

12th STD	Public Examination - March 2024 PART - III	Reg. No. <table border="1" style="width: 100%; height: 20px;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>								
TIME ALLOWED : 3.00 Hours]	ECONOMICS (with Answers)	[MAX. MARKS : 90								

Instructions:

1. Check the question paper for fairness of printing. If there is any lack of fairness, inform the Hall Supervisor immediately.
2. Use **Blue** or **Black** ink to write and underline and pencil to draw diagrams.

PART - I

Note : (i) Answer **all** the questions. **20 × 1 = 20**

(ii) Choose the most appropriate answer from the given **four** alternatives and write the option code and the corresponding answer.

1. The sum of the MPC and MPS is :
(a) 0.1 (b) 1 (c) 1.1 (d) 2
2. GST is equivalence of :
(a) Income tax (b) Sales tax (c) Local tax (d) Corporation tax
3. Structural unemployment is a feature in a _____.
(a) Dynamic society (b) Static society
(c) Mixed economy (d) Socialist society
4. Identify the economic system, where only private ownership of production exists.
(a) Globalist Economy (b) Capitalist Economy
(c) Mixed Economy (d) Socialist Economy
5. If the values of two variables move in the same direction, it is said to be _____ correlation.
(a) multiple (b) negative (c) simple (d) positive
6. Foreign Direct Investments not permitted in India is :
(a) Pharmaceutical (b) Banking (c) Insurance (d) Atomic energy
7. Central Bank is _____ authority of any country.
(a) Wage (b) Monetary (c) National income (d) Fiscal
8. Inflation means :
(a) Value of money is increasing (b) Prices are rising
(c) Prices are remaining the same (d) Prices are falling
9. The average propensity to consume is measured by :
(a) Y/C (b) C/Y (c) C + Y (d) CY
10. Which of the following does not come under 'Six dialogue partners' of ASEAN?
(a) India (b) China (c) North Korea (d) Japan
11. Planning Commission was set up in the year _____.
(a) 1947 (b) 1950 (c) 1948 (d) 1951

12. Hearing loss is the effect of _____ pollution.
 (a) water (b) noise (c) land (d) air
13. Who is regarded as "Father of Modern Macro Economics"?
 (a) Ragnar Frisch (b) Adam Smith
 (c) Karl Marx (d) J.M. Keynes
14. Exchange rates are determined in :
 (a) Stock market (b) Money market
 (c) Capital market (d) Foreign Exchange market
15. Income method is measured by summing up of all forms of _____.
 (a) Expenditure (b) Production (c) Income (d) Taxes
16. Econometrics is the word coined by :
 (a) Karl Pearson (b) Francis Galton
 (c) Spearman (d) Ragnar Frisch
17. The other name for Special Drawing Rights is :
 (a) Voluntary export restrictions (b) Paper gold
 (c) Patents (d) Quotas
18. Short-term plan is also known as _____.
 (a) Rolling plans (b) Controlling plans
 (c) De-rolling plans (d) De-controlling plans
19. _____ flexibility brings equality between savings and investment.
 (a) Capital (b) Demand (c) Rate of Interest (d) Supply
20. Irving Fisher's Quantity Theory of Money was popularized in :
 (a) 1911 (b) 1908 (c) 1914 (d) 1910

PART - II

Note : Answer any 7 questions. Question No.30 is Compulsory.

7 × 2 = 14

21. What do you mean by Capitalism?
22. What is Plastic Money? Give example.
23. Define 'Full employment'.
24. Why is 'self consumption' difficult in measuring National Income?
25. Give short note on Frictional Unemployment.
26. Mention the functions of Agriculture Credit department.
27. What is Free Trade Area?
28. Specify the meaning of Seed ball.
29. Write a note on 'Zero based budget'.
30. What are the components of GST?

PART - III**Note : Answer any 7 questions. Question No. 40 is Compulsory.****7 × 3 = 21**

31. Differentiate between Personal and Disposable Income.
32. Explain Keynes's theory.
33. Point out any three differences between Direct taxes and Indirect taxes.
34. State the objectives of Foreign Direct Investment.
35. State the meaning of e-Wastes.
36. State briefly the functions of SAARC.
37. What are the functions of NITI Aayog?
38. Write any three characteristics of Tax.
39. State and explain the different kinds of Correlation.
40. Write about E-Banking.

