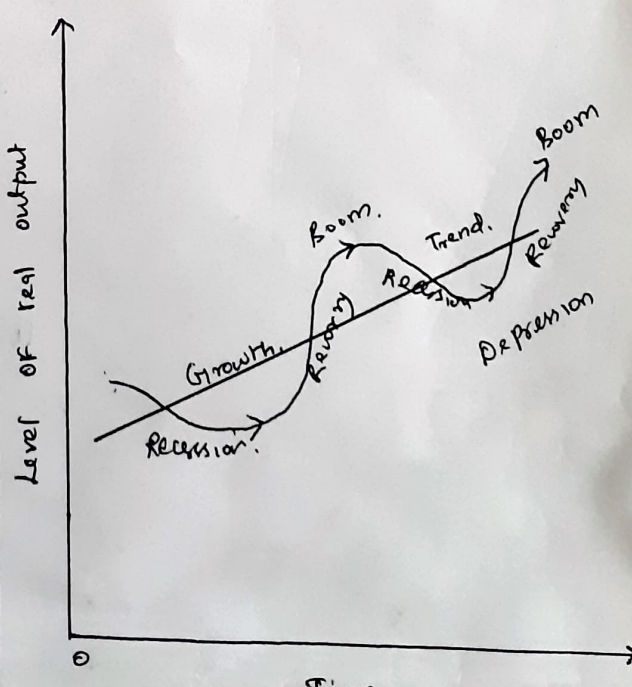
Y	C	S
120	120	0
180	170	10
240	220	20



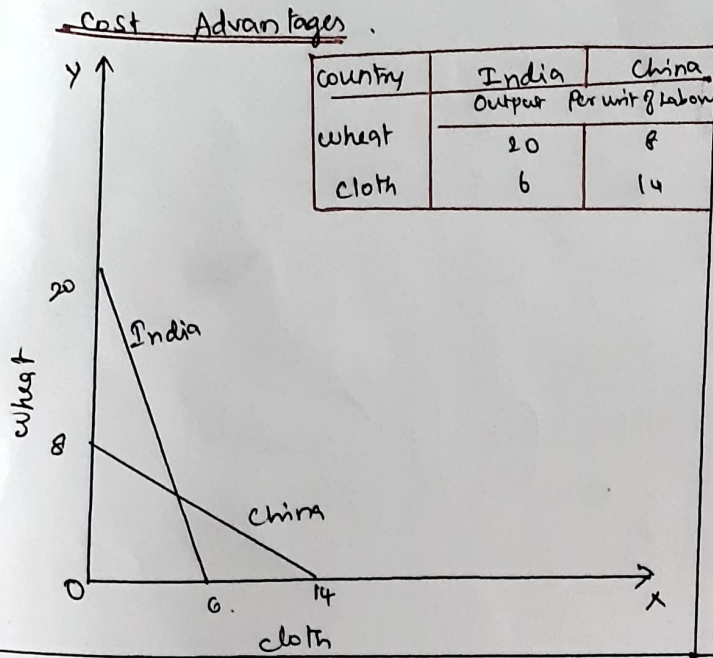
8. operation of the Accelerator.



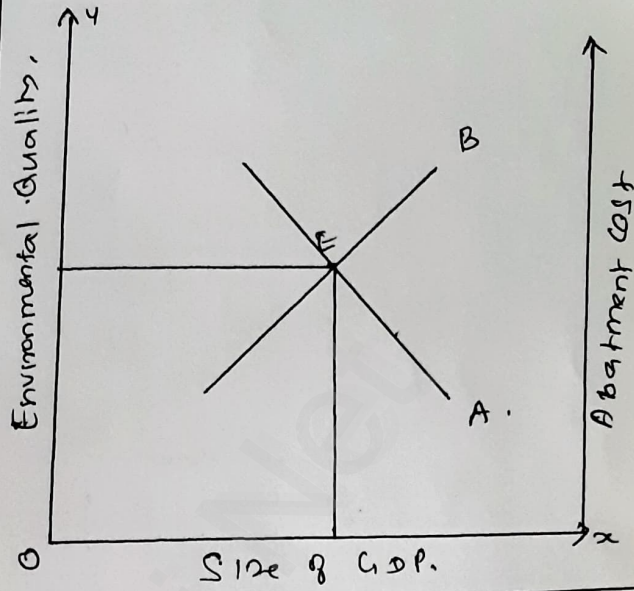
10. Trade cycle.



