Class 12 Economics (AHSEC)
Chapter 1: Introduction to Macroeconomics

2 Marks Questions
Q1. What is macroeconomics?
Answer: Macroeconomics is the branch of economics that studies the overall functioning and performance of the economy as a whole.

Q2. Define aggregate demand.
Answer: Aggregate demand is the total demand for goods and services in an economy at a given overall price level and in a given period.

3 Marks Questions
Q3. Differentiate between microeconomics and macroeconomics.
Answer:
- Microeconomics studies individual units like consumers and firms.
- Macroeconomics studies the economy as a whole, including aggregate variables like GDP, inflation, and unemployment.

Q4. What are the objectives of macroeconomics?
Answer:
- To measure total output and income.
- To study general price level and inflation.
- To analyse employment and unemployment levels.
- To understand economic growth and stability.

4 Marks Questions
Q5. Explain the scope of macroeconomics.
Answer:
Macroeconomics covers:
- National income and its determination
- Employment and unemployment
- Inflation and deflation
- Economic growth and development
- Monetary and fiscal policies

5 Marks Questions
Q6. Describe the importance of macroeconomics.
Answer:
- Helps understand overall economic performance.
- Guides government policy-making.
- Helps in forecasting economic trends.
- Aids in formulating plans for economic growth.

8 Marks Question
Q7. Explain the concepts of circular flow of income and its significance.
Answer:
The circular flow of income represents how income flows between different sectors of the economy.

In a simple two-sector model, households provide factors of production to firms and receive income in return, which they spend on goods and services produced by firms. This flow continues, showing the interdependence of production, income, and expenditure.
Significance:
- Helps understand how income is generated and spent.
- Illustrates the relationship between different sectors.
- Forms the basis for national income accounting.

Chapter 2: National Income Accounting

2 Marks Questions

Q1. What is national income?
Answer: National income is the total money value of all final goods and services produced by a country in a given period, usually one year.

Q2. Define GDP.
Answer: Gross Domestic Product (GDP) is the total value of all final goods and services produced within the domestic territory of a country in a given time period.

3 Marks Questions

Q3. What is the difference between GDP and GNP?
Answer:
- GDP is the total output produced within a country's borders.
- GNP (Gross National Product) includes GDP plus net income earned from abroad (income earned by residents from overseas minus income earned by foreigners within the country).

Q4. What are the methods of measuring national income?
Answer:
- Product method (output method)
- Income method
- Expenditure method

4 Marks Questions

Q5. Explain the expenditure method of calculating national income.
Answer:
Expenditure method adds all expenditures made on final goods and services:
- Consumption expenditure by households
- Investment expenditure by firms
- Government expenditure on goods and services
- Net exports (exports minus imports)

5 Marks Questions

Q6. Describe the limitations of national income data.
Answer:
- Does not include non-monetary transactions.
- Does not account for income distribution.
- Ignores environmental degradation.
- Understates the informal sector.

- Difficulties in data collection and accuracy.

8 Marks Questions

Q7. Discuss the importance of national income accounting.

Answer:

National income accounting is important because:

- It helps assess the economic performance of a country.
- Provides a basis for formulating economic policies.
- Helps compare economic growth over different periods and between countries.
- Indicates the standard of living and economic welfare.
- Guides government in budget planning and development programs.

Chapter 3: Money and Banking

2 Marks Questions

Q1. What is money?

Answer: Money is any commonly accepted medium of exchange that facilitates transactions.

Q2. Define commercial banks.

Answer: Commercial banks are financial institutions that accept deposits and provide loans to individuals and businesses.

3 Marks Questions

Q3. What are the functions of money?

Answer:

- Medium of exchange
- Measure of value
- Store of value
- Standard of deferred payment

Q4. Differentiate between money and barter system.

Answer:

- Barter system involves direct exchange of goods.
- Money acts as an intermediary, removing the need for a double coincidence of wants.

4 Marks Questions

Q5. Explain the role of commercial banks in an economy.

Answer:

- Accepting deposits
- Providing loans and advances
- Credit creation
- Agency functions like payments and collection of cheques

5 Marks Questions

Q6. What is the central bank? Explain its functions.

Answer:

The central bank is the apex monetary authority of a country (e.g., RBI in India). Its functions include:

- Issuer of currency
- Banker to the government and banks
- Controller of credit and money supply

- Custodian of foreign exchange reserves

8 Marks Questions

Q7. Discuss the significance of the banking system in economic development.
Answer:
The banking system plays a crucial role in economic development by:
- Mobilizing savings and channeling them into productive uses
- Facilitating payments and settlements
- Providing credit to agriculture, industry, and trade
- Promoting financial inclusion
- Acting as an intermediary to ensure efficient allocation of resources
- Supporting government's monetary policy for economic stability

Chapter 4: Determination of Income and Employment

2 Marks Questions

Q1. What is the aggregate demand?
Answer: Aggregate demand is the total demand for final goods and services in an economy at a given time and price level.

