

3/22



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# Economics

Class - 12th

Macro

N / Theory

(18)

Theory

(25)

Indian

Data Based

Qs

Data/Name/

27/28

MACRO - ECONOMICS

Money

Macro - large

Production

Economic activity

Micro -

individual

(Small)

(Saving)

consumption

## Basic concept of Macro-economics

1. What do you mean by domestic territory?  
domestic/ Economic

It refers to political frontiers of a country but not confined to it include following -  
ships, aircraft owned and operated by normal resident of a country operating b/w two or more countries. For eg -  
Planes operated by Air India b/w India/ Canada etc





2. Fishing vessel, oil and natural gas rigs operated by residents of country in international water. For eg - Fishing boats operated by residents in International water limit of Indian Ocean.

③ Embassy, consulate and military establishment of country operating

Are following included in domestic territory :-

- An Indian company in London - X
- Microsoft office in India ✓
- Company in India owned by Japanese ✓
- Branch of foreign bank in India ✓
- Branch of SBI in France X
- Indian embassy in Japan ✓
- Tata rented building to Google in America ✓
- Russia Embassy in India NO. ✗

Q. Who are normal ~~area~~ resident of country?

Ans → Normal resident refers to an individual or an institution who ordinarily resides in a country and whose centre of economic interest lies in that country.

Economic interest here, include

1. Resident living in domestic territory.
2. Resident carrying out economic activities of spending and ~~money~~ saving from such location.

Following are not included -  
Foreign tourists and visitors who visit country



for re-creation, holidays, medical treatment sports etc.

Foreign staff of embassies, consulates and member of armed forces of country located in given country.

International organisations like UNO, WHO, are not considered as normal residents of country in which they operate. They are no normal residents of international area.

Employees of international organisations are considered as residents of country to which they belong and not of international area.

Crew members of foreign vessels provided they stay is less than year.

Border workers who live near the international border and cross the border on regular basis to ~~work~~ work in other country.

Q



domestic to economy is

total labour capital use factor

It is a receipt concept.

It is received

generally by household & government.

Saving/old age provision, unemployment etc.

Concept It is an earning concept.

Receipt - It is received by factor of production

Example Rent / interest / profit / wages etc.

Q. Discuss and differentiate b/w factor income and transfer income.

Ans →

Factor Income - It refers to income received by factors of production for giving for rendering factor services of the production like rent, interest, profit, wages, land capital, labour.

Transfer Income - It refers to income received without giving any productive services in the process of production like gifts, scholarship, grants etc.

Factor Income

Transfer Income

Define

define

It is included in national and domestic income

It is not included in any of them.

Q. What are final goods?

Ans →

Final goods are those goods which are used either for consumption or for investment. For instance - goods purchased by households for consumption like milk, fruits etc. Goods purchased by firm for capital formation or investment like machine purchased by firm.

Q. What are intermediate goods?

Ans →

Intermediate goods are those goods which are used either for sale or for further production in the same year and are known as intermediate goods.

Some imp. facts about them :- They are generally purchased by one production unit from another production unit within production boundary.

2. They have derived demand as their demand depend on demand for final goods.



3. Value of intermediate goods is generally deducted to calculate national income.
4. In the process of production they lose their individual identity

Differentiate b/w intermediate and final goods.

|              |       |
|--------------|-------|
| Intermediate | Final |
|--------------|-------|

Meaning

Definition

definition

Nature

They aren't included in national / domestic income

They are included in national domestic income

Value added

value is added to these goods to make these final goods.

Value isn't added to these goods as they are already final goods.

Production

Boundary

They are within the production boundary

They have crossed the production boundary

Ex

Milk used by shop for resale

Milk used by household





Q. Categorise

Paper purchased by a publisher - inter  
Furniture purchased by school - final  
Milk purchased by household - final  
Purchase of rice by a grocery shop - inter  
Coal used by manufacturing firm - inter  
Computer installed in office - final  
Mobile purchased by mobile seller - inter  
Purchase of chalks, duster - inter  
Printer purchased by lawyer - final

What is meant by production boundary?