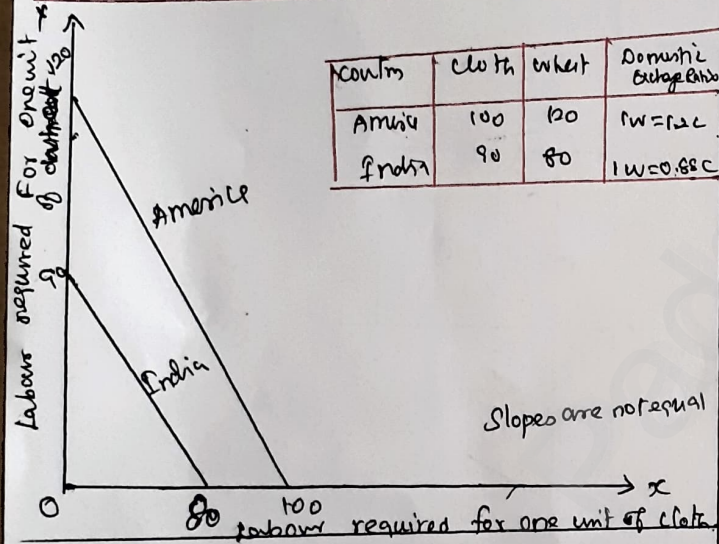
11. Adam Smith's Theory of Absolute Cost Advantages.



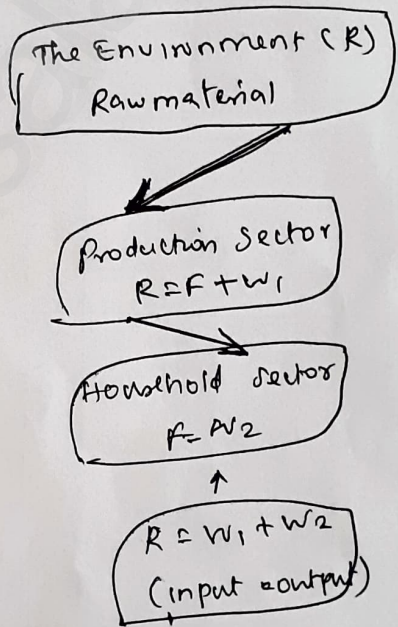
14. Linkage between Economy and Environment



