

Namma Kalvi



ECONOMICS

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12

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Preface

Dear Students and Teachers,

- It gives us immense pleasure to present this most comprehensive and exhaustive learning guide as a mentor for +2 Economics.
- This guide presents a combination of depth in concepts, wider coverage of textbook and stupendous quality of content.
- We have taken enormous care for the presentation of direct and easy to understand and learn answers in very short, short and long answers.
- Additional questions section is having interesting elements in area of concept based / higher order / creating thinking.
- This guide is motivated by the desire that we and others should have to further the evolution in understanding of the core concepts in +2 Economics.
- The presentation of answers is short and straight to keep our guide as a brilliantly exceptional one from others.
- Ultimately, crucial most distinction of this guide is that tremendous efforts put to keep our most talented Economics teachers to have satisfied both in terms of quality and quantity of content.

“Exams are a test of our hard work, perseverance and diligence.

We are so sure that everybody would pass with flying colors,

Having Surya’s mentor in your hands.”

All the best!

**UNIT
1**

INTRODUCTION TO MACRO ECONOMICS

INTRODUCTION

MACRO ECONOMICS : MEANING

Macro economics deals with aggregates such as national income, employment and output. Macro Economics is also known as 'Income Theory'.

WHAT MACROECONOMICS IS ABOUT?

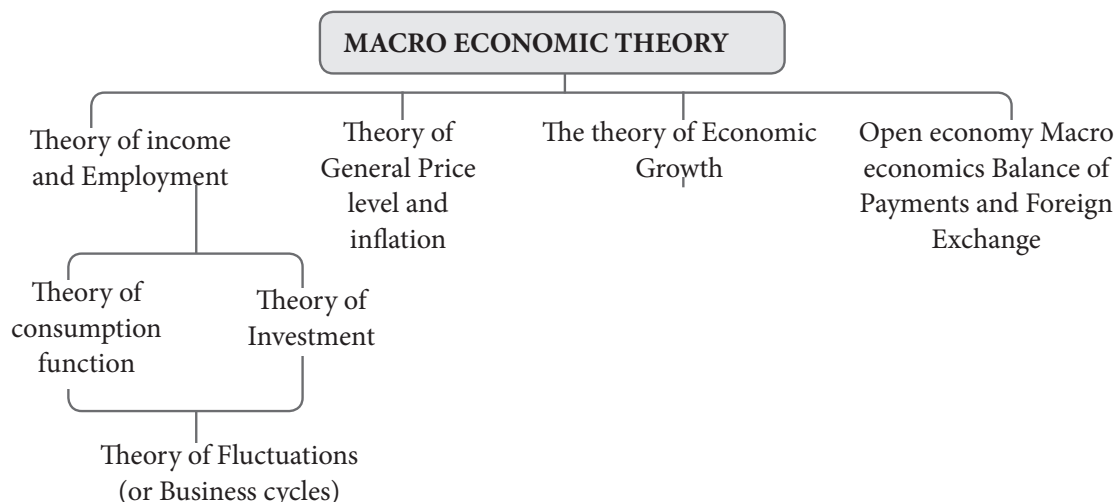
The study of structure and performance of national economies and government policies that affect economic performance.

ISSUES ADDRESSED BY MACROECONOMISTS:

❖ Long-run economic growth	❖ Unemployment
❖ Business cycles	❖ Inflation
❖ The international economy	

MACROECONOMIC POLICY AGGREGATION:

From microeconomics to macroeconomics.



SYSTEM OF ECONOMY

An economy is referred to any system or area where economic activities are carried out. Each economy has its own character. Accordingly, the functions or activities also vary.

There are three major types of economic systems.

CAPITALISM

The system where the means of production are privately owned and market determines the economic activities.

SOCIALISM

A way of organizing a society in which major economic activities are owned and controlled by the government rather than by individual people and companies

MIXEDISM

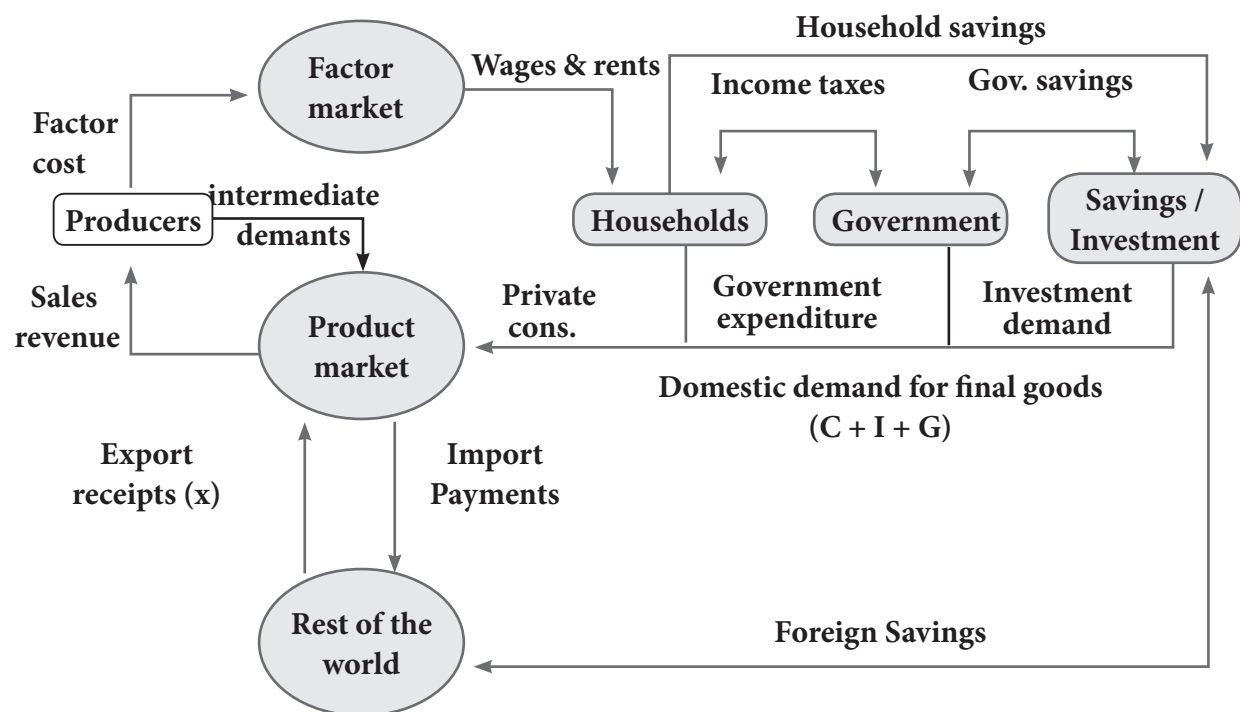
An ideology that mixes or combines the principles of Capitalism (Private Role) and Socialism (Nation Role) in an economy.