Production boundary is an imaginary line around the productive sector. As long as goods remain within the production boundaries they are intermediate goods and when they come out production boundary they become final good.

for eg → 'A' a <sup>farmer</sup> ~~for~~ produces wheat, gives it to flour mill 'B' which produces flour and then it's given to baker 'C' which produces bread. Now A, B & C remain within production boundary, goods wheat and flour are intermediate goods whereas the bread which is consumed by household is a final good.

produces wheat

produces flour

produces

Production  
Boundary

final good

Bread household



Q. Differentiate between consumer goods and capital goods.

|                     | Consumer Goods                                           | Capital Goods                                 |
|---------------------|----------------------------------------------------------|-----------------------------------------------|
| Human want-         | These goods satisfy human wants <del>for</del> directly. | These goods satisfy human wants indirectly.   |
| Demand              | They have direct demand                                  | They have derived demand.                     |
| Production capacity | They don't effect or promote production capacity         | They effect promote production capacity       |
| Expected life       | They have limited expected life                          | They have an unexpected more life than a year |

Intermediates (resale)

Q. Explain when the following good shall be consumer or intermediate goods.

|          | consumer good<br>Purchased by Household | capital good<br>Purchased by Taxidriver | Intermediate dealer<br>→ sell |
|----------|-----------------------------------------|-----------------------------------------|-------------------------------|
| 1. Car   |                                         |                                         |                               |
| 2. Sugar | consumer Purchased by H-H               | Stock kept at the end of year           | Intermediate - shopkeeper     |





Service  
of  
doctor.

HA.

For a hospital  
or an  
enterprise

Q. What do you mean by depreciation. How it is different from capital loss?

Ans → Depreciation - It refers to the reduction in fixed asset due to normal wear and tear and pass of time. Is it non-cash expense due to which value of asset falls but cash doesn't go out.

Capital loss - It is loss in the value of asset due to unforced absence, natural calamities, theft etc

Basic

Depreciation

Capital loss

Meaning  
(definition)

(definition)

Provision - It is made for replacement of asset as it is an expected loss.

Reversion of loss  
It is not made because it is an unexpected loss.

It does not hamper the production process.

It hamper the production process



Q. What do you mean by Gross and Net investment?

Investment refers to addition to the capital stock of an economy. For example construction of ~~building~~ building, purchase of machinery it can be classified as

- 1) Gross Investment - It refers to capital stock before making allowance for depreciation
- 2) Net investment - It refers to addition to capital stock for a given period of time making allowance for depreciation.

Net Investment = Gross Investment - Depreciation

Q. What is consumer goods and capital goods?

Consumer goods - These goods which satisfy the want of consumer directly are known as consumer consumption goods.

Eg. - Bread, butter, TV etc.

These goods can be further classified



Note: Point of consumption is same unlike goods

Capital goods - These goods which help in production of other goods & services are known as capital goods.

Ex - Plant & Machine, equipment etc.

Imp fact about capital goods: -

- They're used in future for productive purposes and have expected life of several years.
- Don't lose their identity the production process.
- They have derived demand as final goods that they depend on demand of final goods that they produce.

Q. What do you mean by indirect taxes and subsidies?

Indirect taxes are a compulsory charge imposed by government on people to be charged on certain basis that can be income, wealth, production etc. These taxes can be direct or indirect.

A tax charged on a person paid by another is known as indirect tax. They are generally charged on factors like production, sales etc. For example GST (Goods & Service Tax).

Subsidies - Subsidies are economy assistance given by government to firm and households with a motive of general welfare. They are given by government generally to reduce the impact of indirect taxes. In India CPMI cyclinders are given at subsidies rate where govt. gives a part of price to the producer in cash or in kind.



Q. What do you mean by factor cost & market price?  
 Factor cost is the cost paid to factor of production for their contribution in the production process.  
 Market price is the price at which the product is usually sold to consumer.  
 It is calculated by adding:  
 Net indirect tax to factor cost + Net indirect taxes = Indirect taxes - subsidies.

What do you mean by net factor income from abroad (NFIA)?  
 It refers to the difference between factor income from rest of the world and factor income paid to rest of the world.

