

8:15 - 10:15

11

Unit : 2 Eco (macro Economics)

Macroeconomics

- deals with
 - money & income & employment
 - money of general price level & inflation
 - money of economic growth
 - Macroeconomics money of distribution

• Money metal
 paper

credit money non convertible

Bank money no intrinsic value

cheque, etc. diff denominations

dependent in facilitating all transactions

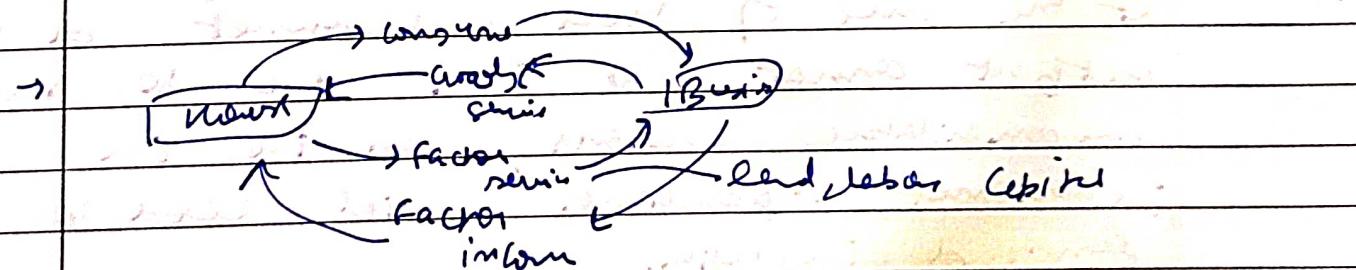
(make it dinner)

functions of Money

- (i) Medium of Exchange
- (ii) Credit Base
- (iii) Store of Value
- (iv) Standard of Deferred Payments
- (v) Distribution of Income

Qualities of Good Money

- (i) General Acceptability
- (ii) Malleability
- (iii) Durability
- (iv) Homogeneity
- (v) Portability
- (vi) Stability of value



(Index no.) (Value of money)

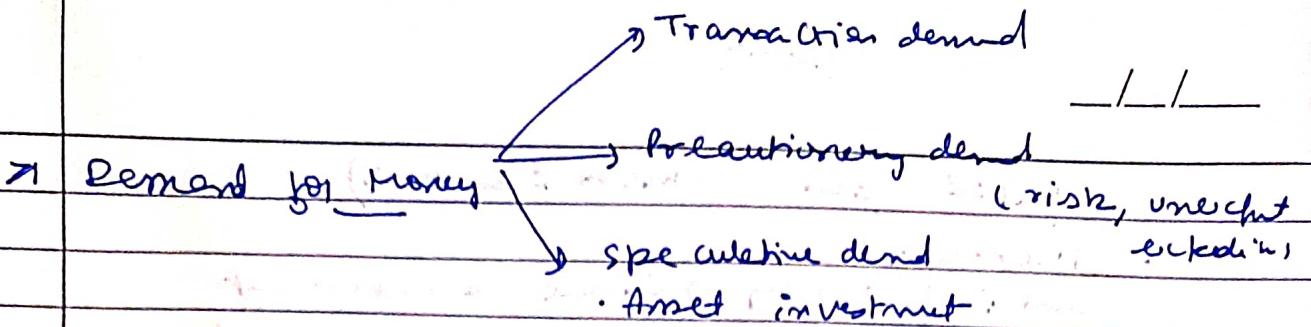
→ Supply of money - Amt of money in circulation demand deposit in bank

- Create by fiscal policy (taxes)

- Commercial Bank By Demand deposits

- Central Bank → By print

Cash



Inflation

Monetary Phenomenon where price rises due to inc in circulation of money.

indefinite stays in developing areas after stay of full employment after exists with underemployment of resources

Classification of Inflation

- On basis of its cause
- (i) Cross Demand Full Inflation:
Cause: Pressure of ever rising demand on a stagnant or less rapidly inc supply of goods & services
- Since the economy is already operating at the level of full employment or the output cannot be inc due to some unavoidable reasons, an inc in investment expenditure will lead to demand inflation.