12. Ricardo theory of Comparative cost Advantage

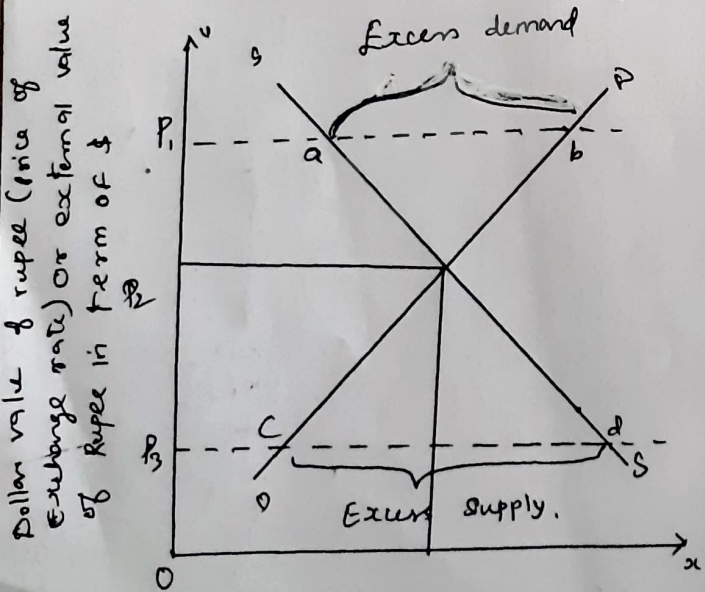


15. Material Balance model.

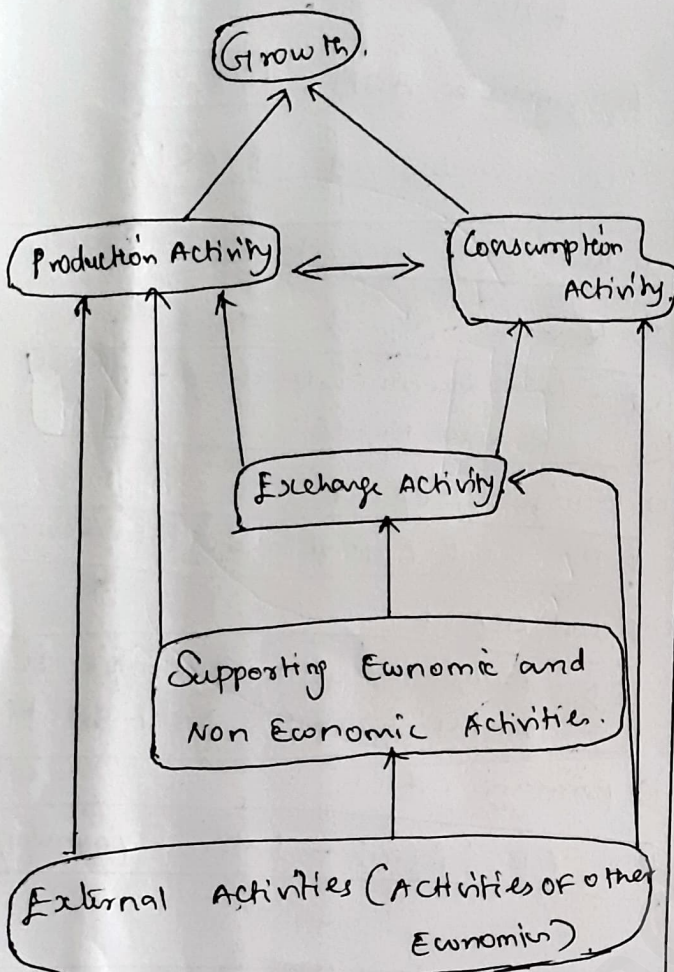


$W_1$  &  $W_2$  = waste from Production and Household sectors.  
 $F$  = Final product

13. Determination of Equilibrium Exchange rate



1b. Functioning of an Economy Based on Activities.



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Important equation.

1. Circular Flow of Income.
  - a) Two Sector Economy,  
 $Y = C + I$
  - b) Three sector Economy  
 $Y = C + I + G$
  - c) Four Sector Economy,  
 $Y = C + I + G + (X - M)$

2. Basic concepts of National Income.

- a) GDP by Expenditure method at market price =  $C + I + G + (X - M)$
- b) Net Domestic Product = GDP - Depreciation
- c) GNP at Market price = GDP at Market price + Net factor Income from Abroad
- d) NNP = GNP - depreciation allowance
- e) NNP at factor cost = NNP at Market price - Indirect taxes + Subsidies
- f) Personal Income = National Income - (Social Security contribution and undistributed corporate profits) + Transfer payments.
- g) Disposable Income = Personal Income - Direct tax (or) Consumption + saving
- h) Per capita income =  $\frac{\text{National Income}}{\text{Population}}$
- i) Real NI at constant price =  $\frac{\text{National Income at current price}}{P_1/P_0}$
- j) GDP deflator =  $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

3. Methods of Measuring National Income.

- a) Production (or) Value Added Method.
- b) Income (or) Factor earning method.  