PART - IV**Note: Answer all the questions.****7 × 5 = 35**

41. (a) Calculate the Karl Pearson's coefficient of correlation for the following data and explain.

Price x	10	12	14	15	19
Supply y	40	41	48	60	50

(OR)

- (b) Explain the importance of National Income.
42. (a) Describe the functions of Reserve Bank of India.
(OR)
(b) Explain the "Vicious Circle of Poverty" with diagram.
43. (a) Narrate the equilibrium between ADF and ASF with diagram.
(OR)
(b) Discuss the role of WTO in India's Socio-economic development.
44. (a) Critically explain Say's Law of Market.
(OR)
(b) Explain the components of Balance of Payments account.
45. (a) Describe the phases of Trade Cycle.
(OR)
(b) Write a note on :
(i) Public Debt (ii) Primary deficit
46. (a) Explain the importance of Sustainable development and its goals.
(OR)
(b) Briefly explain the objective factors of Consumption function.
47. (a) Discuss the scope of Macro Economics.
(OR)
(b) Bring out the arguments against Planning.

ANSWER**PART - I**

1. (b) 1
2. (b) Sales tax
3. (a) Dynamic society
4. (b) Capitalist economy
5. (d) positive
6. (d) Atomic energy
7. (b) Monetary
8. (b) Prices are rising
9. (b) C/Y
10. (c) North Korea
11. (b) 1950
12. (b) noise
13. (d) J.M.Keynes
14. (d) Foreign Exchange market
15. (c) Income
16. (d) Ragnar Frisch
17. (b) Paper gold
18. (b) Controlling plans
19. (c) Rate of Interest
20. (a) 1911

PART - II

21. Adam Smith is the 'Father of Capitalism'. Capitalist economy is also termed as a free economy (Laissez faire, in Latin) or market economy where the role of the government is minimum and market determines the economic activities.
22. (i) The latest type of money is plastic money.
(ii) Plastic money is one of the most evolved forms of financial products.
(iii) Plastic money is an alternative to the cash (or) the standard money.
For example : Cash cards, Credit cards, Debit cards, Pre-paid, Store cards, Smart cards etc.
23. Lerner defines full employment as "that level of employment at which any further increase in spending would result in an inflationary spiral of wages and prices".
24. (i) Farmers keep a large portion of food and other goods produced on the farm for self consumption.
(ii) The problem is whether that part of the produce which is not sold in the market can be included in national income or not.
25. (i) Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
(ii) This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.
(iii) When persons lose jobs and are in search of new jobs they have to wait for sometime. This period of joblessness is called frictional unemployment.

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26. (i) To maintain an expert staff to study all questions on agricultural credit.
 (ii) To provide expert advice to Central and State Government, State Co-operative Banks.
 (iii) To finance the rural sector through eligible institutions engaged in the business of agricultural credit and to co-ordinate their activities.
27. (i) A free trade area is the region encompassing a trade bloc whose member countries have signed a free trade agreement (FTA).
 (ii) Such agreements involve cooperation between at least two countries to reduce trade barriers. E.g. SAFTA, EFTA.
28. (i) A seed ball (or seed bomb) is a seed that has been wrapped in soil materials usually a mixture of clay and compost, and then dried.
 (ii) Seed balls are an easy and sustainable way to cultivate plants that provide a larger window of time when the sowing can occur.
29. (i) Zero base - budgeting involves fresh evaluation of expenditure in the government budget, assuming it as a new item.
 (ii) The review has been made to provide justification or otherwise for the project as a whole in the light of the socio-economic objectives which have been already set up for this project and as well as in view of the priorities of the society.
30. The component of GST are of 3 types. They are,
 (i) CGST (ii) SGST (iii) IGST
 (i) **CGST** : Collected by the Central Government on an intra-state sale (Eg: Within state/ union territory)
 (ii) **SGST** : Collected by the State Government on an intra-state sale (Eg: Within state/ union territory)
 (iii) **IGST** : Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

PART - III

31.

