

SHRI KRISHNA ACADEMY

NEET, JEE & BOARD EXAM(10th, +1, +2) COACHING CENTRE

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XII - ECONOMICS

MATERIAL

2019 – 2020

DEPARTMENT OF ECONOMICS

Chapter .1. Introduction to Macro Economics

Part - B

Answer the following questions in one or two sentences

21. Define Macro Economics.

- The word 'Macro' is derived from the Greek word 'Makros' meaning 'large'. Hence, Macro Economics is the study of the economy as a whole.
- In other words, macro economics deals with aggregates such as national income, employment and output.
- Macro Economics is also known as 'Income Theory'.

22. Define the term 'Inflation'.

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

23. What is meant by an 'Economy'?

- The term economy has been defined by A. J. Brown as, "A system by which people earn their living."
- J. R. Hicks defined as, "An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers."

24. Classify the economies based on status of development.

Status of Development: Developed, underdeveloped, undeveloped and developing economies.

25. What do you mean by Capitalism?

- Adam Smith is the 'Father of Capitalism'. Capitalistic 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.
- The means of production in a capitalistic economy are privately owned. Manufacture rs produce goods and services with profit motive.

- The private individual has the freedom to undertake any occupation and develop any skill.

26. Define 'Economic Model'.

- **Economic Models** A model is a simplified representation of real situation. Economists use models to describe economic activities, their relationships and their behaviour.
- A model is an explanation of how the economy, or part of the economy, works.
- The commonly used economic models are the supply-demand models and circular flow models and Smith models.
- 27. 'Circular Flow of Income' - Define.
- The circular flow of income is a model of an economy showing connections between different sectors of an economy.
- It shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations.
- The circular flow analysis is the basis of national accounts and macroeconomics.

Part - C

Answer the following questions in about a paragraph

28. State the importance of Macro Economics.

Importance of Macro Economics

The importance and the need for introducing a macro outlook of an economy are given below:

- There is a need to understand the functioning of the economy at the aggregate level to evolve suitable strategies and to solve the basic problems prevailing in an economy.
- Understanding the future problems, needs and challenges of an economy as a whole is important to evolve precautionary measures.
- Macro economics provides ample opportunities to use scientific investigation to understand the reality.

- Macro economics helps to make meaningful comparison and analysis of economic indicators.
- Macro economics helps for better prediction about future and to formulate suitable policies to avoid economic crises.

29. Describe the different types of economic systems.

- Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area. It is the methodology of doing economic activities to meet the needs of the society. There are three major types of economic systems. They are:

1. Capitalistic Economy (Capitalism),
2. Socialistic Economy (Socialism) and
3. Mixed Economy (Mixedism)

30. Outline the major merits of capitalism.

Merits of Capitalism

1. **Automatic Working:** Without any government intervention, the economy works automatically.
2. **Efficient Use of Resources:** All resources are put into optimum use.
3. **Incentives for Hard work:** Hard work is encouraged and entrepreneurs get more profit for more efficiency.
4. **Economic Progress:** Production and productivity levels are very high in capitalistic economies.
5. **Consumers Sovereignty:** All production activities are aimed at satisfying the consumers.
6. **Higher Rates of Capital Formation:** Increase in saving and investment leads to higher rates of capital formation.
7. **Development of New Technology:** As profit is aimed at, producers invest on new technology and produce quality goods.

31. Indicate the demerits of socialism.

Demerits of Socialism

- **Red Tapism and Bureaucracy:** As decision are taken by government agencies, approval of many officials and movement of files from one table to other takes time and leads to red tapism.
- **Absence of Incentive:** The major limitation of socialism is that this system does not provide any incentive for efficiency. Therefore, productivity also suffers.
- **Limited Freedom of Choice:** Consumers do not enjoy freedom of choice over the consumption of goods and services.
- **Concentration of Power:** The State takes all major decisions. The private takes no initiative in making economic decisions. Hence, the State is more powerful and misuse of power can also take place.