$$Y = W + r + i + \pi + (R - P)$$
- c) Expenditure Method.  

$$GNP = C + I + G + (X - M)$$

4. Technical Attributes of the Consumption Functions

- a) The Average Propensity to Consume.  

$$APC = \frac{C}{Y}$$
- b) The Marginal propensity to consume.  

$$MPC = \frac{\Delta C}{\Delta Y}$$
- c) The Average propensity to save  

$$APS = \frac{S}{Y}$$
- d) The marginal propensity to save.  

$$MPS = \frac{\Delta S}{\Delta Y}$$

5. Multiplier  $K = \frac{1}{1 - MPC}$

6. Accelerator  $(B) = \frac{\Delta I}{\Delta C}$

7. Leverage effect  

$$Y = C + I_A + \frac{I}{P}$$

8. Fisher equation  

$$MV = PT$$

$$PT = MV + M'V'$$

$$P = \frac{MV + M'V'}{T}$$

9. Cambridge Approach.

- 1) Marshall's Equation  

$$M = kPY$$
- 2) Keynes Equation  

$$M = PKR$$

10. Balance of payment

- BOP disequilibrium.
- Equilibrium =  $R/P = 1$
- Favourable BOP =  $R/P > 1$
- Unfavourable BOP =  $R/P < 1$

11. Budgetary Deficits.

- a) Revenue Deficit  

$$RD = \text{Total Revenue Expenditure} - \text{Total Revenue Receipts}$$
- b) Budget Deficit.  

$$BD = \text{Total Expenditure} - \text{Total Revenue}$$
- c) Fiscal Deficit.  

$$FD = \text{Budget deficit} + \text{Government's market borrowings and liabilities}$$
- d) Primary Deficit.  

$$PD = \text{Fiscal deficit} - \text{Interest payment}$$

Important Formulae.

- 1) Arithmetic Mean  $\bar{x}$   
 Direct Method =  $\bar{x} = \frac{\sum x}{n}$   
 Short cut Method  $\bar{x} = A + \frac{\sum d}{n}$

- 2) Standard Deviation ( $\sigma$ )  

$$\sigma = \sqrt{\frac{\sum d^2}{n} - \left(\frac{\sum d}{n}\right)^2}$$

A. Regression  

$$(x - \bar{x}) = r \times \frac{\sigma_x}{\sigma_y} \times (y - \bar{y})$$

- 3) correlation ( $r$ )  

$$r = \frac{N \sum xy - (\sum x)(\sum y)}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Actual Mean Method

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Assumed Mean Method

$$r = \frac{N \sum d_x d_y - (\sum d_x)(\sum d_y)}{\sqrt{N \sum d_x^2 - (\sum d_x)^2} \sqrt{N \sum d_y^2 - (\sum d_y)^2}}$$

1. Scope of Macro Economics.

- \* National Income.
- \* Inflation.
- \* Business cycle.
- \* Poverty and unemployment
- \* Economic Growth.
- \* Economic Policies.

- \* Capital gains.
- \* Statistical Problems.

6. Unemployment Types.

- \* Cyclical unemployment
- \* Seasonal unemployment
- \* Frictional unemployment
- \* Educated unemployment
- \* Technical unemployment
- \* Structural unemployment
- \* Disguised unemployment

2. Merits of Capitalism

- \* Automatic working
- \* Efficient use of Resources.
- \* Incentives for Hardwork
- \* Economic progress.
- \* Consumer's Sovereignty.
- \* Higher Rates of capital formation.
- \* Development of New Technology.

7. Determinants of Consumption Functiona) Subjective Factors.

- 1) The Motive of Precaution
- 2) The Motive of Foresight
- 3) The Motive of Calculation.
- 4) The Motive of pride.
- 5) The Motive of Avarice.
- 6) The Motive of enterprise.
- 7) The Motive of Liquidity.
- 8) The Motive of Financial prudence.