S. No.	Personal Income	Disposable Income
1.	Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.	Disposable Income is also known as Disposable personal income. It is the individuals income after the payment of income tax.
2.	Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.	This is the amount available for households for consumptions.
3.	Personal Income = National income – Social security contribution and undistributed corporate profits) + Transfer payments.	Disposable Income = Personal Income – Direct tax. As the entire disposable income is not spent of consumption. Disposable income = Consumption + Saving

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32. Keynes' theory:

- (i) Keynes's book, "The General Theory of Employment, Interest and Money" published in 1936 is a highly significant work that marked a turning point in the development of modern economic theory.
- (ii) Keynes's theory was a general theory as it tried to explain all types of situations, i.e. not only equilibrium level of employment but also the concept of full employment as well as the possibility of underemployment.
- (iii) Keynes's theory of employment was based on the view of the short run. According to him, the factors of production such as capital goods, supply of labour, technology and efficiency of labour remain unchanged while determining the level of employment.

33.

Basis For Comparison	Direct Tax	Indirect Tax
Nature	Progressive	Regressive
Incidence and Impact	Falls on the same person.	Falls on different persons.
Tax base	Income or wealth of the assessee	Purchase/sale/manufacture of goods and provision of services

34. FDI has the following objectives.

- (i) Sales Expansion
- (ii) Acquisition of resources
- (iii) Diversification
- (iv) Minimization of competitive risk

35. Meaning of e-waste :

- (i) Electronic waste which is commonly referred as "e-Waste" is the new by product of the Info Tech Society.
- (ii) It is a physical waste in the form of old discarded end of life electronics.
- (iii) It includes a broad and growing range of electronics devices from large house hold appliances such as refrigerators, air conditioner, cellular phones, computers and other electronic goods.
- (iv) e-Waste can be defined as the result when consumer, business and household devices are disposed or sent for re-cycling.
- (v) For example. Television, Computers, Audio - equipments, VCR, DVD, Telephone, Fax, Xerox Machine, Wireless devices, Video games other household electronic equipment.

36. The main functions of SAARC are as follows.

- (1) Maintenance of the co-operation in the region.
- (2) Prevention of common problems associated with the member nations.
- (3) Ensuring strong relationship among the member nations.
- (4) Removal of the poverty through various packages of programmes.
- (5) Prevention of terrorism in the region.

37. The function of NITI Aayog are

- (i) Co-operative and competitive Federalism
- (ii) Shared National Agenda
- (iii) Decentralized planning
- (iv) Vision and scenario planning
- (v) Network of Expertise
- (vi) Harmonization

38. Characteristics of taxation :

- (i) A tax is a compulsory payment made to the government. People on whom a tax is imposed must pay the tax. Refusal to pay the tax is a punishable offence.
- (ii) Every tax involves some sacrifice on the part of the tax payer.
- (iii) A tax is not levied as a fine or penalty for breaking law.

39. Type - I : Based on the direction of change of variables :

- (i) **Positive Correlation :** The correlation is said to be positive if the values of two variables move in the same direction.
e.g. $Y = a + bx$
- (ii) **Negative Correlation :** The correlation is said to be negative when the values of variables move in the opposite directions.
e.g. $Y = a - bx$

Type - II : Based upon the number of variables studied :

- (i) **Simple correlation :** If only two variables are taken for study then it is said to be simple correlation. e.g. $Y = a + bx$.
- (ii) **Multiple Correlations :** If three or more than three variables are studied simultaneously then it is termed as multiple correlation. $Q_d = f(P, P_c, P_s, t, y)$
- (iii) **Partial Correlation :** If there are more than two variables but only two variables are considered keeping the other variables constant, then the correlation is said to be partial correlation.