GLOBALISM

An economic system where the economic activities of a nation are inter connected and inter dependent on each other nation.

CIRCULAR FLOW

It shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations.



BOOK EXERCISE QUESTIONS - MULTIPLE CHOICE QUESTIONS

PART - A

1. The branches of the subject Economics is
 - a) Wealth and welfare
 - b) production and consumption
 - c) Demand and supply
 - d) micro and macro
2. Who coined the word 'Macro'?
 - a) Adam Smith b) J M Keynes
 - c) Ragnar Frisch d) Karl Marx
3. Who is regarded as Father of Modern Macro Economics?
 - a) Adam Smith b) J M Keynes
 - c) Ragnar Frisch d) Karl Marx
4. Identify the other name for Macro Economics.
 - a) Price Theory b) Income Theory
 - c) Market Theory d) Micro Theory
5. Macro economics is a study of _____.
 - a) individuals b) firms
 - c) a nation d) aggregates
6. Indicate the contribution of J M Keynes to economics.
 - a) Wealth of Nations b) General Theory
 - c) Capital d) Public Finance
7. A steady increase in general price level is termed as _____.
 - a) wholesale price index
 - b) Business Cycle
 - c) Inflation
 - d) National Income
8. Identify the necessity of Economic policies.
 - a) to solve the basic problems
 - b) to overcome the obstacles
 - c) to achieve growth
 - d) all the above
9. Indicate the fundamental economic activities of an economy.
 - a) Production and Distribution
 - b) Production and Exchange
 - c) Production and Consumption
 - d) Production and Marketing
10. An economy consists of
 - a) Consumption sector
 - b) Production sector
 - c) Government sector
 - d) All the above
11. Identify the economic system where only private ownership of production exists.
 - a) Capitalistic Economy
 - b) Socialistic Economy
 - c) Globalised Economy
 - d) Mixed Economy
12. Economic system representing equality in distribution is _____.
 - a) Capitalism b) Globalism
 - c) Mixedism d) Socialism
13. Who is referred as 'Father of Capitalism'?
 - a) Adam Smith b) Karl Marx
 - c) Thackeray d) J M Keynes

14. The country following Capitalism is _____.

- a) Russia b) America
c) India d) China

15. Identify The Father of Socialism.

- a) J M Keynes b) Karl Marx
c) Adam Smith d) Samuelson

16. An economic system where the economic activities of a nation are done both by the private and public together is termed as _____.

- a) Capitalistic Economy
b) Socialistic Economy
c) Globalised Economy
d) Mixed Economy

17. Quantity of a commodity accumulated at a point of time is termed as _____.

- a) production b) stock
c) variable d) flow

18. Identify the flow variable.

- a) money supply
b) assets
c) income
d) foreign exchange reserves

19. Identify the sectors of a Two Sector Model.

- a) Households and Firms
b) Private and Public
c) Internal and External
d) Firms and Government

20. The Circular Flow Model that represents an open Economy.

- a) Two Sector Model
b) Three Sector Model
c) Four Sector Model
d) All the above

Answers

1	2	3	4	5	6	7	8	9	10
d	c	b	b	d	b	c	d	c	d
11	12	13	14	15	16	17	18	19	20
a	d	a	b	b	d	b	c	a	c

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'.

(Or)

- ❖ Macro Economics is a branch of economics that studies the behavior and performance of an economy as a whole.
- ❖ Macroeconomics studies the behavior and performance of an economy as a whole. It covers the functioning, performance and growth of an economy.

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."

(Or)

- ❖ 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.”

(Or)

- ❖ an economy is referred to any system or area where economic activities are carried out. Each economy has its own character. Accordingly, the functions or activities also vary.

24. Classify the economies based on status of development.

1. Developed economies
2. Underdeveloped economies
3. Undeveloped economies
4. 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.

(Or)

- ❖ The system where the means of production are privately owned 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.

- ❖ 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.

- i. 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.
- ii. Understanding the future problems, needs and challenges of an economy as a whole is important to evolve precautionary measures.
- iii. Macro economics provides ample opportunities to use scientific investigation to understand the reality.
- iv. Macro economics helps to make meaningful comparison and analysis of economic indicators.
- v. Macro economics helps for better prediction about future and to formulate suitable policies to avoid economic crises, for which Nobel Prize in Economic Sciences is awarded.

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)

- ❖ Capitalism and socialism are two extreme and opposite approaches.
- ❖ In capitalism, there is total freedom and private ownership of means of production.
- ❖ In socialism, there is no freedom for private and there is public ownership of means of production.
- ❖ Mixedism denotes the Co-existence of capitalism and socialism.

30. Outline the major 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.

1. 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.

2. Absence of Incentive:

The major limitation of socialism is that this system does not provide any incentive for efficiency. Therefore, productivity also suffers.

3. Limited Freedom of Choice:

Consumers do not enjoy freedom of choice over the consumption of goods and services.