3. Demerits of Socialism.

- \* Red Tapism and Bureaucracy.
- \* Absence of incentives.
- \* Limited Freedom of choice.
- \* concentration of Power.

b) Objective Factors.

- 1) Price level
- 2) Wage level
- 3) Interest rate
- 4) Fiscal policy.
- 5) Income Distribution.
- 6) Consumer credit.
- 7) Demographic Factors
- 8) Dusenberry hypothesis (Refer Book)
- 9) Windfall Gains (or) Losses

4. Features of mixed Economy.

- \* Ownership of Property and means of Production
- \* co-existence of Public and Private Sectors.
- \* Economic planning.
- \* Solution to Economic problems.
- \* Freedom and control.

5. Difficulties in measuring National Income.

- \* Transfer payments
- \* Difficulties in assessing depreciation allowances
- \* unpaid services.
- \* Income from illegal activities
- \* Production for self consumption and exchange

8. Functions of Money.

a) Primary functions

1. Money as a medium of Exchange
2. Money as a measure of value.

b) Secondary functions.

1. Money as a store of value
2. Money as a standard of deferred payments.
3. Money as a means of Transferring Purchasing Power.

c) Contingent Functions.

1. Basis of the credit system.
2. Money facilitates distribution of National Income.
3. Money helps to equalize marginal utilities and Marginal Productivities.
4. Money increases productivity of Capital

d) Other functions.

1. Money helps to maintain repayment Capacity.
2. Money represents generalised purchasing power.
3. Money gives liquidity to Capital.

9. Money supply

$M_1$  = Currency coins and demand deposits

$M_2$  =  $M_1$  + Savings deposits with post office savings banks.

$M_3$  =  $M_2$  + Time Deposits of all commercial and cooperative banks.

$M_4$  =  $M_3$  + Total Deposits with Post Offices.

10. Determinants of Money supply. (7)

1. Currency Deposit Ratio (CDR)
2. Reserve Deposit Ratio (RDR)
3. Cash Reserve Ratio (CRR)
4. Statutory Liquidity Ratio (SLR)

11. Causes and Effects of Inflation

a) Causes of Inflation.

1. Increase in Money Supply.
2. Increase in Disposable income.
3. Increase in public expenditure
4. Increase in Consumer spending.
5. Cheap money Policy.
6. Deficit Financing.
7. Black Assets, Activities and Money.
8. Repayment of Public Debt.
9. Increase in Exports.

b) Effects of Inflation

1. Effects on production
2. Effect on Distribution.

12. Phases of Trade cycle.

- \* Boom or Prosperity phase.
- \* Recession.
- \* Depression.
- \* Recovery.

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13. Functions of Commercial Banks.

a) Primary Functions

- \* Accepting deposits.
- \* Advancing loans.

b) Secondary Functions

- \* Agency functions.
- \* General utility functions
- \* Transferring funds.
- \* Letter of credit.

c) Other Functions.

- \* Money Supply.
- \* Credit Creation.
- \* collection of statistics.

- \* Act as a clearing house.
- \* Custodian of Foreign Exchange reserves.
- \* Regulator of Economy.
- \* Managing Government Securities.
- \* Regulator and Supervisor of Payment and Settlement Systems.
- \* Development role
- \* Publisher of Monetary data and other data.
- \* Exchange Manager and controller.
- \* Banking Ombudsman Scheme.
- \* Banking codes and Standards Board of India.

14. Role of Commercial Banks in Economic Development of a Country.

- \* Capital formation.
- \* Creation of credit.
- \* Channelising the funds towards Productive Investment.
- \* Encouraging right type of industries
- \* Banks monetise Debt
- \* Finance to Government
- \* Employment generation.
- \* Banks promote Entrepreneurship.

16. Functions of world Bank / I.B.R.D.

- \* Investment for productive purposes.
- \* Balanced growth of International Trade
- \* provisions of loans and guarantees.
- \* Promotion of foreign private Investment.
- \* Technical services.

