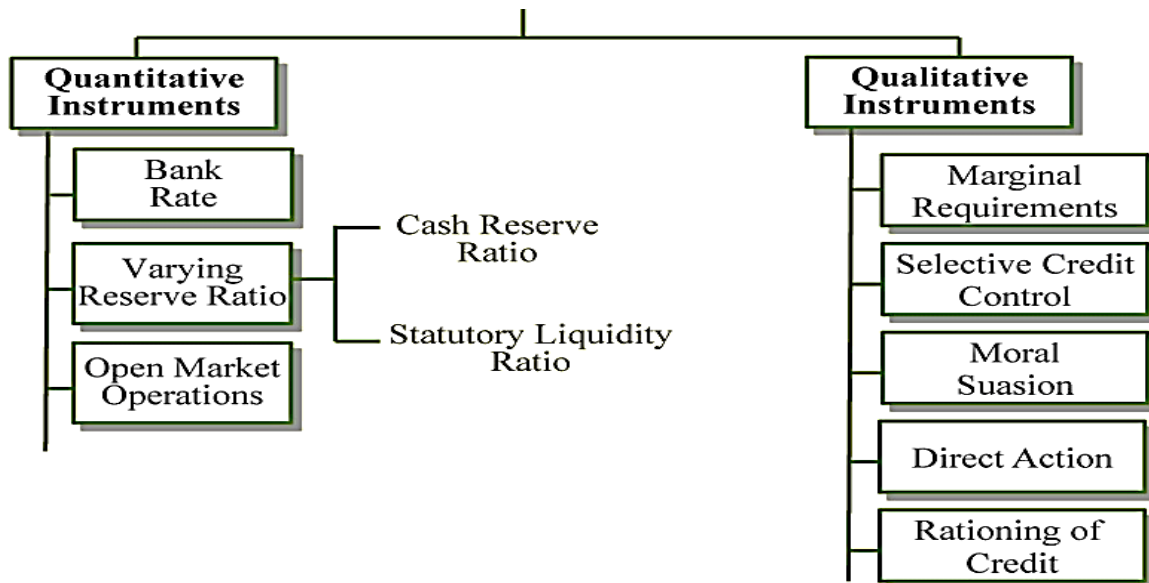
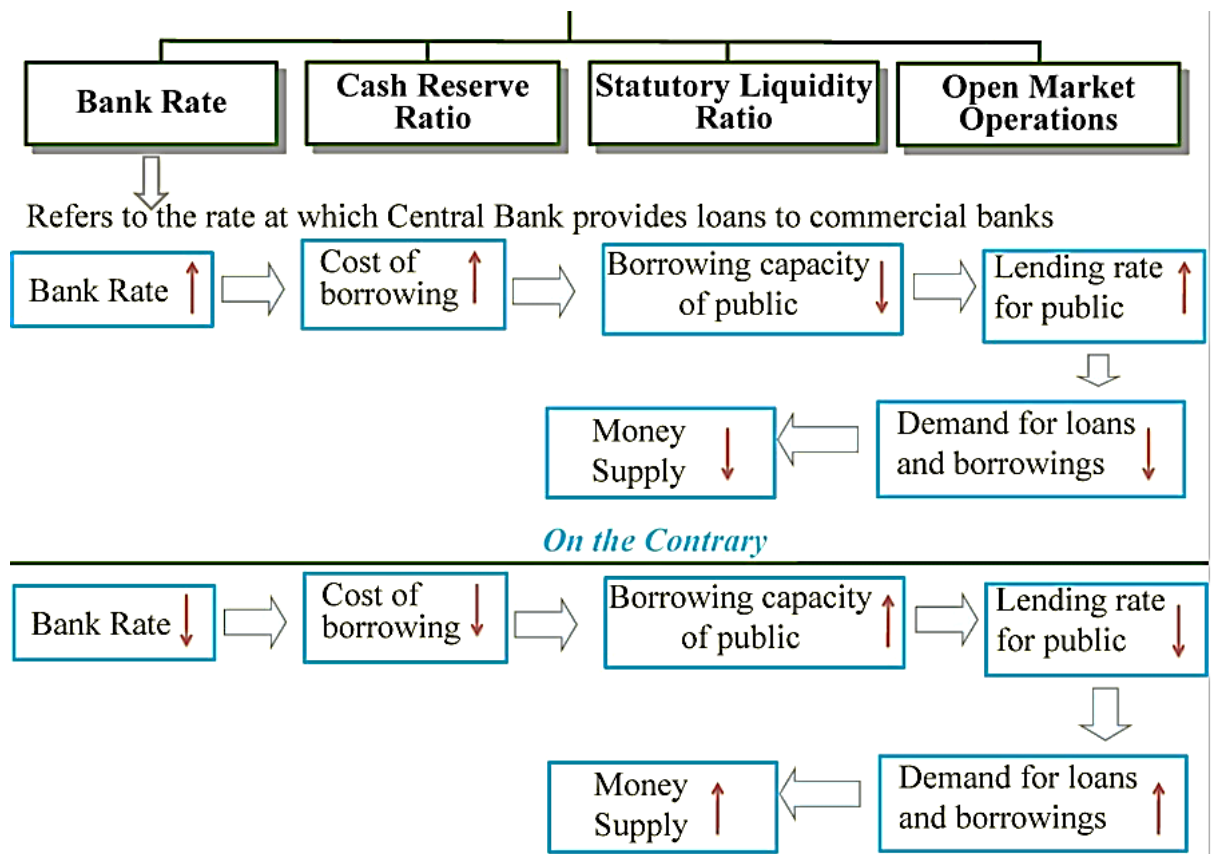