Type - III : Based upon the constancy of the ratio of change between the variables.**(i) Linear Correlation :**

- (1) Correlation is divided into two types of linear correlation and non-linear correlation based upon the constancy of the ratio of change between the variables.
- (2) Correlation is said to be linear when the amount of change in one variable tends to bear a constant ratio to the amount of change in the other.
e.g. $Y = a + bx$

(ii) Non-Linear Correlation :

The correlation would be non-linear if the amount of change in one variable does not bear a constant ratio to the amount of change in the other variables.
e.g. $Y = a + bx^2$

40. E-banking :

- (i) Online banking, also known as internet banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.
- (ii) The online banking system typically connects to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.
- (iii) Today, "virtual banks" (or "direct banks") have only an internet presence, which enables them to lower costs than traditional brick-and-mortar banks.

PART - IV

41. (a) Let us take Price as X and supply as Y

Computation of Pearson's Correlation Coefficient

Price : X	Supply : Y	XY	X ²	Y ²
10	40	400	100	1600
12	41	492	144	1681
14	48	672	196	2304
15	60	900	225	3600
19	50	950	361	2500
$\Sigma X = 70$	$\Sigma Y = 239$	$\Sigma XY = 3414$	$\Sigma X^2 = 1026$	$\Sigma Y^2 = 11685$

$$r = \frac{N\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{N\Sigma X^2 - (\Sigma X)^2} \sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

$$= \frac{(5 \times 3414) - (70 \times 239)}{\sqrt{(5 \times 1026) - (70)^2} \sqrt{5 \times 11685 - (239)^2}}$$

$$r = \frac{17,070 - 16,730}{\sqrt{230 \times 1304}}$$

$$r = \frac{340}{547.65} = +0.621$$

Price of the product and supply for the product is positively correlated. When price of the product increases then the supply for the product also increases.

(OR)

(b) Importance of National Income :

National income is of great importance for the economy of a country. Nowadays the national income is regarded as accounts of the economy, which are known as social accounts. It enables us.

- (i) To know the relative importance of the various sectors of the economy and their contribution towards national income.

- (ii) To formulate the national policies such as monetary policy, fiscal policy and other policies.
- (iii) To formulate planning and evaluate plan progress. It is essential that the data pertaining to a country's gross income.
- (iv) To build economic models both in short-run and long-run.
- (v) To make international comparison, inter regional comparison and inter-temporal comparison for the growth of the economy during different periods.
- (vi) To know a country's per capita income which reflects the economic welfare of the country.
- (vii) To know the distribution of income for the various factors of production in the country.
- (viii) To arrive at many macro economic variables namely, Tax - GDP ratio, Current Account Deficit - GDP ratio, Fiscal Deficit GDP ratio, Debt - GDP ratio etc.

42. (a) **Functions of RBI :**

(1) **Monetary Authority :**

- (i) It controls the supply of money.
- (ii) To stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system.

(2) **The issuer of currency :**

- (i) The objective is to maintain the currency and credit system of the country.
- (ii) It is the sole authority to issue currency.
- (iii) To control the circulation of fake currency.

(3) **The issuer of banking licence :** As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

(4) **Bankers to the Government :** It acts as banker both to the Central and the State Government.

(5) **Banker's Bank :** RBI is the bank of all banks in India.

(6) **Lender of last resort :** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.

(7) **Act as clearing house :** RBI manages 14 clearing houses.