4. 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.

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

Basis of Difference	Capitalism	Globalism
Term coined by	Adam Smith is the 'Father of Capitalism' (1776). Capitalistic economy is also termed as a free economy (Laissez faire, in Latin) or market economy	The term coined by Manfred D Steger (2002) to denote the new market ideology of globalisation

Basis of Difference	Capitalism	Globalism
Meaning	The system where the means of production are privately owned and market determines the economic activities.	An economic system where the economic activities of a nation are inter connected and inter dependent on each other nation.
Feature	The role of the government is minimum and market determines the economic activities.	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.

- (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 a circular flow of income and goods.
- ❖ The outer circle represents real flow (factors and goods) and the inner circle represents the monetary flow (factor prices and commodity prices).
- ❖ Real flow indicates the factor services flow 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.

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

i. 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.

ii. 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.

iii. 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.

iv. 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.

v. Economic Growth:

The growth and development of an economy and the factors determining them

could be understood only through macro analysis.

vi. Economic Policies:

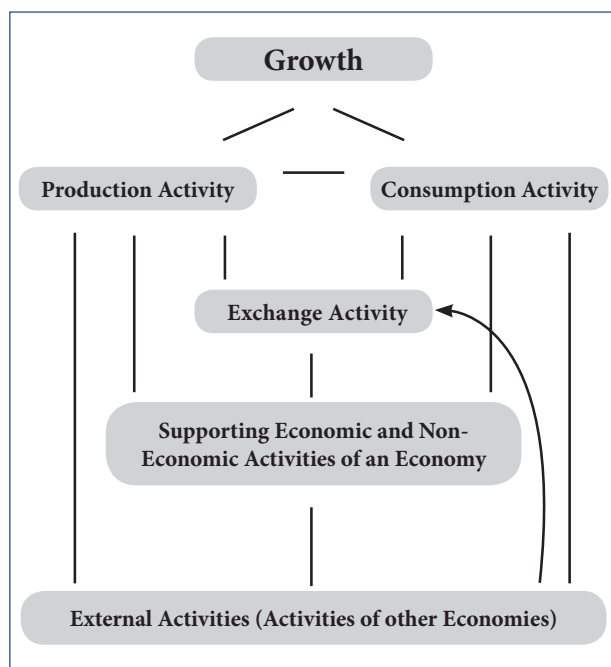
Macro Economics is significant for evolving suitable economic policies. Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

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

Introduction

Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area.

The functioning of an economy by its activities is explained in the following 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.

S. No	Features	Capitalism	Socialism
1.	Ownership of Means of Production	Private Ownership	Public Ownership
2.	Economic Motive	Profit	Social Welfare
3.	Solution of Central Problems	Free Market System	Central Planning System
4.	Government Role	Internal Regulation only	Complete Involvement

5.	Income Distribution	Unequal	Equal
6.	Nature of Enterprise	Private Enterprise	Government Enterprise
7.	Economic Freedom	Complete Freedom	Lack of Freedom
8.	Major Problem	Inequality	Inefficiency

38. Compare the feature among Capitalism, Socialism 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	Internal Regulation only	Complete Involvement	Limited Role
5.	Income Distribution	Unequal	Equal	Less unequal Both
6.	Nature of Enterprise	Private Enterprise	Government Enterprise	Private and State Enterprises
7.	Economic Freedom	Complete Freedom	Lack of Freedom	Limited Freedom
8.	Major Problem	Inequality	Inefficiency	Inequality and Inefficiency

Additional One Marks

- The subject Economics is classified into two branches, namely,**
 - Micro Economics and Minor Economics
 - Micro Economics and Macro Economics.
 - Positive and Normative economics
 - Deductive and inductive economics
- Who was the Norwegian economist and co-recipient of the first Nobel Prize?**
 - JM Keynes
 - JR Hicks
 - Ragnar Frisch
 - Adam Smith
- Macroeconomics in its modern form, began with John Maynard Keynes and his book "The General Theory of Employment, Interest and Money" published in**
 - 1936
 - 1963
 - 1935
 - 1937
- Identify which is not a subject matters covered in Macro Economics**
 - employment
 - national income
 - inflation,
 - Profit maximization
- Inflation refers to steady in general price level.**
 - decrease
 - increase
 - constant
 - flat
- The growth and development of an economy and the factors determining them could be understood only through.....**
 - macro analysis
 - micro analysis
 - positive analysis
 - rational analysis

7. **Who defined the following statement for an economy? “A system by which people earn their living.”**

- a. J. R. Hicks b. A. J. Brown
- c. J. S. Mill d. J.M. Keynes

8. **Who defined the following statement for an economy? “An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers.”**

- a. A. J. Brown b. J. R. Hicks
- c. J. S. Mill d. J.M. Keynes

9. **What supports the production and consumption activities?**

- a. production activity
- b. consumption activity
- c. distribution activity
- d. exchange activity

10. **Identify which of the following is not an external activity?**

- a. import and export
- b. international relations
- c. emigration and immigration
- d. central bank policy

11. **How the economy is divided based Nature of Functioning?**

- a. Static and Dynamic Economies
- b. Developed and underdeveloped economies
- c. Capitalist and Socialist economics
- d. None of above

12. **Identify which is not a part of classification of economy based on Status of Development.**

- a. Mixed Economy
- b. Developed and underdeveloped

economies

- c. Undeveloped economies
- d. Developing economies

13. **Identify which is not a part of classification of economy based on System of Activities.**

- a. Capitalistic Economies
- b. Institutional Economies
- c. Socialistic Economies
- d. Mixed Economies

14. **Identify which is not a part of classification of economy based on Level of National Income**

- a. Foreign Income Economies
- b. Low Income Economies
- c. Middle Income Economies
- d. High Income Economies.