# Macro Economics

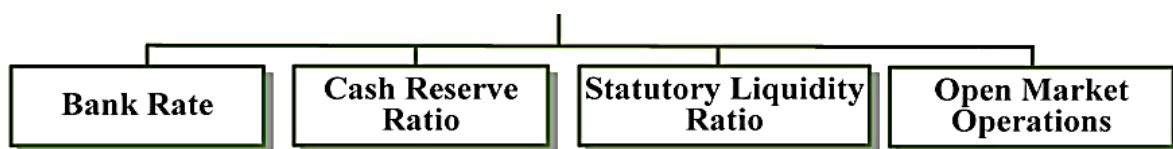
## Instruments of Monetary policy



## Quantitative instrument of monetary policy



## Quantitative instrument of monetary policy



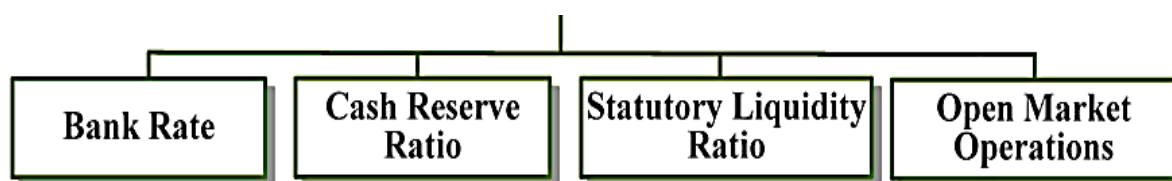
Refers to minimum portion of deposits that commercial banks maintain with Central Bank as reserves



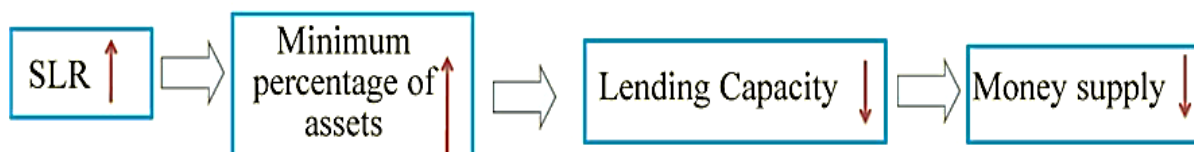
*On the Contrary*



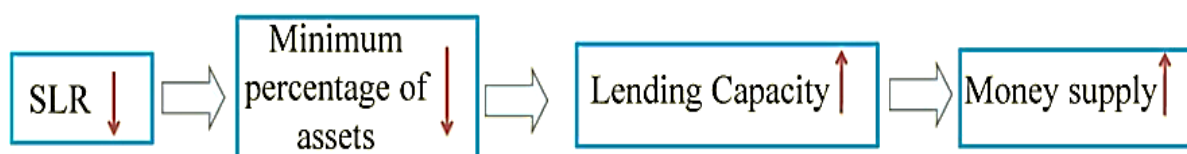
## Quantitative instrument of monetary policy



