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EIT Class Test -1

Q1) What is the difference between ~~micro~~ macro and micro economy? (10 M)

Q2) What are the various phases of business cycle. (10 M)

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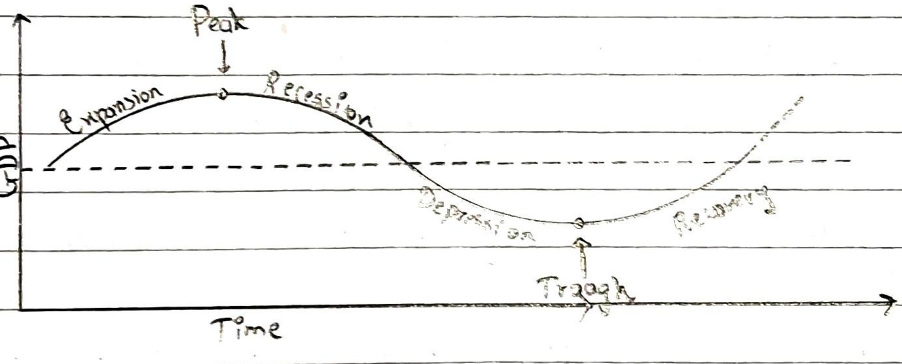
	Micro-economics.	Macro-economics
1.	It is the study of a particular segment of ~~industry~~ economy.	Study of entire economy as a whole.
2.	Purpose is to analyze supply demand, price of commodities and trends of the segment.	Purpose is to analyze national GDP stats, and economic growth of a nation.
3.	It deals with supply, demand, production price levels.	Deals with national income, distribution of wealth, employment, production, etc.
4.	Main determining factor is price of commodity	Main determinant is income.
5.	Provides solution to production ques. (what, how and for whom).	Provides solution to resource utilization in economy.
6.	It accounts for factors such as demand and supply.	It accounts for aggregated demand and aggregated supply.
7.	It covers several scopes like demand-supply, factor pricing, production	It covers scopes such as distribution, income, general price level.

	Micro-economics	Macro-economics.
8.	It is applied to internal issues	It is applied to external issues.
9)	Main tools are supply & demand.	Main tools are Aggregate Supply and Aggregate Demand.
10)	Components are. a) Individual Income & Saving. b) price determination of commodity. c) consumer's equilibrium.	a) Nation Income b) Gross Domestic Product. c) General Price Level. d)

Ans 2) Buisness Cycle refer to the fluctuations in economic activity that an economy faces g as over a period.
It consists of expansions, periods of economic growth and contractions, or periods of economic decline.
It is also known as the economic cycle.



1) Expansion : In this stage, there is an increase in positive economic indicators such as employment, income output, wages, profit, demand and supply of goods & services. Debts are paid on time, cash flow is high and investments are taking place. This continuous until the conditions favourable change.

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2) Peak: The economy then reaches a saturation point, or peak, which is the second stage of the business cycle. The maximum limit of growth is attained, the economic indicators do not grow further and are at their highest. Prices are at their peak. Budgets are usually restructured at this point.

3) Recession: The demand for goods & services starts declining rapidly and steadily. Producers, not noticing the decrease in demand, continue production, creating excess supply. Prices fall sharply. All positive indicators, such as income, output, wages etc. consequently start to fail.

4) Depression: There is a commensurate rise in unemployment. The growth in economy continues to decline, as this falls below the growth line, this stage is called depression. The growth rate becomes -ve.

5) Trough: There is decline in economy until the prices of factors, income, demand & supply of goods reaches their lowest point. The negative saturation point is called the trough. There is extensive depletion of national income and expenditure.

6) Recovery: In this phase there is a turnaround in the economy, and it begins to recover from the -ve growth era. Demand starts to pick up due to low prices and consequently, supply begins to increase. The population develops a positive attitude towards investment & production starts increasing.

Employment rises, Depreciated Capital is replaced, leading to new investments. Recovery continues until the economy reaches steady growth levels.