15. **What is 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?**

- a. Extended Capitalism
- b. Confined Capitalism
- c. Favourable Capitalism
- d. None of above

16. **Identify which is not an example of capitalistic economy.**

- a. The USA economy
- b. Germany economy
- c. Indian economy
- d. Australia economy

17. **What is considered as the heart of any capitalistic economy?**

- a. Sales mechanism
- b. Price mechanism

- c. Demand mechanism
d. Exchange mechanism
18. Which of the following system leads to leads to frequent violent economic fluctuations and crises?
a. Free market system
b. Restricted market system
c. Black market system
d. New market system
19. used in economic analysis are classified as stock and flow.
a. Models b. Variables
c. Charts d. Equations
20. How many models of circular flow of economy are there?
a. One b. Three
c. Five d. Two
21. From the households sectors receives the income?
a. households sector
b. government expenditure
c. external sector
d. firm sector
22. The firm sector generates its by selling goods and services to the household sector.
a. revenue b. sales
c. expenditure d. cost
23. Pick basic composition of two sector of model of economy.
a. $Y = C + I + G + (X - M)$
b. $Y = C + I + G$
c. $Y = C + S$
d. $Y = C + I$
24. Pick basic composition of three sector of model of economy.
a. $Y = C + I + G + (X - M)$
b. $Y = C + I + G$
c. $Y = C + S$
d. $Y = C + I$
25. Pick basic composition of three sector of model of economy.
a. $Y = C + I + G + (X - M)$
b. $Y = C + I + G$
c. $Y = C + S$
d. $Y = C + I$
26. What shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations.
a. Circular Flow
b. Regular Flow
c. Cost Flow
d. Expenditure Flow
27. Assertion (A): The term coined by Manfred D Steger (2002) to denote the new market ideology of globalization.
Reason (R): The ideology connects nations together through international trade and aiming at global development.
- Codes:**
a. Both (A) and (R) are true and (R) is the correct explanation of (A).
b. Both (A) and (R) are true, but (R) is not the correct explanation of (A).
c. (A) is true, but (R) is false.
d. (A) is false, but (R) is true.
28. Assertion (A): Each individual and organization produce only those goods which ensure high profit.
Reason (R): Profit is the driving force behind all economic activities in a capitalistic economy.
- Codes:**
a. Both (A) and (R) are true and (R) is the

correct explanation of (A).

- b. Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- c. (A) is true, but (R) is false.
- d. (A) is false, but (R) is true.

29. The government has a limited role in a capitalistic economy.

The government provides basic services such as, defense, public health, education, etc.

Codes:

- a. Both (A) and (R) are true and (R) is the correct explanation of (A).
- b. Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- c. (A) is true, but (R) is false.
- d. (A) is false, but (R) is true.

30. Planning is an integral part of a Capitalist economy.

In socialist system, all decisions are undertaken by the central planning authority.

Codes:

- a. Both (A) and (R) are true and (R) is the correct explanation of (A).
- b. Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- c. (A) is true, but (R) is false.
- d. (A) is false, but (R) is true.

31. Match the items in the List – I with items in List – II. Select the correct answer from the code given below :

List – I	List – II
I. Ownership of Means of Production	1.Free market System
II. Economic Motives	2.Private Ownership
III. Solution of Central Problems	3.Internal Regulation Only
IV. Government Role	4. Profit

Codes:

	I	II	III	IV
a	3	2	1	4
b	2	4	1	3
c	2	3	4	1
d	3	4	1	2

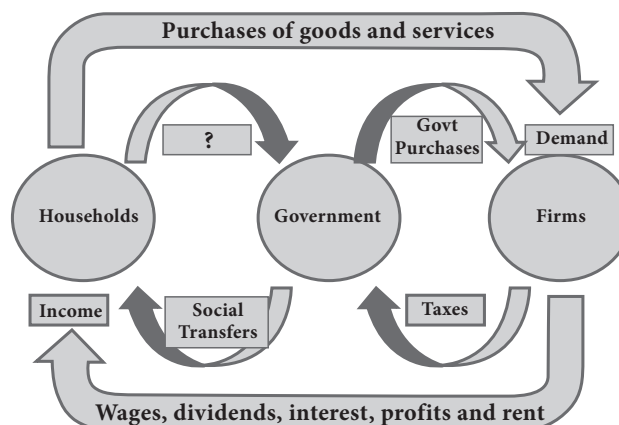
32. Identify which of following is not a feature of mixed economy?

- a. Coexistence of Public and Private Sectors
- b. Solution to Economic Problems
- c. Equality of Income
- d. Freedom and Control

33. Find the odd one out.

- a. $C + I$
- b. $C + I + G + (X - M)$
- c. $C + I + G$
- d. $(X - M)$

34. Find the missing flow from households to government in the diagram.



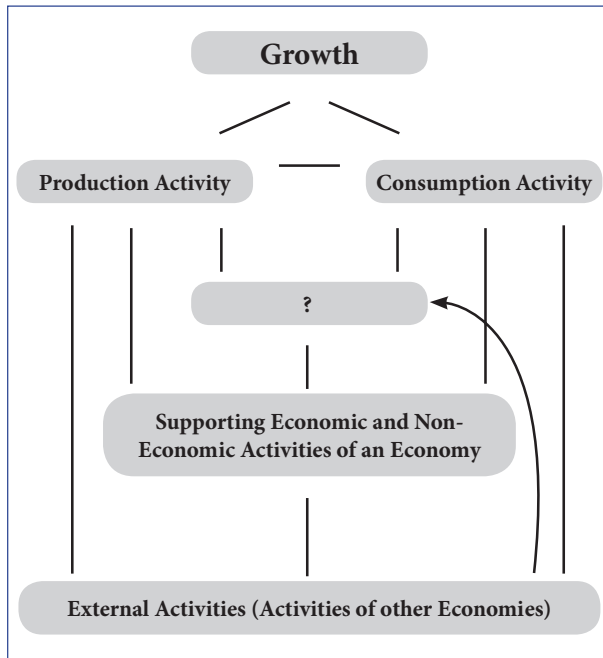
- a. Revenue
- b. Fees
- c. Taxes
- d. None of the above