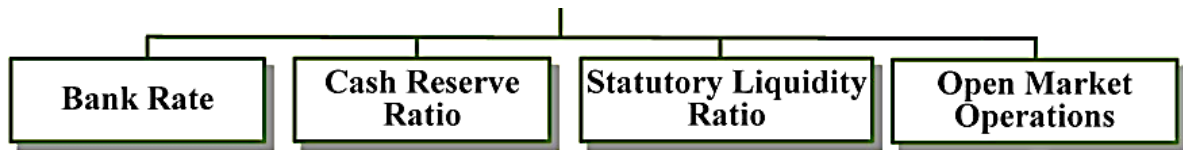
Refers to Minimum percentage of assets maintained by commercial banks in the form of fixed or liquid assets



*On the Contrary*



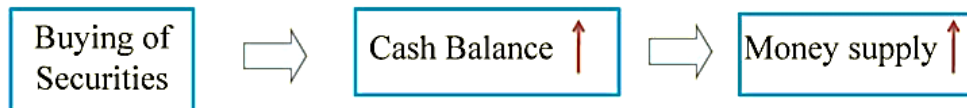
## Quantitative instrument of monetary policy



Refers to buying and selling of securities by the government from and to the public



*On the Contrary*



## Qualitative Instrument of monetary policy



It is the difference between the market value of the security being mortgaged and the loan amount.

*Algebraically,*

Market value of securities – Loan value

Margin requirement ↑ → Discouraging loans

Margin requirement ↓ → Encouraging loans

## Selective Credit Control

Refers to redirecting the flow of credit to certain areas

Positive aspect → Increased flow of credit to priority areas

Negative aspect → Decreased flow of credit to particular areas

### Moral Suasion

Through meetings and seminars, RBI, pressurises commercial banks to abide by the monetary policy

### Direct Action

- Contractionary Policy → Stringent Credit terms (refusing any further grants or loans)
- Expansionary Policy → Liberal Credit terms (Providing grants or loans at easy terms)

## Tools of Fiscal Policy

- Tax Policy
  - Public Expenditure
  - Public Debt/ Public Borrowings
  - Deficit Financing
  - Subsidies
- In order to maintain economic Stability and to encourage economic activities

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

## Types of Tax

- On the basis of bearer & payer

➤ *Direct Tax: Borne and paid by the same person. Burden can't be shifted.*

*Impact & incidence of tax is on the same person.*

✓ *Advantages*- Elasticity, Certainty, Economical, Productivity, Equity & Fairness, Social consciousness

✓ *Disadvantages*- Arbitrary, Unsympathetic, Tax Evasion, Not Applicable to all, Discourages Saving & Investment

✓ *Examples*- Income Tax, Corporate Tax, Wealth Tax, Gift Tax, Other Property Tax, Interest Tax