Sum total of Factor payment like rent, interest, profit, wages.  
 Market Price is the price at which the product is usually sold to consumer.  
 It is calculated by adding:  
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Net indirect taxes = Indirect taxes - subsidies.  
 Market Price = Factor cost + Net indirect taxes

What do you mean by net factor income from abroad (NFIA)?  
 It refers to the difference between factor income from rest of the world and factor income paid to rest of the world.

NFIA = Factor income from abroad - Factor income to abroad.  
 $NFIA = FFA - FTA$

Which among the following are capital goods, and which are consumer goods?  
 1. It can be used as a factor of production in a hotel. → Capital goods  
 2. Refrigigerator in a hotel. → Capital goods  
 3. The landlubber in Home. → Consumer good.

(Statify the need/want)

Q. Which among the following are capital goods, and which are consumer goods?  
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(Statify the need/want)

COMPONENTS OF NFIA

1. They are mainly 3 components of NFIA  
 1. Net compensation to employee - It refers to difference b/w income from work received by resident workers working abroad for less than 1 year and similar payment made to non resident workers employed within the domestic territory for less than 1 year.

2. Net income from profitably enterprise - It refers to the difference between income from property and entrepreneurship received by resident of a country and similar payment made to non-residents.

3. Net retained earnings - It refers to difference between retained earnings of resident companies located abroad and retained earnings of non resident companies located within domestic territory.

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(Statify the need/want)

(Statify the need/want)



Which among the following are final or intermediate goods.

- ① Milk purchased by a tea stall. (final)
- ② Bus purchased by a school. -I
- ③ Juice purchased by student from school canteen. -I

8. Classify following into intermediate and final good.

- ① Machine purchased for installation in factory. -I
- ② Fees paid to lawyer by a producer. -I
- ③ Milk purchased by a hotel. -I

9. What do you mean by circular flow of income?

It refers to cycle of generation of income in production process, its distribution among factors of production and finally and its circulation from household to firms and the flow of consumption expenditure on goods and services. The circular flow of income is divided into following three parts:

1. Monetary flow: In this part firms produce good and service with the help of factors of

$$WRS = \frac{1}{4} \times 0.25$$

1. Monetary flow

production. This part involves flow of income distribution from household to firms.

2. Product flow: In this part goods and services produced by firms are distributed to households.

3. Factor flow



Q. Define and differentiate b/w stock and flow?

Stock - It is a variable that can be measured at a particular point of time. For example stock of goods in govt warehouse on 31st March 2022.

Flow - It refers to variable that can be measured over a period of time for example production of goods during March 2022.

Stock

Definition:

Time dimension

It does not change over time

Nature: It is a static concept

Flow

Definition:

Time dimension

It has time dimension as it can be measured over a period of time

Nature: It is a dynamic concept





Example - Water in a tank  
- Stock of goods  
on 31/3/2022  
- National wealth.

- Water in a river  
- Production of goods during March 2022  
- National income

Q) What are the different types of circular flow of income

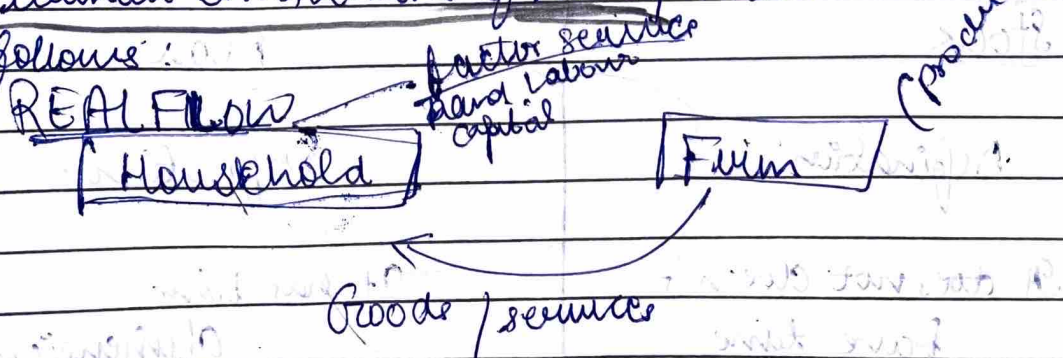
They are mainly two type of circular flow of income in two sector economy