35. Given the chart, find the missing system of economy.

- a. Pure Mixed
- b. Capitalist Learning

- c. Mixed Learning
- d. Marxist

36. Given the chart, find the missing activity of an economy.



- a. Foreign Activity
- b. Excess Activity
- c. Exchange Activity
- d. Government Activity

37. Find the incorrect match.

a. Capitalistic Economy	Capitalism
b. Command Economy	Socialism
c. Socialistic Economy	Globalism
d. Mixed Economy	Mixedism

38. Which of the following is not a macro-economic goal?

- a. Full Employment
- b. Price Stability
- c. Economic Security
- d. All of the above are macro economic goals

39. Assertion (A) :The major problems of most resource - rich nations are poverty and unemployment.

Reason (R) :A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.

- a. Both A and R are true and R is the correct explanation of A.
- b. Both A and R are true but R is not the correct explanation of A.
- c. A is true but R is false.
- d. A is false but R is true.

40. Assertion (A) :Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area.

Reason (R) :It is the methodology of doing economic activities to meet the needs of the society.

- a. Both A and R are true and R is the correct explanation of A.
- b. Both A and R are true but R is not the correct explanation of A.
- c. A is true but R is false.
- d. A is false but R is true.

41. Assertion (A) :The means of production in a capitalistic economy are publicly owned.

Reason (R) :Manufacturers produce goods and services with profit motive.

- a. Both A and R are true and R is the correct explanation of A.
- b. Both A and R are true but R is not the correct explanation of A.
- c. A is true but R is false.
- d. A is false but R is true.

42. Assertion (A) :Each individual and organization produce only those goods which ensure high profit.

Reason (R) :Profit is the driving force behind all economic activities in a capitalistic economy.

- a. Both A and R are true and R is the correct explanation of A.
- b. Both A and R are true but R is not the correct explanation of A.
- c. A is true but R is false.
- d. A is false but R is true.

43. Assertion (A) :In a mixed economy, all the resources are owned and operated by the government.

Reason (R) :Public welfare is the main motive behind all economic activities in mixed economy.

- a. Both A and R are true and R is the correct explanation of A.
- b. Both A and R are true but R is not the correct explanation of A.
- c. A is true but R is false.
- d. Both A and R are false

44. Assertion (A) :National plans are drawn up by the Government and both private and public sectors abide.

Reason (R) :The central planning authority prepares the economic plans.

- a. Both A and R are true and R is the correct explanation of A.
- b. Both A and R are true but R is not the correct explanation of A.
- c. A is true but R is false.
- d. A is false but R is true.

45. In a free-market economy the allocation of resources is determined by:

- a. Votes taken by consumers
- b. A central planning authority
- c. By consumer preferences
- d. The level of profits of firms

46. The interaction of individuals and firms in a market can be described as a ----- of money, goods and services and resources through product and factor markets.

- a. Constant flow
- b. Stable flow
- c. Circular Flow
- d. Regular Flow

47. The simple circular flow model shows that:

- a. Households are on the buying side of both product and resource markets.
- b. Businesses are on the selling side of both product and resource markets.
- c. Households are on the selling side of the resource market and on the buying side of the product market.
- d. Businesses are on the buying side of the product market and on the selling side of the resource market.

48. Which of the following is a limitation of the simple circular flow model?

- a. Product markets are ignored.
- b. Resource markets are ignored.
- c. The determination of product and resource prices is not explained.
- d. Households are included, but not businesses.

49. Which of the following statements regarding the circular-flow diagram is true?
- If Vijay works for XYZ Solutions Ltd. and receives a salary payment, the transaction takes place in the market for goods and services.
 - If XYZ Solutions Ltd. sells a military aircraft, the transaction takes place in the market for factors of production.
 - None of these answers.
 - The factors of production are owned by households.
50. In the circular-flow diagram,
- Firms are sellers in the resource market and the product market.
 - Households are sellers in the resource market.
 - Firms are buyers in the product market.
 - Spending on goods and services flow from firms to households.
51. In the circular-flow diagram,
- Spending on goods and services flow from firms to households.
 - Goods and services flow from households to firms.
 - Factors of production flow from firms to households.
 - Income from factors of production flows from firms to households.
52. Which of the following could not be considered a major economic system?
- capitalism.
 - communism.
 - socialism.
 - secularism.
53. Unlike a market economy, a command economy uses
- more centralized planning in economic decision making
 - consumer sovereignty to make production decisions
 - its resources more efficiently
 - price signals in economic decision making
54. Which of the following is a basic characteristic of Capitalism?
- economic decisions occur in markets.
 - income is distributed on the basis of "need."
 - private ownership of property is illegal.
 - none of the above answers are correct.
55. The government may impose industrial safety regulations and occupational licensing requirements in which of the following economic systems?
- laissez-faire economy
 - pure capitalism
 - mixed market economy
 - macroeconomic system
56. For an economy consisting of households and businesses only, which of the following is consistent with the circular flow of income and production?
- Households are producers of goods and services and consumers of resources.
 - Households are users of resources, and businesses are sources of saving.
 - Households are suppliers of resources and consumers of goods and services.
 - Businesses are users of taxes, and households are sources of taxes.

57. With what kinds of topics does macroeconomics concern itself?

- Economic activities of individual firms, households, and other organizations
- Forces of supply and demand in a particular market
- Consumer behavior and firms output decisions
- Aggregate economic phenomena like the rate of unemployment and inflation.

