

Macro Economics

Class -12th , Ch- 1

Question 1. What is the difference between Microeconomics and Microeconomics?

Answer : Difference between Micro and Macro Economics

S. No.	Microeconomics	Macroeconomics
1	Microeconomics studies economic problems at an individual level	Macroeconomics economic studies problems at the level of an economy as a whole.
2	Microeconomics is determined the output and price 10ran individual firms	Macroeconomics is determined an aggregate output and general price level in tile whole economy.
3	Demand and supply are its main tools	Aggregate demand and aggregate supply are Its mam tools
4	It assumes all the macro variables to be constant as national Income, consumption, saving etc	It assumes that all tile micro variables to be constant as households, firms, prices of Individual product etc.

Question 2. What are the important features of a capitalist economy?

Answer : Features of capitalist economy are

1. It is an economic system In which no restriction is imposed by government and every individual is enjoying economic freedom.
2. Factors of production are privately owned.
3. Profit maximisation is prime consideration.
4. Large number of buyers and sellers exist in the market and there is tough competition.

Question 3. Describe the four major sectors in an economy according to the macroeconomics point of view.

Answer : According to the macroeconomics an economy in classified Into the following four sectors.

1. **Household Sector** This sector engaged In the consumption of goods and services. House hold spend their income on payment for goods household sectorand services purchased. payment of lax to government.
2. **Production Sector** Tnis sector engaged in the production of goods and services. This sector makes payments tor factor services to households, taxes to the government, imports of the materials.
3. **Government Sector** This sector engaged in such activities which are related to taxation and subsidies.
4. **External Sector** it includes all such activities which are related to export and import of goods, and the flow of capital between the domestic economy and rest of the world .

Question 4. What are the four factors of production and what are the remunerations to each of these called?

Answer I. The four factors of productions are

1. Land It is a free gift of nature and it is called as natural, original or primary factor of production.
2. Labour It is a person engaged in some physical work it is the human factor of production.
3. Capital It means wealth, money or income which is invested in business it helps in the production function.
4. Entrepreneur It is the work of an entrepreneur to bring the required factors together and work harmoniously.

The remuneration to them are as follows

1. Land Rent is a reward for the use of land.
2. Labour Wages are the reward for a labour.
3. Capital Interest is the reward for capital.
4. Entrepreneur Profit is the reward for an entrepreneur.

Question 5. Why should the aggregate final expenditure of an economy be equal to the aggregate factor payments? Explain.

Answer In a simplified economy, income is either spent on the purchase of final goods and services or saved. Expenditure of income on the final goods either causes final consumption expenditure or investment expenditure. To the extent income is saved, final goods remain unsold. But it treated as inventory investment. So it is said that aggregate final expenditure of an economy is equal to aggregate factor payments. i.e.,
 $Y=C+S$

Question 6. Distinguish between stock and flow. Between net investment and capital which is a stock and which is a flow?

Answer Difference between Stock and Flow

S. No.	Stock	Flow
1	Stock refers to that variable, which is measured at a particular point of time	Flow refers to that variable which is measured over a period of time
2	It does not have a time dimension	It has a time dimension.
3	It is a static concept	It is a dynamic concept
4	Examples-1-Stock of goods In the godown. National Wealth. National Capital. Money supply etc.	Examples-National Income. Expenditure, Number of births during a particular year Ietc

Difference between Net Investment and Capital

S. No.	Net Investment	Capital
1	Net investment is a gross investment minus depreciation of the fixed assets. net Investment causes net addition the stock of capital.	Capital is the income which is used In the process of productions like plant and machinery
2	Net investment is a flow variable	Capital is a stock variable

Q 7 What is final goods and intermediate goods ?

Ans final goods: these are those goods which have crossed the boundary line of production and ready for use by their final good .Accordingly final goods are often classified as final consumer goods and final producer goods.final consumer goods are finally purchased by the consumers for the satisfaction of their wants .Example bread and butter used by the consumers.Final producer goods are finally produced by the producer and are generally used as fix acids in the process of production. Example tractors and harvesters as used by the farmers.

Intermediate goods:these are those goods which are within the boundary line of production, value is to be added to the goods, and these goods are yet not ready for use by their final users. Example cloth is intermediate good for garment industry

Q 8 what is consumer goods ? Explain its types.

Ans consumer goods:consumer goods are those goods which are directly used for the satisfaction of human wants there are not used in the production of other gods. Example ice cream and milk used by the household. Consumer goods are also called consumption goods consumer goods are classified into four types:

1 durable consumer goods:durable consumer goods are those goods which can be used for several years and are of relative lehigh value. These goods are repeatedly used before been discarded as useless. TV radio ,scooter washing machine are some examples of durable consumer .

2 semi durable consumer goods:semi durable consumer goods are those goods which can be used for a period of 1 year or slightly more these are not of very high value. Cloths furniture crockery electric goods etc are the examples of semi durable consumer goods.

3 non durable or single use consumer goods:these are those goods which are used up in a single act of consumption. For example the bread that you eat is used up in a single act of consumption.

4 services:services are those non material goods which directly satisfy human wants. A few examples of services are the services of a doctor, lawyer, domestic servants etc

Q9 what is intersectoral flows?

Ans which sectors of the economy depends on the other in one way or the other this is called intersectoral interdependence. The household sector depends on the producer sector for the supply of goods and services, needed for consumption. The producers factors depends on the household sector

for the supply of factors of production. Intersectoral flows are broadly characterized as real flows and money flows.

Real flows refers to the flow of goods and services among different sectors of the economy.

Money flows refers to the flow of money across different sectors of the economy.

Example flows of factor services from household sector to the producer sector for the flow of goods and services from the producer sector to the household sector are example of real flows. Likewise flow of factor payment by the producer sector to the household sector and flow of money from the household sector to the producer sector are example of money flow. Flow of money from producer to households as payment for the factor services has been a continuous process so has been the flow of money from the household to the producers as payment for the purchase of consumer goods and services. This non stop continuity of intersectoral flows is called 'circularity of flows'.