Q2. Define equilibrium level of income.
Answer: The equilibrium level of income is the level where aggregate demand equals aggregate supply.

3 Marks Questions

Q3. What are the components of aggregate demand?
Answer:
- Consumption expenditure
- Investment expenditure
- Government expenditure
- Net exports (exports minus imports)

Q4. Explain the concept of aggregate supply.
Answer: Aggregate supply is the total quantity of goods and services produced in an economy at a given overall price level.

4 Marks Questions

Q5. What is the importance of investment in income determination?
Answer:
Investment is important because it creates additional demand, generates income, and increases employment, thus influencing the level of national income.

5 Marks Questions

Q6. Explain how the equilibrium level of income is determined in a two-sector economy.
Answer:
In a two-sector economy (households and firms), equilibrium income is determined where aggregate demand equals aggregate supply. The aggregate demand consists of consumption and investment. When total production equals total expenditure, the

economy is in equilibrium.

8 Marks Questions

Q7. Discuss the role of consumption function in determining income and employment.

Answer:

The consumption function shows the relationship between income and consumption expenditure. It helps understand how much of the income will be spent and how much saved. Changes in consumption affect aggregate demand and thus influence the level of income and employment. The higher the consumption, the higher the aggregate demand, leading to increased production and employment.

Chapter 5: Government Budget and the Economy

2 Marks Questions

Q1. What is a government budget?

Answer: A government budget is a financial statement presenting the estimated receipts and expenditures of the government for a specific period, usually a year.

Q2. Define revenue receipts.

Answer: Revenue receipts are the income received by the government from its normal activities, such as taxes, fees, and fines, which do not create liabilities or reduce assets.

3 Marks Questions

Q3. Differentiate between revenue budget and capital budget.

Answer:

- Revenue budget includes revenue receipts and revenue expenditures.
- Capital budget includes capital receipts and capital expenditures related to creation of assets or liabilities.

Q4. What is fiscal deficit?

Answer: Fiscal deficit is the excess of total government expenditure over total receipts excluding borrowings.

4 Marks Questions

Q5. Explain the objectives of government budget.

Answer:

- To ensure proper allocation of resources.
- To maintain economic stability.
- To reduce inequality of income and wealth.
- To promote economic growth.
- To control inflation.

5 Marks Questions

Q6. Discuss the significance of a balanced budget.

Answer:

A balanced budget helps maintain fiscal discipline, prevents excessive borrowing, controls inflation, and promotes sustainable economic growth. It ensures that government's revenue matches its expenditure.

8 Marks Questions

Q7. Explain the impact of government budget on the economy.

Answer:

The government budget affects the economy in several ways:

- Influences the level of aggregate demand through government spending and taxation.
- Helps redistribute income by taxing the rich and spending on social services.
- Controls inflation by managing public expenditure and receipts.
- Encourages economic growth by allocating funds to productive sectors.
- Addresses unemployment through public works and welfare schemes.

Chapter 6: Balance of Payments

2 Marks Questions

Q1. What is Balance of Payments (BoP)?

Answer: Balance of Payments is a systematic record of all economic transactions between residents of a country and the rest of the world during a specific period.

Q2. Define current account in BoP.

Answer: The current account records all transactions related to goods, services, income, and current transfers between a country and the rest of the world.

3 Marks Questions

Q3. What are the components of the capital account?

Answer: The capital account includes capital transfers, acquisition or disposal of non-produced, non-financial assets, and transactions of financial assets and liabilities.

Q4. Differentiate between BoP surplus and BoP deficit.

Answer:

- BoP surplus occurs when inflows of foreign exchange exceed outflows.
- BoP deficit occurs when outflows of foreign exchange exceed inflows.

4 Marks Questions

Q5. Explain the causes of BoP deficit.

Answer:

- Excess imports over exports.
- High foreign debt repayments.
- Unfavorable terms of trade.
- Decline in foreign investment.
- Economic recession.

5 Marks Questions

Q6. Discuss the measures to correct BoP deficit.

Answer:

- Devaluation of currency to make exports cheaper.
- Import restrictions and tariffs.
- Promotion of exports through subsidies.

- Encouraging foreign investment.
- Borrowing from international financial institutions.

8 Marks Questions

Q7. Explain the structure and components of Balance of Payments account.

Answer:

The Balance of Payments account has two main parts:

1. **Current Account:** Records trade in goods and services, income from abroad, and current transfers.
2. **Capital and Financial Account:** Records capital transfers, foreign investments, loans, and banking capital.

Together, these accounts show all financial transactions between the residents of a country and foreigners. The balance ensures that the sum of current account balance and capital/financial account balance is zero, reflecting that all inflows and outflows of foreign exchange are accounted for.