inc in Money supply

↓

fall in interest rate

↓

inc in invest

↓

inc in Money inc

inc in demand of

goods & ser

↑ inc in

prices & costs

(W) Last Rule Inspection

Charge - due to Pm & for pref^m cost

→ inc im wagg
→ inc im
Projekt

On the basis of rate of Inflation

Heavy traffic

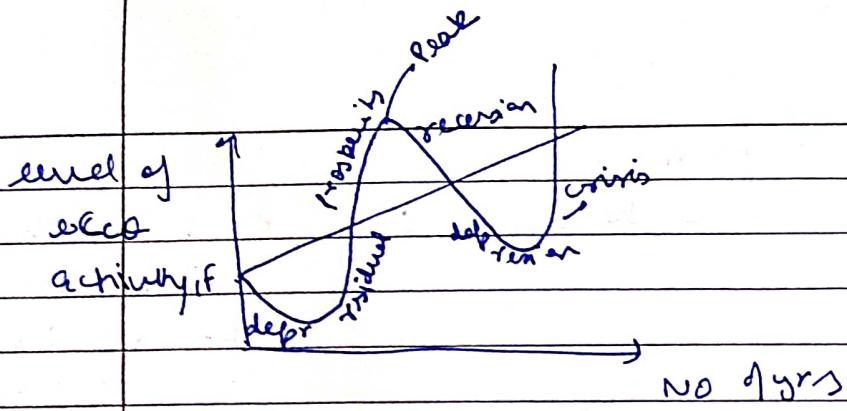
Creeping \downarrow Running \uparrow Creeping
 53°. Waiting 37° 52°
 (3-9) (10-20)

→ Context Inference

- monetary & fiscal measure taken by govt
 - to control demand but inflation the target is to mop up surplus purchasing power from hands of public.
 - Main monetary policy is change in the rate and less in subsidies.
 - Cost push inflation cannot be easily controlled by monetary & fiscal measures because of strong resistance met by workers.
 - The Central Bank plays its role in maintaining a fine balance b/w controlling inflation without hampering the growth.

→ Business Cycle

- Business cycles are rhythmic fluctuations of an economy i.e. periods of prosperity followed by periods of depression.
 - Periods of prosperity contain in themselves seeds for depression.
 - The time period (waves) of prosperity & depression need not be of same amplitude.



→ 5 phases w/ trade cycle

Depression (During depression bad things happen in Mkt, Demand d/c)

ways to tackle

- inc efficiency
- cutting wages
- lay offs (retrenchment b/c ~ of staff)
- To reduce cost of

Recovery

- To create demand, engineers add value to the existing products through technological innovations
- optimisation → demand inc → prod~inc

Fuel Employment:

- recovery phase cont till economy reaches full employment
- all available resources are fully employed
- there may be some voluntary frictional unemployment

Inflation:

- beyond a level of full employment, rise in investment may lead to inc pressure on resources

Recession

- over optimisation paves way for pessimism which lead to recession
- Revival is very gradual but crash of boom is revival → sharp
- widespread unemployment

- Bank : (Joint Stock Fund)
- Subsidiary activities of Bank
 - (i) collection of cheques drawn for other banks
 - (ii) acceptance & collection of bills of exchange
 - (iii) dealing in foreign exchange against the settlement of overseas debts
 - (iv) stock exchange trustee & executor of business
 - (v) Bank locker facilities

→ Commercial Bank Central Bank

(i) Econ Profit (ii) Stimulate economic growth.