(8) **Custodian of foreign exchange reserves.**

(9) **Regulator of economy.**

(10) **Managing government securities.**

(11) **Regulator and supervisor of payment and settlement system.**

(12) **Developmental Role.**

(13) **Publisher of monetary data and other data.**

(14) **Exchange manager and controller.**

(15) **Banking Ombudsman Scheme.**

(16) **Banking Codes and Standards Boards of India.**

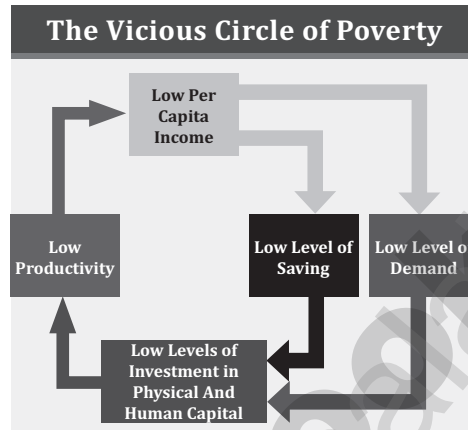
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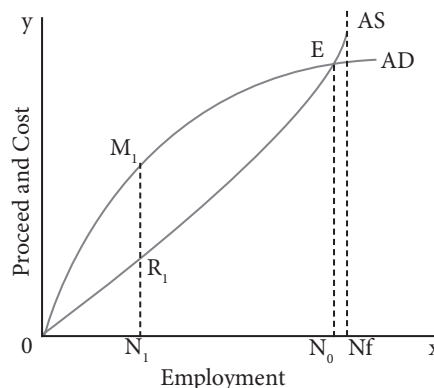
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- (b) (i) There are circular relationships known as the 'Vicious Circles of Poverty' that tend to perpetuate the low level of development in Less Developed Countries (LDCs).
- (ii) Nurkse explains the idea in these words : "It implies a circular constellation of forces tending to act and react on upon one another in such a way as to keep a poor country in a state of poverty.
- (iii) For example, a poor man may not have enough to eat; being underfed, his health may be weak; being physically weak, his working capacity is low, which means that he is poor, which in turn means that he will not have enough to eat and so on.



- (iv) The vicious circle of poverty operates both on the demand side and the supply side.
- (v) On the supply side, the low level of real income means low savings.
- (vi) The deficiency of capital, in turn, leads to low levels of productivity and back to low income. Thus the vicious circle is complete from the supply side.
- (vii) The demand-side of the vicious circle is that the low level of real income leads to a low level of demand which, in turn, leads to a low rate of investment and hence back to deficiency of capital, low productivity and low income.

43. (a) (i) Under the Keynes theory of employment, a simple two sector economy consisting of the households sector and the business sector is taken to understand the equilibrium between ADF and ASF.
- (ii) All the decisions concerning consumption expenditure are taken by the individual households, while the business firms take decisions concerning investment.
- (iii) It is also assumed that consumption function is linear and planned investment is autonomous.



There are two approaches to determination of the equilibrium level of income in Keynesian theory these are :

1. Aggregate demand - Aggregate supply approach
2. Saving - Investment approach

Diagram explanation :

- (i) In the figure, the aggregate demand and aggregate supply reach equilibrium at point - E.
- (ii) The employment level is N_0 at that point.
- (iii) At ON_1 employment, the aggregate supply is $N_1 R_1$.
- (iv) But they are able to produce $M_1 N_1$.
- (v) The expected level of profit is $M_1 R_1$.
- (vi) To attain this level of profit, entrepreneurs will employ more labourers.
- (vii) The tendency to employ more labour will stop once they reach point E.
- (viii) At all levels of employment beyond ON_0 , the aggregate demand curve is below the aggregate supply curve indicating loss to the producers. Hence they will never employ more than ON_0 labour.
- (ix) Thus the concept of effective demand becomes significant in explaining the under employment equilibrium.

(OR)

(b) The role of WTO in India's socio economic development:

- (i) India is the founding member of the WTO.
- (ii) India favours multilateral trade approach.
- (iii) India benefited from WTO on following grounds.
 - (1) By reducing tariff rates on raw materials, components and capital goods, it was able to import more for meeting her developmental requirements.
 - (2) India's imports go on increasing.
 - (3) India gets market access in several countries without any bilateral trade agreements.
 - (4) Advanced technology has been obtained at cheaper cost.
 - (5) India is in a better position to get quick redressal from the trade disputes.
 - (6) The Indian exporters benefited from wider market information.

44. (a) According to Say, "When goods are produced by firms in the economy, they pay reward to the factors of production. The households after receiving rewards of the factors of production spend the amount on the purchase of goods and services produced by them. Therefore, each product produced in the economy creates demand equal to its value in the market.

Criticisms of say's law :

The following are the criticisms against say's law.

- (i) According to Keynes, supply does not create its demand. It is not applicable where demand does not increase as much as production increases.