58. Match the correct codes

1	"The General Theory of Employment, Interest and Money"	i	A. J. Brown
2	Globalism The term coined by Manfred D Steger	ii	1936
3	The word 'Macro' is derived from the Greek word 'Makros' meaning	iii	2002
4	"A system by which people earn their living."	iv	Large

Codes

- (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
- (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
- (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
- (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

59. Match the correct codes

1	Profit	i	Capitalism
2	Social Welfare	ii	Socialism
3	Social Welfare and Profit Motive	iii	Capitalist Economy
4	Free Market System	iv	Mixed Economy

Codes

- (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)
- (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
- (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
- (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)

60. Match the correct codes

1	Govt. Internal Regulation only	i	Capitalism
2	Complete Involvement of Gov.t	ii	Socialism
3	Limited Role of Government	iii	Mixed Economy
4	Government Enterprise Naure	iv	Capitalist Economy

Codes

- (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
- (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
- (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
- (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

61. Match the correct codes

1	$Y = C + I$	i	Don't exist
2	$Y = C + I + G$	ii	Two Sector
3	$Y = C + I + G + (X - M)$	iii	Three Sector
4	$Y = C$	iv	Four Sector

Codes

- (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
- (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
- (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
- (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

62. Match the correct codes

1	Wages, dividends, interest, profits and rent	i	Towards Government
---	--	---	--------------------

2	Purchases of goods and Service	ii	Towards households
3	Taxes	iii	Towards firm
4	Social Transfer	iv	Towards house hold

Codes

- (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
- (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
- (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
- (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

Answers									
1	2	3	4	5	6	7	8	9	10
b	c	a	d	b	a	b	b	d	d
11	12	13	14	15	16	17	18	19	20
a	a	b	4	a	c	b	a	b	b
21	22	23	24	25	26	27	28	29	30
d	a	d	b	a	a	a	a	b	d
31	32	33	34	35	36	37	38	39	40
b	c	d	c	b	c	c	d	b	a
41	42	43	44	45	46	47	48	49	50
d	a	d	b	c	c	c	c	d	b
51	52	53	54	55	56	57	58	59	60
a	d	a	a	c	c	d	b	d	a
61	62								
b	c								

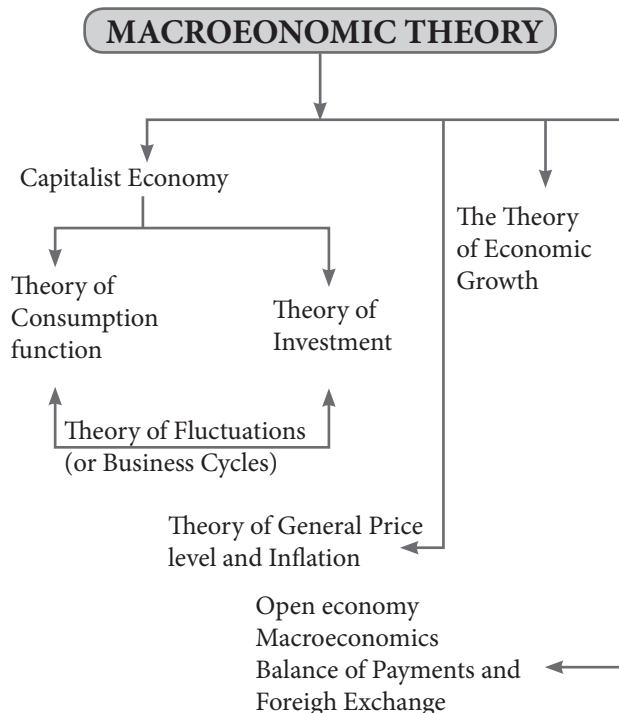
Additional Two Marks(Chapter 1)

1. Why Keynes is considered as the father of modern macro economics?

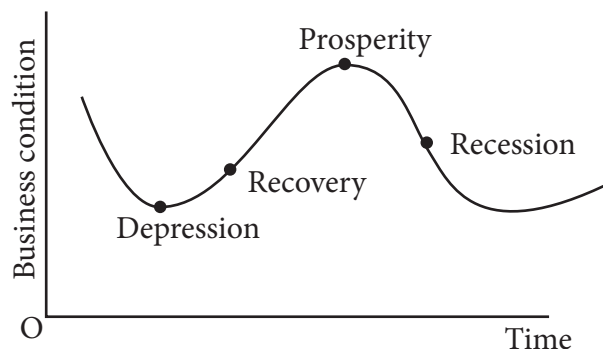
- ❖ Macroeconomics in its modern form, began with John Maynard Keynes and his book “The General Theory of Employment, Interest and Money” published in 1936.
- ❖ Keynes offered an explanation for fallout from the Great Depression, when goods remained unsold and workers unemployed.

❖ Hence, Keynes is regarded as the ‘Father of Modern Macro Economics’.

2. What are the subject matters of macro-economic theory?



3. Mention some of stages of business cycle



- Boom
- Recession
- Depression
- Recovery

4. Mention any two limitations of macro economics.

Macro economics suffers from certain limitations. They are:

- There is a danger of excessive generalisation of the economy as a whole.

2. It assumes homogeneity among the individual units.
3. There is a fallacy of composition. What is good of an individual need not be good for nation and viceversa. And, what is good for a country is not good for another country and at another time.
4. Many non - economic factors determine economic activities; but they do not find place in the usual macroeconomic books.
5. Mention the classification of based on Level of National Income.
 1. Low Income
 2. Middle Income
 3. High Income Economies

6. What are the major types of economic systems.

There are three major types of economic systems.

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

7. Define 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' or Globalism.

8. How is socialism defined?

- ❖ Socialism is defined as a way of organizing a society in which major industries are owned and controlled by the government.
- ❖ A Socialistic economy is also known as 'Planned Economy' or 'Command Economy'.