① Real flow

② Money flow

Real flow - It refers to flow of factor services from H. household to firm and corresponding flow of good and services from firm to household. It is also known as

physical flow where there is exchange of good and service between the sector without involvement of money shown as follows:



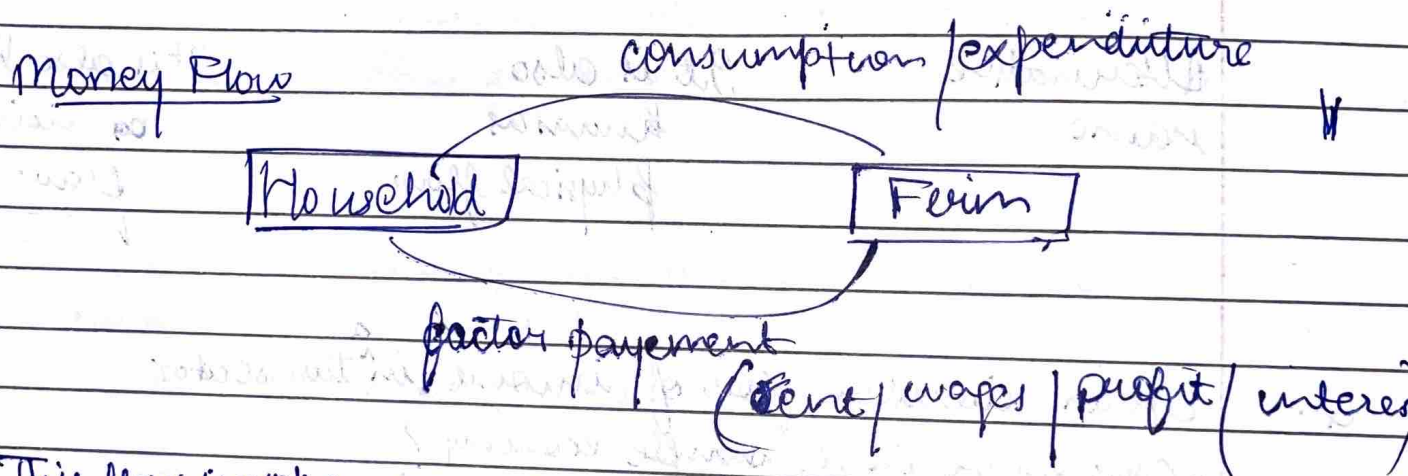
This real flow determines the rate of growth process in an economy for instance when more factor services are offered to firms the volume of production will be more and rate of growth will be



Factor payment  $F \rightarrow H$   
 and corresp. flow of cons  $H \rightarrow F$   
 house to firm

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MONEY FLOW - It refers to flow of factor payments to firm to household for their factor services and corresponding flow of consumption expenditure from household to firm in terms of ~~price of good~~ price for good and service. This flow is also known as nominal flow shown as follows:



This flow involve ~~movement~~ movement of money in between two sector in the form of factor payment and price of goods and services.

Q Differentiate between real flow and money flow?

| Basis             | Real flow                                                    | Money flow                                      |
|-------------------|--------------------------------------------------------------|-------------------------------------------------|
| Meaning           | It is the flow of good and services b/w firm and households. | It is the flow of money b/w firm and household. |
| Kind of exchange. | It involves exchange of good and services.                   | It involves exchange of money.                  |





Difficulties  
in exchange

There can  
be difficulties  
in their  
exchange  
as there is  
batter going  
on ~~system~~

There is no  
such  
difficulties  
in cash  
of ~~money~~  
money  
flow.