- (ii) Automatic adjustment process will not remove unemployment. Unemployment can be removed by increase in the rate of investment.
- (iii) Money is not neutral. Individuals hold money for unforeseen contingencies while businessmen keep cash reserve for future activities.
- (iv) Say's law is based on the proposition that supply creates its own demand and there is no over production.
- (v) Keynes regards full employment as a special case because there is under employment in capitalist economies.
- (vi) The need for state intervention arises in the case of general over production and mass unemployment.

(OR)

(b) Components of BOPs are divided into three categories. They are,

- (a) The Current Account
- (b) The Capital Account and
- (c) The Official Settlements Accounts or Official Reserve Assets Account.

(a) **The Current Account :**

It includes all international trade transactions of goods and services, international service transactions (i.e. tourism, transportation and royalty fees) and international unilateral transfers (i.e. gifts and foreign aid).

(b) **The Capital Account :**

Financial transactions consisting of direct investment and purchases of interest-bearing financial instruments, non-interest bearing demand deposits and gold fall under the capital account.

(c) **The Official Reserve Assets Account :**

- (i) Official Reserve Transactions consist of movements of international reserves by Government
- (ii) Official agencies also accommodate in balance arising from the current and capital accounts.
- (iii) The official reserve assets of a country include its gold stock, SDRs & IMF etc.

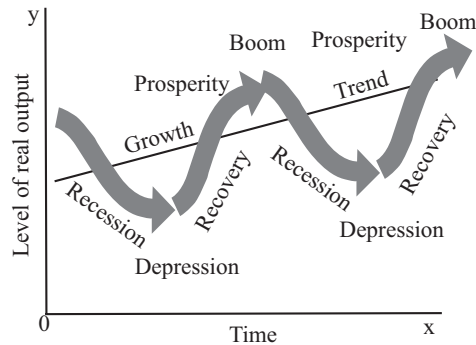
Balance of payment (BOP) Account Chart

$$\text{Credit (Receipts)} - \text{Debit (Payments)} = \text{Balance [Deficit (-), Surplus (+)]}$$

$$[\text{Deficit if Debit} > \text{Credit}]$$

45. (a) **Measuring of Trade Cycle :** A Trade cycle refers to oscillations in aggregate economic activity particularly in employment, output, income, etc.

Phases of Trade Cycle : The four different phases of trade cycle is referred to as (1) Boom (2) Recession (3) Depression and (4) Recovery.

(1) **Boom (or) Prosperity Phase :**

- (i) The full employment and the movement of the economy beyond full employment is characterized as boom period.
- (ii) During this period, there is hectic activity in economy.
- (iii) Money wages rise, profits increase and interest rates go up.

(2) **Recession :**

- (i) The turning point from boom condition is called recession.
- (ii) This happens at higher rate, than what was earlier.
- (iii) The failure of a company or bank bursts the boom and brings a phase of recession.

(3) **Depression :**

- (i) During depression the level of economic activities becomes extremely low.
- (ii) Firms incur losses and closure of business becomes a common feature and the ultimate result is unemployment.
- (iii) Interest prices, profits and wages are low.

(4) **Recovery :**

- (i) After a period of depression, recovery sets in.
- (ii) It begins with the revival of demand for capital goods.
- (iii) The demand slowly picks up and in due course the activity is directed towards the upswing with more production, profit, income, wages and employment.
- (iv) Recovery may be initiated by innovation or investment or by government expenditure.

(OR)

(b) (i) **Public debt :**

Large public debts are driving out foreign investors, because it leads to inflation. As a result, exchange rate will be lower.

(ii) **Primary deficit :**

- (i) Primary deficit is equal to fiscal deficit minus interest payments.
- (ii) It shows the real burden of the government.
- (iii) It doesn't include the burden on loans taken in the past.
- (iv) Thus, Primary deficit reflects borrowing requirements of the government exclusive of interest payments.

$$\text{Primary Deficit PD} = \text{Fiscal Deficit (FD)} - \text{Interest Payment (IP)}$$

46. (a) **Meaning:**

- (i) Sustainable development is concerned with the welfare of not only present generation but also future generation.
- (ii) It aims at not only satisfying the luxury wants of the upper class i.e. the rich but also the basic necessities of the poor like food, sanitation, health care, education etc.