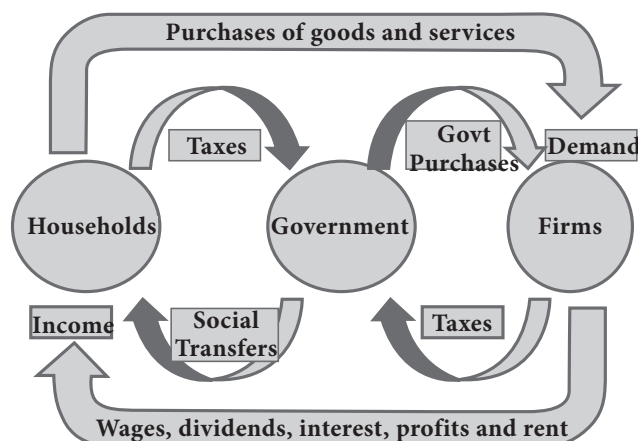
9. What is mixed economy?

- ❖ 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.

10. What are flow variables?

- ❖ Flow variables are measured over a period of time.
- ❖ National Income, imports, exports, consumption, production, investment etc are examples of flow variables.

11. Draw the circular flow of a three sector economy.



12. Write a short note on household sector of circular flow of national income.

- ❖ 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.

13. Write a short note on firm sector of circular flow of national income.

- ❖ 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.

14. What are the compositions of a four sector model of economy?

- i. Households
- ii. Firms
- iii. Government
- iv. External Sector

15. What is business cycle?

The Business Cycle, also called as Economic Cycle refers to the periodic booms and slumps in the economic activities reflected by the fluctuations in the aggregate economic magnitudes, including employment, investment, total production, wages, bank credits, etc.

16. Expand the given equation : $Y = C + I + G + (X - M)$.

- Y = National Income
 C = Consumption Expenditure
 I = Investment Expenditure
 G = Government Expenditure
 (X - M) = Net Exports

17. What is the main point that we are supposed to glean from the circular flow diagram?

- ❖ We are supposed to recognize that one person's expenditure is someone else's income.

18. Which are the four components of the macroeconomy?

Macroeconomics focuses on four groups: households and firms (the private sector), the government (the public sector), and the rest of the world (the external sector).

19. Identify the following topics which are predominantly macroeconomic.

- (a) Provision by firms of medical benefits for employees
- (b) The demand for coffee
- (c) Unemployment
- (d) The price of a government bond relative to the price of IBM stock
- (e) Unemployment among economics professors
- (f) The business cycle
- (g) Consumption spending by the household sector
- (h) Rent controls in New York
- (i) Inflation
- (j) The money supply

Macro Economic topics are as follow,

- (c) Unemployment
- (f) The business cycle
- (g) Consumption spending by the household sector
- (i) Inflation
- (j) The money supply

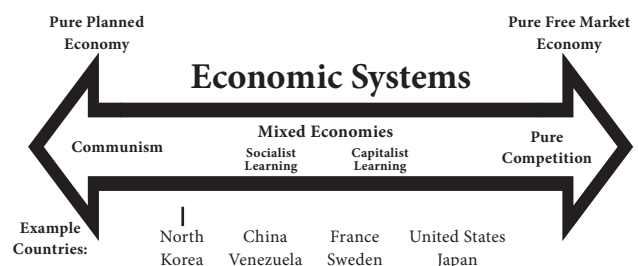
20. Mention the any three Socialist Learning economies

North Korea China Venezuela

21. Mention the any three Capitalist Learning economies

❖ France	❖ Sweden
❖ United States	❖ Japan

22. Draw the chart depicting various systems of economy



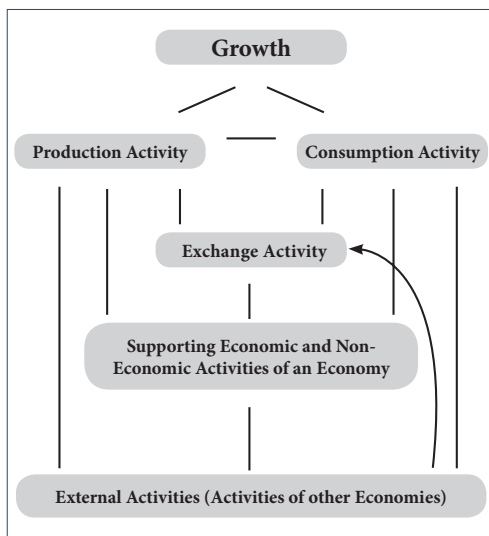
Three Marks Additional Question

1. What are limitations from which Macro economics suffer?

Macro economics suffers from certain limitations. They are:

1. There is a danger of excessive generalisation of the economy as a whole.
2. It assumes homogeneity among the individual units.
3. There is a fallacy of composition. What is good of an individual need not be good for nation and viceversa. And, what is good for a country is not good for another country and at another time.
4. Many non - economic factors determine economic activities; but they do not find place in the usual macroeconomic books.

2. Draw the flow chart of Functioning of an Economy Based on Activities



3. Write the basis how Economies can be classified into different types.

1. **Status of Development:** Developed, underdeveloped, undeveloped and developing economies.
2. **System of Activities:** Capitalistic,

Socialistic and Mixed Economies.

3. **Scale of Activities:** Small and Large Economies.

4. **Nature of Functioning:** Static and Dynamic Economies.

5. **Nature of Operation:** Closed and Open Economies.

6. **Nature of Advancement:** Traditional and Modern Economies.

7. **Level of National Income:** Low Income, Middle Income and High Income Economies.

4. Explain are the Demerits of Capitalism

1. **Concentration of Wealth and Income:** Capitalism causes concentration of wealth and income in a few hands and thereby increases inequalities of income.

2. **Wastage of Resources:** Large amount of resources are wasted on competitive advertising and duplication of products.

3. **Class Struggle:** Capitalism leads to class struggle as it divides the society into capitalists and workers.

4. **Business Cycle:** Free market system leads to frequent violent economic fluctuations and crises.

