

JAYALAKSHMI COACHING INSTITUTE

[Develop Skills Through Education]

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12th ECONOMICS [CHAPTER 1]

INTRODUCTION TO MARCO ECONOMICS

Part A–Multiple Choice Questions:

1. The branches of the subject Economics is **Micro and Marco**.
2. Who coined the word ‘Macro’? **Ragnar Frisch**.
3. Who is regarded as Father of Modern Macro Economics **J M Keynes**.
4. Identify the other name for Macro Economics **Income Theory**.
5. Macro economics is a study of **Aggregates**.
6. Indicate the contribution of J M Keynes to economics. **General Theory**
7. A steady increase in general price level is termed as **Inflation**
8. Identify the necessity of Economic policies **all the above** .
9. Indicate the fundamental economic activities of an economies **Production and Consumption**
10. An economy consists of **All the above**
11. Identify the economic system where the only private ownership of production exists. **Capitalistic Economy** .
12. Economic system representing equality in distribution is **Socialism**.
13. Who is referred as ‘Father of Capitalism’? **Adam Smith**.
14. The country following Capitalism is **America**.
15. Identify The Father of Socialism. **Karl Marx**.
16. An economic system where economic activities of a nation are done both by the private and public together is termed as **Mixed Economy**.
17. Quantity of a commodity accumulated at a point of time is termed as **Stock** .
18. Identify the flow variable. **Income**.
19. Identify the sectors of a Two Sector model **Households and Firms**.
20. The Circular Flow Model that represents an open Economy. **Four Sector Model**.

Part B – Answer the following questions in one or two sentences

21. Define Macro Economic.

- The word 'Macro' is derived from the Greek word 'Makros' meaning 'large'.
- 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."
- An economy is referred to any system or area where economic activities are carried out a span of management.

24. Classify the economies based on status of development.

- Developed Economic
- Underdeveloped Economic
- Undeveloped Economic
- Developing Economic

25. What do you mean by Capitalism?

- Adam Smith is the 'Father of Capitalism'.
- Capitalistic economy is also termed as a free economy or market economy where the role of the government is minimum and market determines the economic activities.

26. Define 'Economic Model'

- 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.

27. 'Circular Flow of Income' – Define.

- A model is a simplified representation of real situation. ☑ Economists use models to describe economic activities, their relationships and their behaviour.
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Part C – Answer the following questions in about a paragraph

28. State the importance of Macro Economics.

The importance of Macro Economics:-

- 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.
- 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.

- There are three major types of economic systems.
- They are:
 - ❖ Capitalistic Economy (Capitalism)
 - ❖ Socialistic Economy (Socialism)
 - ❖ Mixed Economy (Mixedism):
- **Capitalistic Economy (Capitalism):** Capitalistic economy is also termed as a free economy or market economy where the role of the government is minimum and market determines the economic activities.
- **Socialistic Economy (Socialism):** The Father of Socialism is Karl Marx. Socialism is defined as a way of organizing a society in which major industries are owned and controlled by the government.

- **Mixed Economy (Mixedism):** In a mixed economy system both private and public sectors co-exist and work together towards economic development. It is a combination of both capitalism and socialism.

30. Outline the major merits of capitalism.

- **Automatic Working:** Without any government intervention, the economy works automatically.
- **Efficient Use of Resources:** All resources are put into optimum use.
- **Incentives for Hard work:** Hard work is encouraged and entrepreneurs get more profit for more efficiency.
- **Economic Progress:** Production and productivity levels are very high in capitalistic economies.

31. Indicate the 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 decisions. Hence, the State is more powerful and misuse of power can also take place.

32. Enumerate the features of mixed economy.

- **Ownership of Property and Means of Production:** The means of production and properties are owned by both private and public
- **Coexistence of Public and Private Sectors:** In mixed economies, both private and public sectors coexist
- **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.

- **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.

- **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.
- **Globalism:** 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. This ideology is also termed as 'Extended Capitalism'.

34. Briefly explain the two sector circular flow model.

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

Part D – Answer the following questions in one paragraph:-

35. Discuss the scope of Macro Economics.

- **National Income:** Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis.
- **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.
- **Poverty and Unemployment:** The major problems of most resource – rich nations are poverty and unemployment.
- **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.

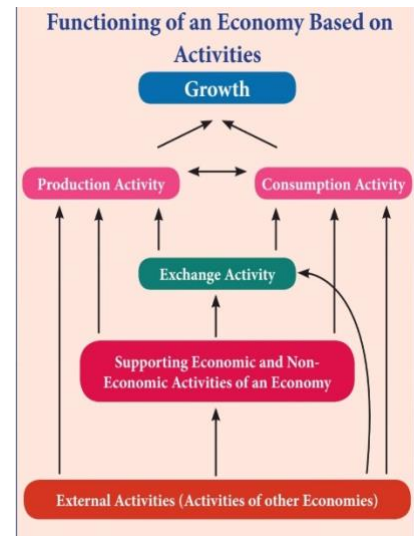
36. Illustrate the functioning of an economy based on its activities.

- 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.
- **Major economic activities :**
 - Transportation

- Banking Advertising
- Planning
- Government policy.

➤ **Major non-economic activities:**

- Environment
- Health
- Education
- Entertainment
- Governance
- Regulations



- 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 feature among Capitalism, Secularism and Mixedism.

S.No.	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	Interanal 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