Important goals of sustainable development

- (1) End poverty in all its forms everywhere.
- (2) End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
- (3) Ensure healthy lives and promote well being for all at all ages.
- (4) Ensure inclusive and equality education for all and promote lifelong learning.
- (5) Achieve gender equality and empower women and girls.
- (6) Ensure access to water and sanitation for all.
- (7) Ensure access to affordable, reliable sustainable and modern energy for all.
- (8) Promote inclusive and sustainable, economic growth, employment and decent work for all.
- (9) Build resilient infrastructure, promote sustainable industrialization and foster innovation.
- (10) Reduce inequality within and among countries.

(OR)

(b) **Objective Factors of consumption function :**

Objective factors are the external factors which are real and measurable.

- (i) **Income Distribution :** If there is large disparity between the rich and the poor, the consumption is low because the rich people have low propensity to consume and high propensity to consume and high propensity to save.
- (ii) **Price Level :** Price Level plays an important role in determining the consumption function.
- (iii) **Wage Level :** Wage Level plays an important role in determining the consumption function and there is positive relationship between wage and consumption.
- (iv) **Interest Rate :** Higher rate of interest will encourage people to save more money and to reduce consumption.
- (v) **Fiscal policy :** When government reduces the tax the disposable income rises and the propensity to consume of community increases.
- (vi) **Consumer credit :** The availability of consumer credit at easy installments will encourage households to buy consumer durables like automobiles, fridge, computer etc. This pushes up consumption.

47. (a) The study of macro economics has wide scope and it covers the major areas as follow.

National Income :

- (i) Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis.

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- (ii) The trends in National Income and its composition provide a long term understanding of the growth process of an economy.

Inflation :

- (i) Inflation refers to steady increase in general price level.
- (ii) Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

Business Cycle :

- (i) Almost all economies face the problem of business fluctuations and business cycle.
- (ii) The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables.

Poverty and Unemployment :

- (i) The major problems of most resource - rich nations are poverty and unemployment. This is one of the economic paradoxes.
- (ii) A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.

Economic Growth : The growth and development of an economy and the factors determining them could be understood only through macro analysis.

Economic Policies :

- (i) Macro Economics is significant for evolving. Suitable economic policies.
- (ii) Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

(OR)

(b) Argument against planning :

The failure of market mechanism invited state intervention in economic activities through planning.

The arguments against planning are discussed below.

(i) **Loss of Freedom :**

- ◆ The absence of freedom in decision making may act as an obstacle for economic growth.
- ◆ Regulations and restrictions are the backbone of a planned economy.
- ◆ The decision by the Government are not always rational.
- ◆ Freedom to private producers will be misused. Profit will be given top priority welfare will be relegated.

(ii) **Elimination of Initiative :**

- ◆ Under centralized planning, there will be no incentives and innovations.
- ◆ The absence of private ownership and profit motive discourage entrepreneurs from taking bold decisions and risk taking.

- ♦ As all enjoy equal reward under planned economy irrespective of their effort efficiency and productivity.
 - ♦ The bureaucracy and red tapism which are the features of planned economy cripple the initiative as they cause procedural delay and time loss.
- (iii) **High cost of management :**
- ♦ No doubt the fruits of planning such as industrialization, social justice and regional balance are good.
 - ♦ The cost of management of the economic affairs outweighs the benefits of planning.
 - ♦ Plan formulation and implementation involve engagement of an army of staff for data collection and administration.
- (iv) **Difficulty in advance calculations :**
- ♦ Price mechanism provides for the automatic adjustment among price demand and supply in Laissez Faire economy.
 - ♦ Excess supply and excess demand can also happen in the market oriented economy.
 - ♦ The arguments against planning are mostly concerned with centralized and totalitarian planning
 - ♦ The democratic planning, Planning by inducement and decentralized planning especially under mixed economics give equal role for private sector and public sector.