32. Enumerate the features of mixed economy.

Features of Mixed Economy

- **Ownership of Property and Means of Production:** The means of production and properties are owned by both private and public. Public and Private have the right to purchase, use or transfer their resources.
- **Coexistence of Public and Private Sectors:** In mixed economies, both private and public sectors coexist. Private industries undertake activities primarily for profit. Public sector firms are owned by the government with a view to maximize social welfare.
- **Economic Planning:** The central planning authority prepares the economic plans. National plans are drawn up by the Government and both private and public sectors abide. In general, all sectors of the economy function according to the objectives, priorities and targets laid down in the plan.
- **Solution to Economic Problems:** The basic problems of what to produce, how to produce, for whom to produce and how to distribute are solved through the price mechanism as well as state intervention.
- **Freedom and Control:** Though private has freedom to own resources, produce goods and services and distribute the same, the overall control on the economic activities rests with the government.

33. Distinguish between Capitalism and Globalism.

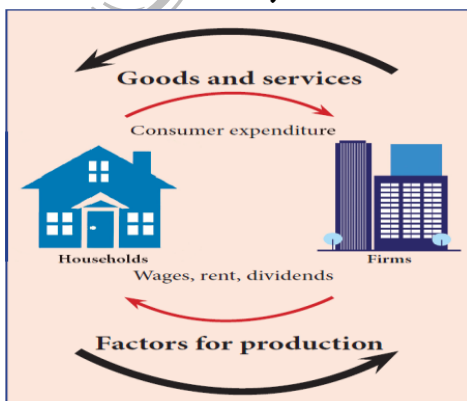
Globalism	Capitalism
<p>The term coined by Manfred D Steger (2002) to denote the new market ideology of globalisation that connects nations together through international trade and aiming at global development.</p> <p>This ideology is also termed as 'Extended Capitalism'.</p>	<p>Adam Smith is the 'Father of Capitalism'. Capitalistic 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.</p> <p>The means of production in a capitalistic economy are privately owned. Manufacturers produce goods and services with profit motive. The private individual has the freedom to undertake any occupation and develop any skill.</p>

34. Briefly explain the two sector circular flow model.

Circular Flow of Income in a Two-Sector Economy:

There are only two sectors namely, household sector and firm sector.

(i) Household Sector: The household sector is the sole buyer of goods and services, and the sole supplier of factors of production, i.e., land, labour, capital and organisation. It spends its entire income on the purchase of goods and services produced by the business sector. The household sector receives income from firm sector by providing the factors of production owned by it.



(ii) Firms: The firm sector generates its revenue by selling goods and services to the household sector. It hires the factors of production, i.e., land, labour, capital and organisation, owned by the household sector. The firm sector sells the entire output to households.

In a two sector economy, production and sales are equal and there will be circular flow of income and goods. The outer circle represents the flow of factors and goods and the inner circle represents the monetary flow (factor price and commodity prices). Real flow indicates the flow of services from household sector to the business sector and goods and services flow from business sector to the household. The basic identities of the two sector economy are as under

$$Y = C + I$$

Where Y is Income; C is Consumption; I is investment

Part - D

Answer the following questions in one page

35. Discuss the scope of Macro Economics.

Scope of Macro Economics

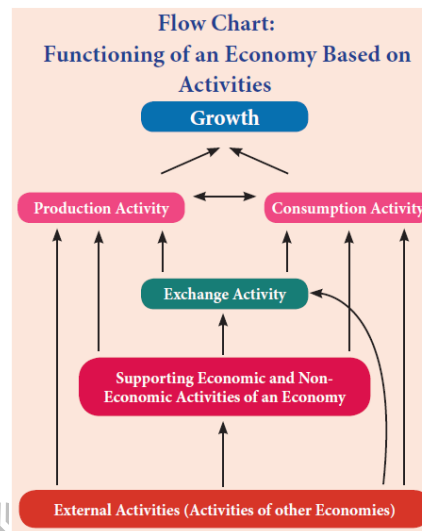
The study of macro economics has wide scope and it covers the major areas as follows

- **National Income:** Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis. The trends in National Income and its composition provide a long term understanding of the growth process of an economy.
- **Inflation:** Inflation refers to steady increase in general price level. Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.
- **Business Cycle:** Almost all economies face the problem of business fluctuations and business cycle. The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables.
- **Poverty and Unemployment:** The major problems of most resource - rich nations are poverty and unemployment. This is one of the economic paradoxes. 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:** Macro Economics is significant for evolving suitable economic policies. Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