Alternative  
name

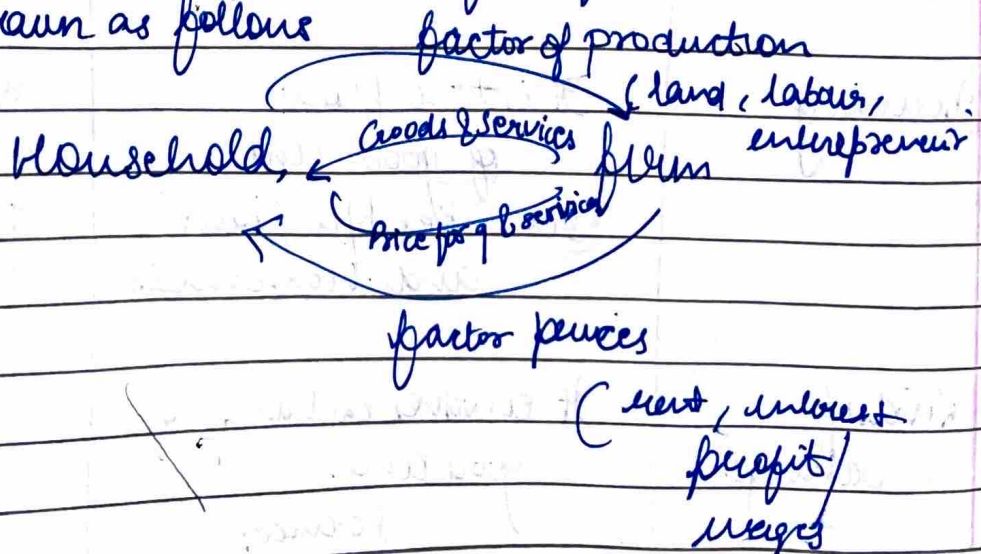
It is also  
known as  
physical flow

It is also known  
as ~~monetary~~  
flow.

Q. Explain circular flow of income in a two sector economy or in a simple economy?

A simple economy is one in which there exists only two sectors 1) Household <sup>to</sup> 2) firm. household are the consumer as well as owner of factors of production. firm are the producer of good and service and sell them to households.

In a simple economy circular flow of income can be drawn as follows





In explaining flow of income following assumption had be taken.

- i. Only two sector are there in economy household/firm.
- ii. Household supply factor services to firm only. and ~~firm~~ firm supply good and services to household only.
- iii. Household receive factor income for their services and spend the entire income on consumption of good and services.
- iv. There are no saving in economy neither household nor firm making any saving.

Imp

Q. In a two sector economy national product is equal to national income. comment.

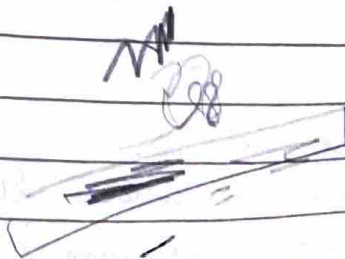
A. In a two sector economy the national product in terms of money value of good & services produced is distributed among factor of production.

In other words the total money value of output is given to factor of production in the form of rent, interest, profit & wages that becomes a national income. so national product is equal to national income in simple economy.

For example: — There is only one producing firm in economy that produces clothes. The value of cloth produce is ₹ 100 that is national product. This 100 is given in the form of rent ₹ 30 interest ₹ 10 wages 40 balance 20 as profit. This make total 100 as national income.

Simple economy

money value of G/S produced is distributed among factor of prod





affair



Q. What do you mean by macro-economics? And How this diff. by micro-economics.

A) Macro economics is study of behaviour of aggregates covering the entire economy such as national income, full employment aggregate demand aggregate consumption etc. The term Macro has been derived from a latin word called Macros. (LARGE), so macro economics is the study of economy as a whole.

| Basis      | Micro                                                                                                | Macro                                                                                                                     |
|------------|------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Meaning    | It is the study of <u>behaviour of individual units</u> that can be a product, a firm or a market    | It is the study of <u>economy as a whole</u> and its aggregates like national income national output aggregate demand etc |
| Objectives | It's main objective is <u>allocation of resources</u>                                                | Its main objective is to determine <u>National income and employment</u>                                                  |
| Tools      | It main tools are <u>demand and supply</u>                                                           | Its main tools are <u>aggregate demand &amp; supply</u>                                                                   |
| Assumption | It assumes all macro-variable like <u>national income &amp; total consumption etc</u> to be constant | It assumes all <u>micro variables</u> like price of individual product                                                    |





|                  |                                  |                                              |
|------------------|----------------------------------|----------------------------------------------|
| Alternative Name | It is also known as Price theory | It is known as income and employment theory. |
|------------------|----------------------------------|----------------------------------------------|

Q. Name the economist who gave understanding of macro-economics for the first time?

A) Prof. J.M. Keynes

Q. Give 2 examples of macro economist studies/variables?

A) Macro-economic variable are -

- National income
- level of employment
- Aggregate demand
- " consumption

Q. Give 2 examples of micro-economist study?

A) micro-economist variable are: -

- Price determination
- Consumer equilibrium
- Producer equilibrium

Good / service

Q. What do you mean by GDP (Gross Domestic Product)?

A) It refers to money value of final goods and services produced within domestic territory during a particular year. It can be calculated at Base year Prices or current year prices.