➤ *Indirect Tax: Borne by someone (purchaser) and collected & paid by seller.*

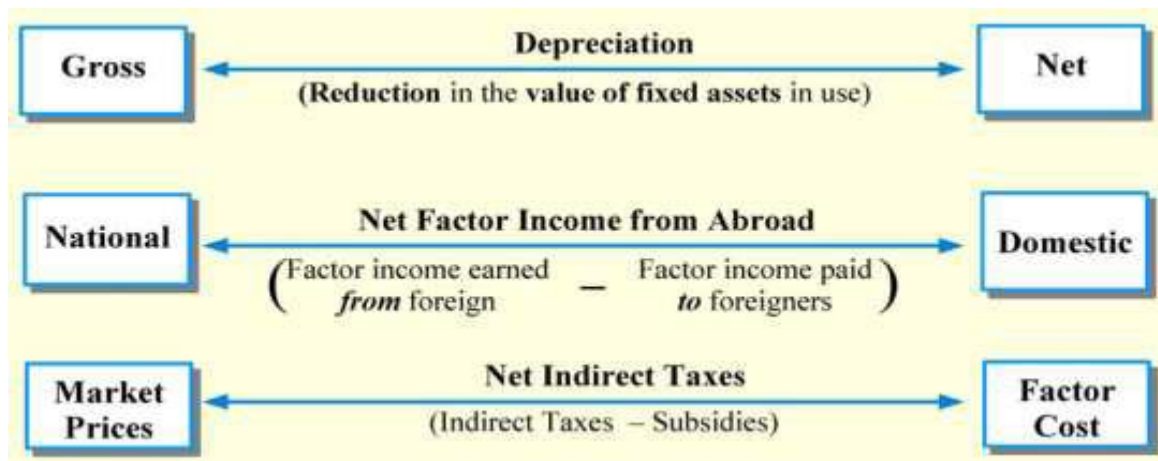
*Burden can be shifted and impact & incidence of tax is on different persons.*

✓ *Advantages*- Simple collection procedure, Broad Base, Elastic, Checks consumption of harmful goods, difficult in tax evasion, fair, convenient, social welfare

✓ *Disadvantages*- High cost of collection, increases income inequalities (as they are regressive in nature), affects consumption

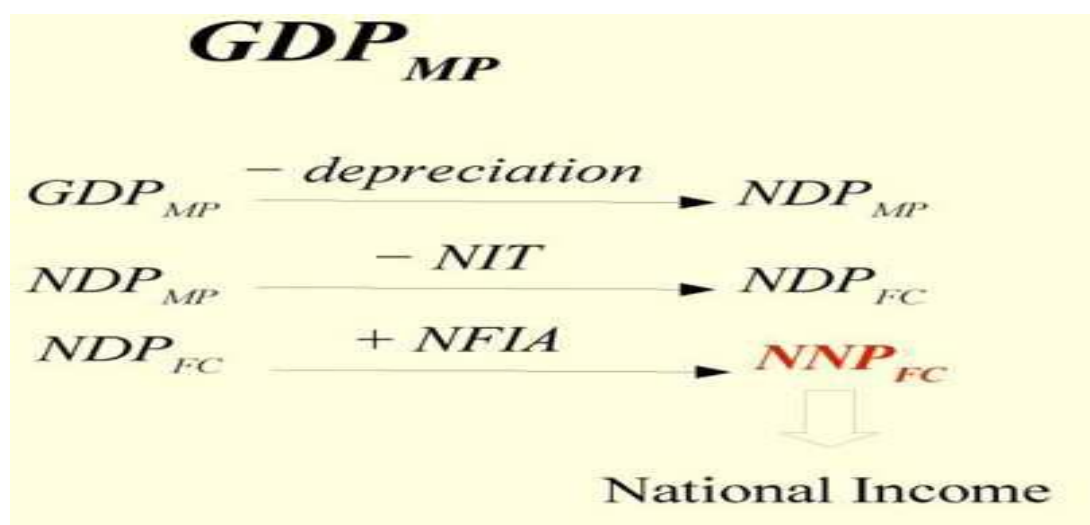
✓ *Examples*- Central Excise Duty (imposed by govt) like liquor, drugs | Custom Duty (goods crosses political boundary), service tax, VAT

# National Income



## Basic Concepts of NI

<b>Gross</b>	Without deductions	With or after deductions	<b>Net</b>
<b>National</b>	Includes: <ul style="list-style-type: none"> <li>• Domestic Residents</li> <li>• Foreign residents within domestic territory</li> <li>• Domestic residents at foreign lands</li> </ul>	Includes: <ul style="list-style-type: none"> <li>• Domestic territory</li> </ul>	<b>Domestic</b>
<b>Market Prices</b>	Money value received by selling the final goods & services	Cost of the factors of production used in the generation of output	<b>Factor Cost</b>