5. **Production of non essential goods:** Even the harmful goods are produced if there is possibility to make profit.

5. What are the Merits of Socialism?

1. **Reduction in Inequalities:** No one is allowed to own and use private property to exploit others.

2. **Rational Allocation of Resources:** The central planning authority allocates the resources in a planned manner. Wastages

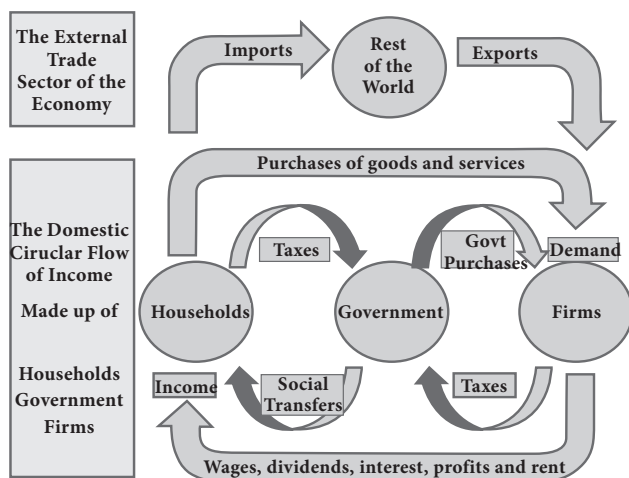
are minimised and investments are made in a pre planned manner.

3. Absence of Class Conflicts: As inequalities are minimum, there is no conflict between rich and poor **class**. **Society functions in a harmonious manner.**

4. End of Trade Cycles: Planning authority takes control over production and distribution of goods and services. Therefore, economic fluctuations can be avoided.

5. Promotes Social Welfare: Absence of exploitation, reduction in economic inequalities, avoidance of trade cycles and increase in productive efficiency help to promote social welfare.

6. Draw the flow chart of four sector model.



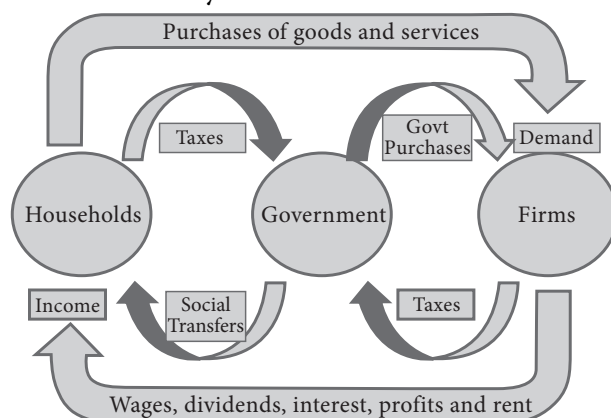
Additional Questions Five Marks

1. Explain the three sector model of economy with chart.

- ❖ In addition to household and firms, inclusion of the government sector makes this model a three-sector model.
- ❖ The government levies taxes on households and firms, purchases goods

and services from firms, and receive factors of production from household sector.

- ❖ On the other hand, the government also makes social transfers such as pension, relief, subsidies to the households.
- ❖ Similarly, Government pays the firms for the purchases of goods and services.
- ❖ The Flow Chart illustrates three- sector economy model.



Under three sector model, national income (Y) is obtained by adding Consumption expenditure (C), Investment expenditure (I) and Government expenditure (G).

Therefore:

$$Y = C + I + G$$

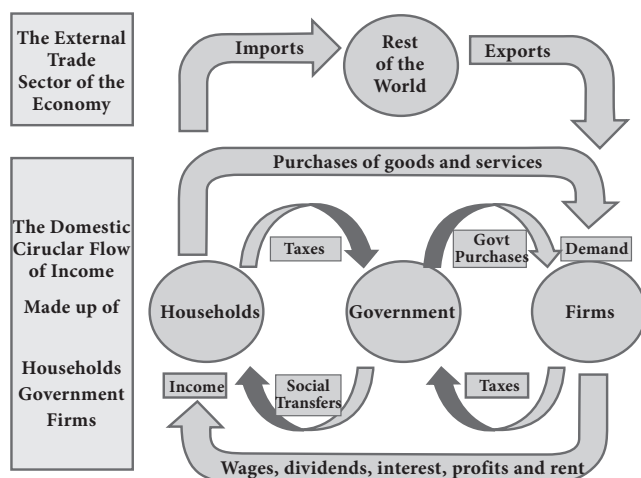
2. Explain the four sector model of economy with chart.

- ❖ In a four-sector economy, in addition households, firms and government, a fourth sector namely, external sector is included.
- ❖ In the real life, only four-sector economy exists. This model is composed of four sectors namely,

1. Households

2. Firms
3. Government
4. External Sector

The external sector comprises exports and imports. It is illustrated in the Flow Chart.



In four-sector economy, expenditure for the entire economy include domestic expenditure (C+I+G) and net exports (X-M).

Therefore,

$$Y = C + I + G + (X - M)$$

3. Discuss the features of Capitalist economy.

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.

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.

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.'

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.

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.

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.

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. The outcome of this situation is that the rich become richer and poor become poorer. Here, economic inequality goes on increasing.

4. Explain the concepts of macro economics.

The important concepts used in macro economics are presented below:

- ❖ **Stock and Flow Variables :** Variables used in economic analysis are classified as stock and flow. Both stock and flow variables may increase or decrease with time.
- ❖ **Stock :** refers to a quantity of a commodity measured at a point of time. In macro economics, money supply, unemployment level, foreign exchange reserves, capital etc are examples of stock variables.
- ❖ **Flow variables :** are measured over a period of time. National Income, imports, exports, consumption, production, investment etc are examples of flow variables.
- ❖ **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. Most economic models are built with mathematics, graphs and equations, and attempt to explain relationships between economic variables. The commonly used economic models are the supply-demand models and circular flow models and Smith models.

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