

Guidance Notes – P.E.M subject

1. When a question on either Oligopoly or Monopoly is asked.

Ans: Define Oligopoly with features and characteristics along with examples of the same. Similarly, for pure monopoly features and characteristics with examples would get you full marks.

2. Study Keynes theory on Business Cycles.

Answer: First provide economic definition of Keynes theory.

Then record the factors influencing aggregate demand.

Record factors that create employment and lead to an increase in economic activity.

Draw the diagram if you remember.

3. When a question comes on different types of unemployment.

- Ans: define unemployment as –

Unemployment can also be defined as a situation where a person actively searches for employment but is unable to find work.

In this definition, people who leave the workforce for reasons such as

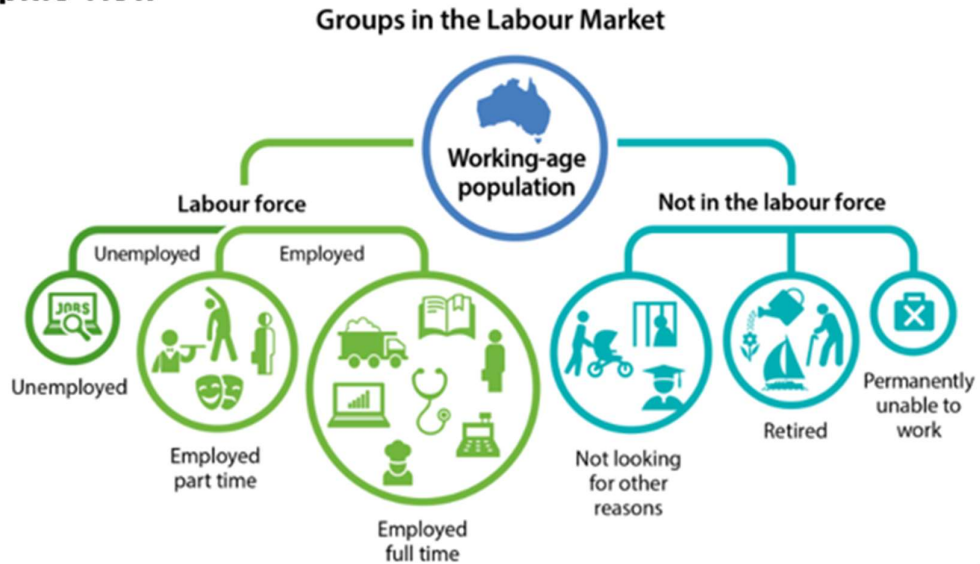
Retirement, higher education and parental leave are not included.

Diagram also



Unemployment

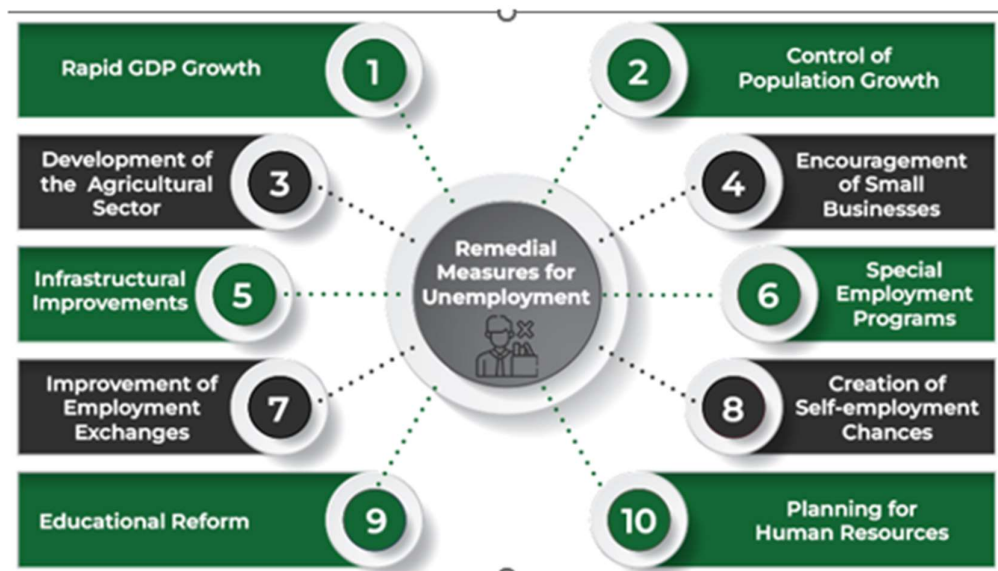
Graphic view



Unemployment types:

- Cyclical Unemployment – Definition and examples
- Structural unemployment – Definition and examples
- Frictional unemployment – Definition and examples.