# Variables

(quantity likely to change over time)

## Stock Variables

- Measured at a particular *point of time*
- *Do not* have an element of *time attached to them*
- *Static* in nature
- Examples: Capital, bank deposits, water in a tank

## Flow Variables

- Measured *over an interval of time*
- Have an element of *time attached to them*
- *Dynamic* in nature
- Examples: Capital formation, interest on capital, water flowing in a stream

## International Trade

### Terms of Trade

- It Implies the Ratio of Prices of Export Goods / Price of Import Goods =  $P_x/P_m$
- It indicates and acts as a proxy for the social welfare of a nation

If TOT  $\uparrow$ , that implies

$$\underbrace{\left( \frac{P_x \uparrow}{P_m \downarrow} \right) \uparrow \text{ or } \left( \frac{P_x \uparrow \uparrow}{P_m \uparrow} \right) \uparrow}_{\text{Improvement}} \Rightarrow \therefore \text{a country has}$$

to pay less for its imports and gets more for its export

Or

Lesser X are given up to finance M

More X  $\rightarrow$  Higher income

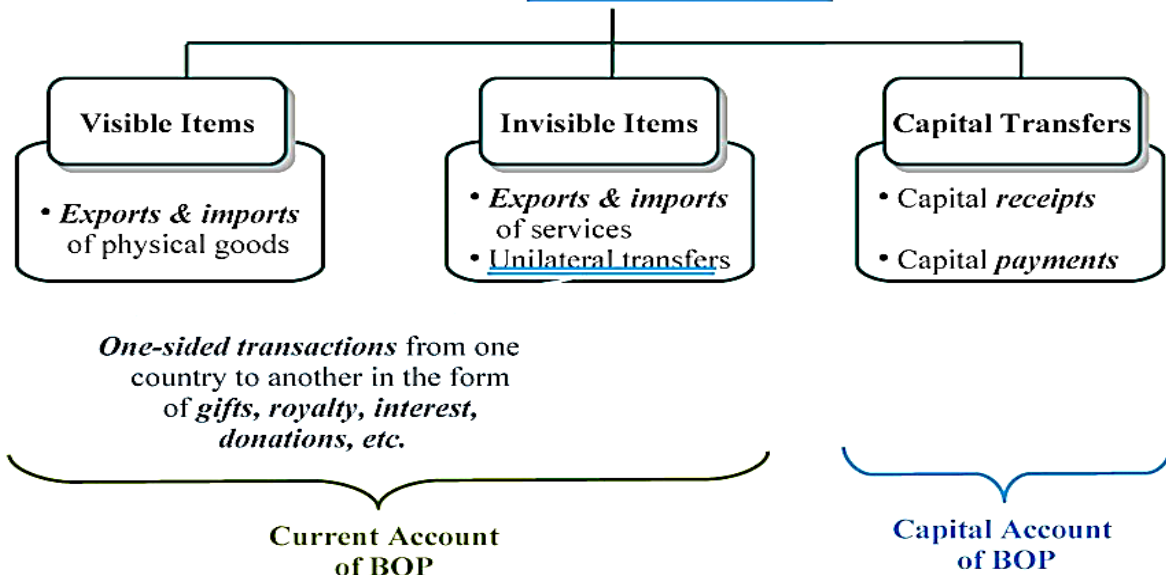
### Factors affecting Terms of Trade:

- (i) a country's demand for imports,
- (ii) foreign demand for its exports in the international market,
- (iii) supply of exports, and
- (iv) supply of imports.