If it is calculated on Base year Price it is known as Real GDP or GDP at constant prices. If it is calculated on the basis of current year prices it is known as nominal GDP or GDP at current prices.

Real GDP is often used to evaluate growth in an





economy.

What do you mean by double counting problem, how it can be avoided?

The problem of adding value of one commodity for more than once in process of calculation of national income is known as double counting.

Eg. Adding the value of wheat and bread amount to double counting. This problem can be avoided by one of following ways:

✓ Subtracting value of intermediate goods from the value of final goods to get value added.

✓ Adding only the value of final good which calculating national income.

Practically the second option is not so feasible

because it is difficult to identify which good is final good.

Ex - In the process of production of bread if we say that bread is final good and if someone made sandwich from some bread then that sandwich will be

final good - Therefore option (1) i.e. deducting value of intermediate good from the value of final goods to get value added.





Q. What do you mean by value added?  
Value added is the difference b/w value of output and the value of input bought from other firms. This is the value we need to add to get domestic product. Eg - A farmer produces wheat worth ₹ 100 and sells it to flour mill which produces flour valued at ₹ 140, so the value added by the flour mill in this process is ₹ 40 and we should be added to get national income avoiding the problem of double counting.

Explain - Primary sector

A sector that includes all production units producing goods by exploiting natural resources. In other words, production using natural resource as primary input. eg - farming, fishing, mining etc.

Secondary sector

It includes all production units that are engaged in transforming one good into another. This sector mainly includes manufacturing and construction units. eg - mills, factory etc.

Tertiary sector - This includes all production units that are engaged in production of services, like, banks, insurance, transport companies etc.



R

It is referred  
by 3rd party

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What do you mean by positive and negative externality?

An externality is a cost or benefit of an economic activity experienced by an unrelated third party. This external cost is not reflected in final cost of a good or at service. These externalities are categorized into.

**Negative externalities** - It is a negative consequences of an economic activity experienced by unrelated third party. The majority of externalities are negative only.  
Eg - air pollution, water pollution, passive smoking, traffic.

**Positive externalities** - It is the benefit from an activity experienced by an unrelated 3rd party. These externalities create market inefficiency. Eg - infrastructure development, vaccination.

What is the meaning of non-market activities?

These activities refer to acquiring goods and services but not through market transactions. These activities exchange of money doesn't take place eg - growing vegetables in kitchen garden.





~~Money and Banking~~

~~Chapter 1~~

Write down

Q. Sum limitations of using GDP as an index of welfare of the country?

A) GDP of ~~the~~ a country is by and large used as an index of welfare of people in a country. But GDP cannot serve as an adequate indicator of its welfare on a count of sum limitations given as follows: -

1. Distribution of GDP. - There is a possibility that GDP is not distributed uniformly and the increase in GDP may benefit more the richer class and making poorer more ~~poor~~ poor so inequality in GDP distribution may result in inadequate welfare of people.

2. Non Monetary exchanges - There are certain exchanges like services of housewives, ~~barter~~ exchange etc. which increase the economic welfare, but not included in GDP as a result GDP remains underestimated.

3. Externalities - Externalities are those activities which effect an unknown third party. This can be positive or negative externality but, these are not bought or sold in the market so, they effect the welfare but not counted in GDP estimation.

4. Different effects of products on welfare - while calculating GDP.

While calculating GDP, production of all commodities is treated alike and they are added in



GDP. For instance, production of wheat and ~~the~~ tobacco are treated similarly in calculation of GDP. But wheat has a positive impact on welfare and tobacco has negative.

Production of defense goods - Production of goods like arms and ~~anti~~ ammunition is added to GDP but they do not have any direct impact on welfare of people.