17. Scope / subject matter of Public Finance.

- \* Public Revenue
- \* Public Expenditure
- \* Public Debt.
- \* Financial Administration
- \* Fiscal policy.

15. Functions of Reserve / central bank

- \* Monetary Authority.
- \* The issuer of Currency.
- \* The issuer of License.
- \* Banker to the Government.
- \* Banker's Bank.
- \* Lender of last resort.

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### 18. Functions of Modern State.

- \* Defense
- \* Judiciary
- \* Enterprises.
- \* Social welfare
- \* Infrastructure
- \* Macro Economic Policy.
- \* Social Justice.
- \* Control of Monopoly.

### 19. Canons of Taxation.

- \* Canon of Ability.
- \* Canon of certainty.
- \* Canon of Convenience
- \* Canon of Economy.

### 20. Merits of Indirect Taxes.

- \* Wider coverage
- \* Equitable
- \* Economical
- \* Checks harmful consumption
- \* Convenient.

### 21. Causes for the increase in public Debt.

- \* war and preparation of war.
- \* Social obligations.
- \* Economic Development and deficit
- \* Employment.
- \* Controlling Inflation.
- \* Fighting depression.

### 22. Methods of Redemption of Public Debt.

- \* Sinking Fund.
- \* Conversion.
- \* Budgetary surplus.
- \* Terminal Annuity.
- \* Repudiation.
- \* Reduction in Rate of Interest.
- \* Capital levy.

### 23. Fiscal Instruments.

- \* Taxation
- \* Public Expenditure
- \* Public Debt.

### 24. Classification of Externalities.

- \* Positive Consumption Externality  
ex: Security Guard.
- \* Negative Consumption Externality.  
ex: Smoking.
- \* Positive Production Externality  
ex: Beehives.
- \* Negative Production Externality.  
ex: Tanneries.

### 25. Causes of Water Pollution.

- \* Discharge of sewage and waste water.
- \* Dumping of Solid wastes.
- \* Discharge of Industrial wastes
- \* Oil spill
- \* Acid rain
- \* Global warming.
- \* Eutrophication.

26. Determinants of Eco development

A) Economic factors.

- \* Natural resource
- \* Capital formation.
- \* Size of the market
- \* Structural change
- \* Financial System.
- \* Marketable Surplus.
- \* Foreign Trade.
- \* Economic system.

B) Non-Economic factors.

- \* Human resources.
- \* Technical know-how.
- \* Political Freedom.
- \* Social Organisation.
- \* Corruption free administration
- \* Desire for development.
- \* Moral, Ethical and social values.
- \* Casino capitalism
- \* patrimonial capitalism

27. Case For planning.

- \* To accelerate and strengthen market mechanism.
- \* To remove unemployment.
- \* To achieve balanced development
- \* To remove poverty and inequalities.

28. Case against planning.

- \* Loss of freedom
- \* Elimination of Initiative.
- \* High cost of Management.
- \* Difficulty in advance calculations.

29. Types of Planning.

- \* Democratic vs Totalitarianism
- \* Planning by Direction vs Inducement
- \* Short, medium and long term
- \* Functional vs Structural.
- \* Centralised vs Decentralised
- \* Indicative vs Imperative
- \* Financial vs physical
- \* Comprehensive vs partial.

30. Functions of NITI Aayog:

- \* Cooperative and competitive federalism.
- \* Shared National Agenda.
- \* Decentralised planning.
- \* Vision and Scenario planning.
- \* Network of Expertise.
- \* Harmonisation.
- \* Conflict Resolution.
- \* Co-ordinating Interface with the world.
- \* Internal Consultancy.
- \* Capacity Building.
- \* Monitoring and evaluation.

31. Scope of Statistics.

- \* Statistics and Economics
- \* Statistics and Firms.
- \* Statistics and commerce.
- \* Statistics and Education
- \* Statistics and planning.
- \* Statistics and Medicine.
- \* Statistics and Modern Application

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