# Balance of Payment

Records the *inward and outward* flow of foreign exchange of a country



## Current Account of BOP

Maintains the records of imports and exports of *goods and services as well as the* records of *unilateral transfers*

Exports & Imports of Goods		(+)	Exports & Imports of Services		(+)	Unilateral Transfers such as Gifts, donations etc	
Goods exported	Goods imported		Services exported	Services imported		Transfer Receipts	Transfer Payments
Inflow	Outflow		Inflow	Outflow		Inflow	Outflow
↓	↓		↓	↓		↓	↓
Positive item	Negative item		Positive item	Negative item		Positive item	Negative item

Total Inflows > Total Outflows

*Current Account Surplus*

Total Inflows = Total Outflows

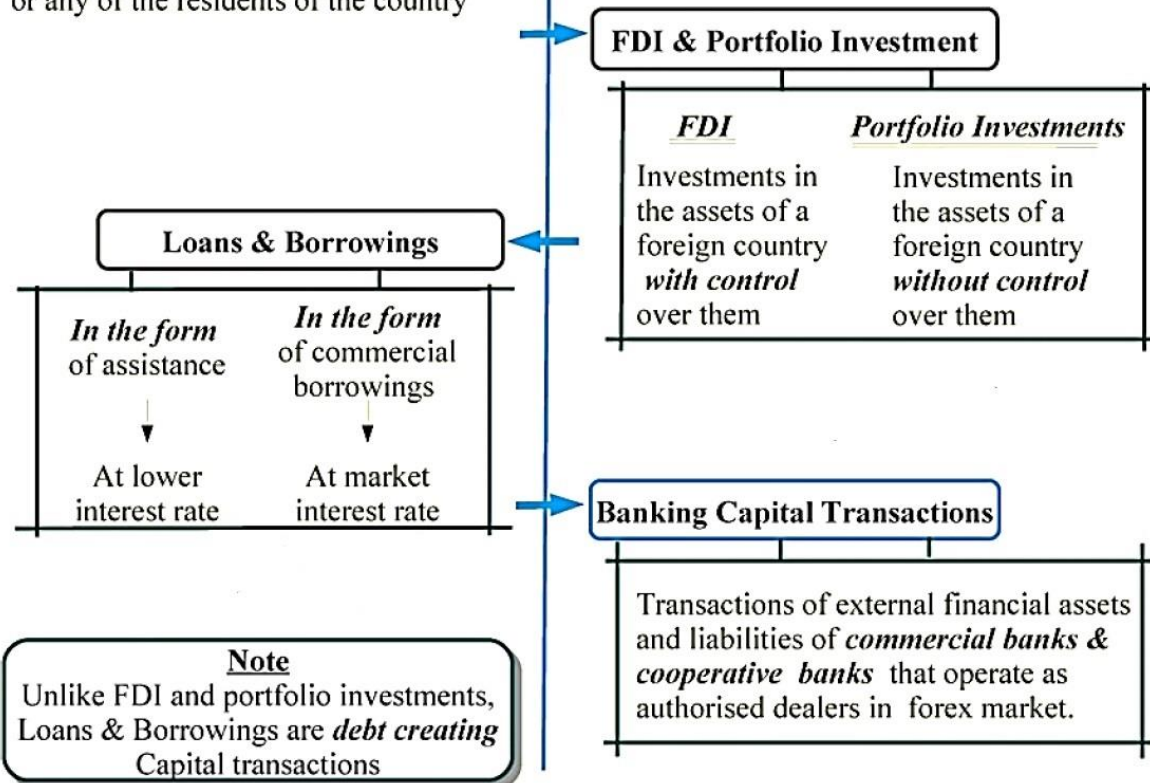
*Current Account Balance*

Total Inflows < Total Outflows

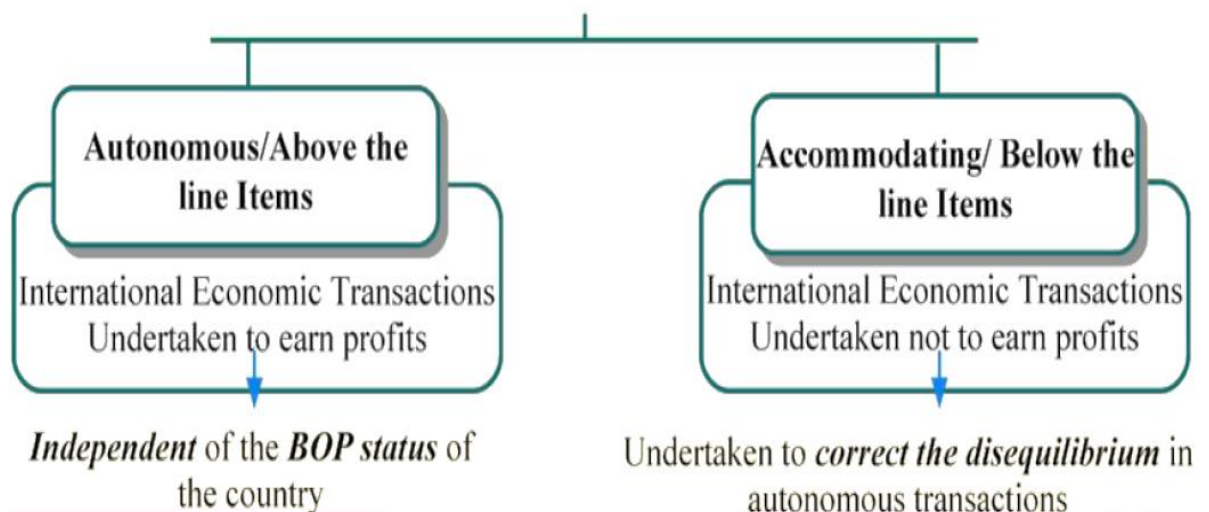
*Current Account Deficit*

## Capital Account of BoP

Records all transactions that cause a *change in status of assets & liabilities* of the government or any of the residents of the country



## Items in BoP



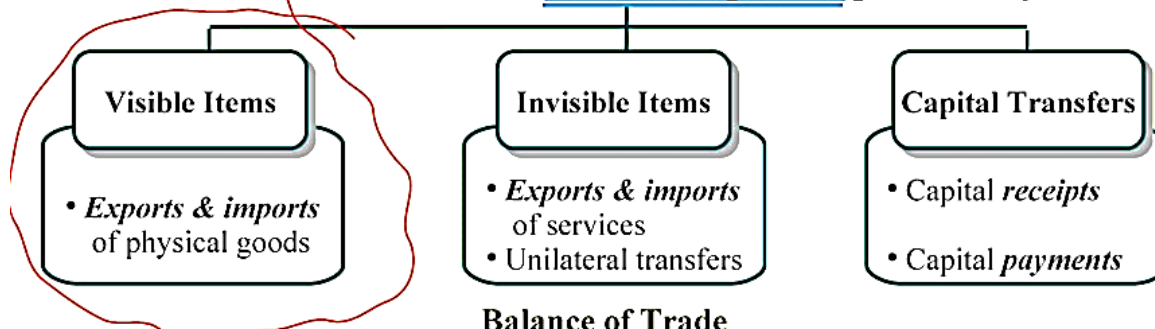
### Balance of Payments Account

Credits	Amount	Debits	Amount	
Exports of goods	xx	Imports of goods	xx	Above the Line Autonomous Items
Exports of services	xx	Imports of services	xx	
Unilateral transfer receipt	xx	Unilateral transfer payments	xx	
Capital receipts	xx	Capital payments	xx	
	xxx		xxx	
<hr/>				
Govt. financing	xx	Borrowings from IMF	xx	Below the Line Accommodated Items
Injections of official reserves	xx	Withdrawals of official reserves	xx	

## BOT VS BOP

### Balance of payment

Records the inward and outward flow of foreign exchange of a country



### Balance of Trade

Shows *balance of visible trade transactions* (exports & imports) of all physical goods of a nation

Basis	BOP	BOT
Nature of transactions	Transactions including <i>goods, services and capital transfers</i>	Transactions related to the trade of <i>goods only</i>
Completeness	<i>More complete</i> & comprehensive measure as it includes <i>both</i> current & capital account transactions	<i>Less complete</i> & comprehensive measure as it includes current account transactions <i>only</i>
Net balance	Current Account Balance + Capital Account Balance	Exports of goods – Imports of goods