36. Illustrate the functioning of an economy based on its activities.

The functioning of an economy by its activities is explained in flow chart



- In an economy, the fundamental economic activities are production and consumption. These two activities are supported by several other activities.
- The ultimate aim of these activities is to achieve growth. The 'exchange activity' supports the production and consumption activities.
- These activities are influenced by several economic and non-economic activities. The major economic activities include transportation, banking, advertising, planning, government policy and others.
- The major non-economic activities are environment, health, education, entertainment, governance, regulations etc.
- In addition to these supporting activities, external activities from other economies such as import, export, international relations, emigration, immigration, foreign investment, foreign exchange earnings, etc. also influence the entire functioning of the economy.

37. Compare the features of capitalism and socialism.

CAPITALISM	SOCIALISM.
<p>1. Private Ownership of Property and Law of Inheritance: The basic feature of capitalism is that all resources namely, land, capital, machines, mines etc. are owned by private individuals. The owner has the right to own, keep, sell or use these resources according to his will. The property can be transferred to heirs after death.</p>	<p>1. Public Ownership of Means of Production: All resources are owned by the government. It means that all the factors of production are nationalized and managed by the public authority.</p>
<p>2. Freedom of Choice and Enterprise: Each individual is free to carry out any occupation or trade at any place and produce any commodity. Similarly, consumers are free to buy any commodity as per their choice.</p>	<p>2. Central Planning: Planning is an integral part of a socialistic economy. In this system, all decisions are undertaken by the central planning authority.</p>
<p>3. Profit Motive: Profit is the driving force behind all economic activities in a capitalistic economy. Each individual and organization produce only those goods which ensure high profit. Advance technology, division of labour, and specialisation are followed. The golden rule for a producer under capitalism is 'to maximize profit.'</p>	<p>3. Maximum Social Benefit: Social welfare is the guiding principle behind all economic activities. Investments are planned in such a way that the benefits are distributed to the society at large.</p>
<p>4. Free Competition: There is free competition in both product and factor market. The government or any authority cannot prevent firms from buying or selling in the market. There is competition between buyers and sellers.</p>	<p>4. Non-existence of Competition: Under the socialist economic system there is absence of competition in the market. The state has full control over production and distribution of goods and services. The consumers will have a limited choice.</p>

5. Price Mechanism: Price mechanism is the heart of any capitalistic economy. All economic activities are regulated through price mechanism i.e, market forces of demand and supply.	5. Absence of Price Mechanism: The pricing system works under the control and regulation of the central planning authority.
6. Role of Government: As the price mechanism regulates economic activity, the government has a limited role in a capitalistic economy. The government provides basic services such as, defense, public health, education, etc.	6. Equality of Income: Another essential feature of socialism is the removal and reduction of economic inequalities. Under socialism private property and the law of inheritance do not exist.
7. Inequalities of Income: A capitalist society is divided into two classes – ‘haves’ that is those who own property and ‘have-nots’ who do not own property and work for their living.	7. Equality of Opportunity: Socialism provides equal opportunity for all through free health, education and professional training.
8. Classless Society: The outcome of this situation is that the rich become richer and poor become poorer. Here, economic inequality goes on increasing.	8. Classless Society: Under socialism, there is a classless society and so no class conflicts. In a true socialist society, everyone is equal as far as economic status is concerned.

38. Compare the feature among Capitalism, Secularism and Mixedism.

S.N	Features	Capitalism	Socialism	Mixedism
1	Ownership of Means of Production	Private Ownership	Public Ownership	Private Ownership and Public Ownership
2	Economic Motive	Profit	Social Welfare	Social Welfare and Profit Motive
3	Solution of Central Problems	Free Market System	Central Planning System	Central Planning System and Free Market System

4	Government Role	Internal Regulation only	Complete Involvement	Limited Role
5	Income Distribution	Unequal	Equal	Less unequal
6	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private and State Enterprises
7	Economic Freedom	Complete Freedom	Lack of Freedom	Limited Freedom
8	Major Problem	Inequality	Inefficiency	Inequality and Inefficiency