Unemployment - Remedial



4. Objectives of Monetary policy.

5. What are the Constituents of Fiscal policy. Define them?

Ans: Explain what does Fiscal policy imply and write all the three constituents exactly as described in lecture notes.

6. For question on primary functions of Central Bank / RBI ?

Ans: Write –

Fiscal Policy is the policy under the Government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on National Income, production and employment. It is a policy of shaping public taxation and public expenditure so as to help to control the swings of business cycles and to contribute towards creation of High employment economy which is free from inflation or deflation.

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Three components of Fiscal policy exactly as discussed in lectures with examples.

7. Explain functions and definitions of money?

Ans: Write the three functions of money as discussed in lectures and recorded in lecture notes.

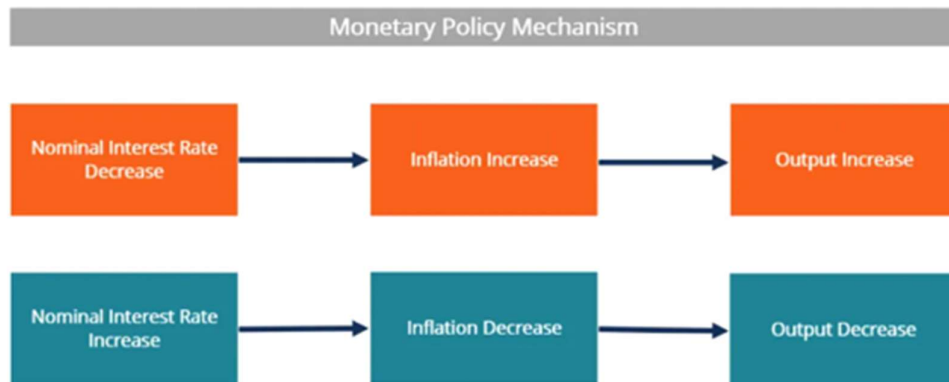
8. Explain Fisher theory of interest rates and inflation?

Ans: The Fisher Effect is a theory describing the relationship between both real and nominal interest rates, and inflation. The theory states that the nominal rate will adjust to reflect the changes in the inflation rate in order for products and lending avenues to remain competitive.

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Theory

The Fisher effect refers to the relationship between nominal interest rates, Real interest rates and inflation expectations.



Explain each of the parameters in brief.

The relationship is described by the following equation:

$$(1+i) = (1+r) * (1+\pi)$$

Where:

- i = Nominal Interest Rate
- r = Real Interest Rate
- π = Expected Inflation Rate

The Fisher Effect is an important relationship in macroeconomics. It describes the causal relationship between the **nominal interest rate** and inflation. It states that an increase in nominal rates leads to a decrease in inflation. The key assumption is that the real interest rate remains constant or changes by a small amount.

9. Describe the primary functions of the Central Bank (RBI)?

Ans: Write the six functions of RBI in details:

- a. The monopoly of Note Issue.
- b. Banker's Bank.
- c. Banker to Government
- d. Controller of Credit.
- e. Regulator and Supervisor of Payment and Settlement Systems
- f. Regulated function.

10. Record 10 principles of economics?

Ans: Write the 10 principles of economics in detailed.

**HOW PEOPLE
MAKE DECISIONS**

- #1: People Face Tradeoffs
- #2: The Cost of Something Is What You Give Up to Get It
- #3: Rational People Think at the Margin
- #4: People Respond to Incentives

HOW PEOPLE INTERACT

- #5: Trade Can Make Everyone Better Off
- #6: Markets Are Usually a Good Way to Organize Economic Activity
- #7: Governments Can Sometimes Improve Market Outcomes

**HOW THE ECONOMY
AS A WHOLE WORKS**

- #8: A Country's Standard of Living Depends on Its Ability to Produce Goods and Services
- #9: Prices Rise When the Government Prints Too Much Money
- #10: Society Faces a Short-Run Tradeoff between Inflation and Unemployment