- | | |
|---|--|
| <ul style="list-style-type: none"> • Many • Private & Govt • Performs general banking & agency services for public • deals with public debt • NDPC | <ul style="list-style-type: none"> - only one - Central Bank - - - - - - for Govt - - - Commercial bk, other financial inst. - RBI |
|---|--|

→ Monetary Policy (Measures taken to control & regulate money & credit supply in economy)

- To control inflation → inc int in bank loan
- large scale wrench → dec int in bank loan
- By regulating Cash Reserve ratio, & Reverse ratio rate, supply of money, done by CB (RBI)

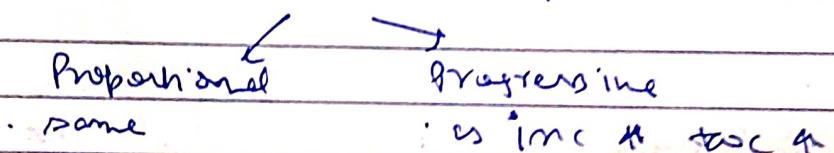
#1 Fiscal Policy

- Management of vol. of currency in circulation or mont of purchasing power of in hands of public through tax & subsidy.
- High rate of tax \rightarrow \downarrow purchasing power \rightarrow Inflation
- Subsidy is given to farmers to induce farmers to use fertilizers \uparrow farm productivity

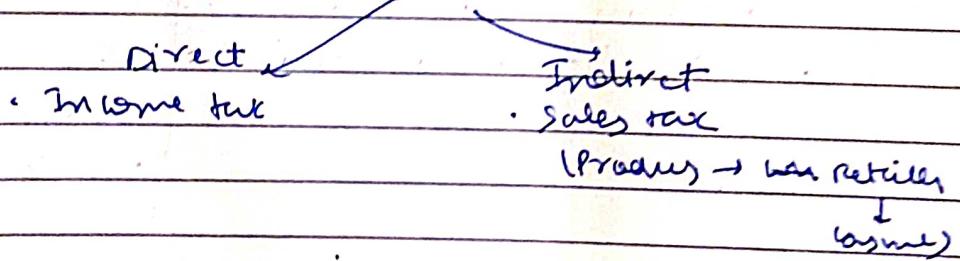
\rightarrow Tax - certain, timely, economical to collect
- compulsory contributors by citizens

Types

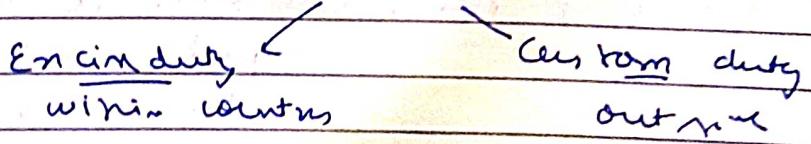
On basis of rate of taxation



On basis of burden of tax



On basis of place of prodⁿ



\rightarrow Subsidy: (Part of cost of prodⁿ paid by govt below price)

Reasons:

- Food subsidy (to lower price used by well-off section of society)
- To promote eco friendly ((NG))

→ In order to curb free trade of Pronte home

Tariff Barrier

Non Tariff Barrier

can control
price

- Tax imposed by govt. on goods that are inputs.

- Govt. control price & Q'ty. of some govt regulations

- Specific (£10 on £1)

- Direct price increase
- subsidies

- Ad Valorem (10% on £1)

- Quantity control imports

- Import
(Btm)

- duty: restriction on quantity of good that can be imported
- VER (Voluntary Export Restraints)

→ Dumping

Dumping is sale of a good abroad at a price lower than the selling price of same good.

- Local Content Requirement

→ Intel's Dumping

- Labelling & Testing Standard

- (a) foothold in foreign mkt.
- (b) prias are low b/c of recession
- (c) To drive out foreign competition

- Sanitary & Phytosanitary measures - not cause food safety, animal, envirat, plant, forest, damage or concern

- Persistent dumping
- sales abroad at lower than home.
- Due to diff in demand curve in both.
- Foreign - elastic
Home - inelastic

- Permission

Administrative Barriers

- Legal
- Procedural

Balances of Payment (BOP)

- BOP will be balanced if amt of export = import
- Import > Export - Fault
- Inv L - Exp - Unfav.

BOT vs BOP

BOT = Balance of visible trade transactions.

BOP

- Transaction include goods, services, & Capital transfer.
- More complete & comprehensive as both Capital & Current acc.
- Current acc balance +

BOT

- Related to trade of goods only.
- less complete & comprehensive as only current trans.
- Export - Import

Capital acc balance

Goods
Services
Payments

FDI, FPI
Deposits
Other flows