LOVELY PROFESSIONAL UNIVERSITY

Transforming Education Transforming India

ECO950: EVERYDAY ECONOMICS

Section: EOE04

Task(CA-3)

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Q1: Define Economics. Explain Microeconomics and Macroeconomics in Detail.?

Ans: **Economics:** The study of economics is the study of how society uses its limited resources. Economics is a social science that deals with the production, distribution, and consumption of goods and services.

MacroEconomics: Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on the aggregate changes in the economy such as unemployment, growth rate, gross domestic product and inflation. Macroeconomics analyzes all aggregate indicators and the microeconomic factors that influence the economy. Government and corporations use macroeconomic models to help in formulating of economic policies and strategies.

MicroEconomics: Microeconomics is the study of individuals, households and firms' behavior in decision making and allocation of resources. It generally applies to markets of goods and services and deals with individual and economic issues. Microeconomic study deals with what choices people make, what factors influence their choices and how their decisions affect the goods markets by affecting the price, the supply and demand.

Q2: Describe aggregate demand and its components in detail.?

Ans: Aggregate demand is how many goods and services people buy. It's usually reported for a specific time period, such as month, quarter, or year.

Demand changes as the price increases. That's called the law of demand. It says people will want more goods and services when prices fall. They will buy less as prices increase.

Five Components of Aggregate Demand

There are five components of aggregate demand. Everything purchased in a country is the same thing as everything produced in a country. As a result, aggregate demand equals the gross domestic product of that economy. These are the same as the components of GDP.

1. Consumer Spending: That's what families spend on final products that aren't used for investment.
2. Investment spending by business. It only includes purchases of equipment, buildings, and inventory.
3. Government Spending: on goods and services. It does not include transfer payments, such as Social Security, Medicare, and Medicaid. They aren't included because they don't increase demand. These programs shift demand from one group (taxpayers) to another (beneficiaries).
4. Exports: That's demand from other countries.
5. Minus Imports. They are demands made by U.S. residents that can't be met by domestic production. So, the demand leaves the economic system of the United States.

Formula: AD = C + I + G +(X-M)

It describes the relationship between demand and its five components.

Aggregate Demand = Consumer Spending + Investment Spending + Government Spending + (Exports-Imports)

Q3: What is Fiscal Policy? Describe India's fiscal policy in recent years.?

Ans: Fiscal policy is the guiding force that helps the government decide how much money it should spend to support the economic activity, and how much revenue it must earn from the system, to keep the wheels of the economy running smoothly. Fiscal policy refers to changes in government expenditure and taxation to influence country's spending, employment and price levels. Government expenditure, also called public expenditure, and taxation occur at two main levels: National and Local. Government expenditure, tax income and public debt are important factors that influence the aggregate output, employment and prices in the economy.

There are two types of fiscal policy practised by Government :
The Govt. can adopt either type depending on circumstances or situations.

1. **Expansionary Fiscal Policy**: This policy is adopted to overcome un employment and recession problems. In recession, the economy suffers from rising unemployment, falling income and shrinking economic activity . The Government will increase public spending by undertaking public works programmes and reduce taxes. The effect of reducing tax rate will increase amount of disposable income.
2. **Contractionary Fiscal Policy**: This policy is adopted to overcome inflationary problems. During inflation, appropriate fiscal policy is to create budget surplus in order to reduce aggregate spending. The instruments used are increase in tax rates and reducing Govt. spending.

Fiscal policy in India is the guiding force that helps the government decide how much money it should spend to support the economic activity, and how much revenue it must earn from the system, to keep the wheels of the economy running smoothly. In recent times, the importance of fiscal policy has been increasing to achieve economic growth swiftly, both in India and across the world. Attaining rapid economic growth is one of the key goals of fiscal policy formulated by the Government of India. Fiscal policy, along with monetary policy, plays a crucial role in managing a country's economy.

Q4: What are financial markets? Explain primary and secondary financial markets of India?

Ans: When a company publicly sells new stocks and bonds for the first time, it does so in the primary capital market. In many cases, this takes the form of an initial public offering (IPO). When investors purchase securities on the primary capital market, the company offering the securities has already hired an underwriting firm to review the offering and create a prospectus outlining the price and other details of the securities to be issued.

Companies issuing securities via the primary capital market hire investment bankers to obtain commitments from large institutional investors to purchase the securities when first offered. Small investors are not often able to purchase securities at this point, because the company and its investment bankers seek to sell all of the available securities in a short period of time to meet the required volume and must focus on marketing the sale to large investors who can buy more securities at once. Marketing the sale to investors can often include a "road show or "dog and pony show ," in which investment bankers and the company's leadership travel to meet with potential investors and convince them of the value of the security being issued.

The secondary market is where securities are traded after the company has sold all the stocks and bonds offered on the primary market. Markets such as the New York Stock Exchange (NYSE), London Stock Exchange or Nasdaq are secondary markets. On the secondary market, small investors have a better chance of buying or selling securities, because they are no longer excluded from IPOs due to the small amount of money they represent. Anyone can purchase securities on the secondary market as long as they are willing to pay the price for which the security is being traded.

On the secondary market, a broker typically purchase the securities on behalf of an investor. The price of the security fluctuates with the market, and the cost to the investor includes the commission paid to the broker. The volume of securities traded also varies from day to day, as demand for the security fluctuates. The price paid by the investor is no longer directly related to the initial price of the security as determined by the first issuance, and the company that issued the security is not a party to any sale between two investors. However, the company can engage in a stock buyback on the secondary market.

Q5: What is a Balance of Payments of country? Explain Components of a BOP in detail.?

Ans: The balance of payments (BOP) is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.

The balance of payments (BOP), also known as balance of international payments, summarizes all transactions that a country's individuals, companies, and government bodies complete with individuals, companies, and government bodies outside the country. These transactions consist of imports and exports of goods, services, and capital, as well as transfer payments, such as foreign aid and remittances.

- The balance of payments include both the current account and capital account.
- The current account includes a nation's net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments.
- The capital account consists of a nation's imports and exports of capital and foreign aid.
- The sum of all transactions recorded in the balance of payments should be zero; however, exchange rate fluctuations and differences in accounting practices may hinder this in practice.

Q6: Write a detailed note on Globalization.?

Ans: Globalization is the spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade.

On the upside, it can raise the standard of living in poor and less developed countries by providing job opportunity, modernization, and improved access to goods and services. On the downside, it can destroy job opportunities in more developed and high-wage countries as the production of goods moves across borders.

Globalization motives are idealistic, as well as opportunistic, but the development of a global free market has benefited large corporations based in the Western world. Its impact remains mixed for workers, cultures, and small businesses around the globe, in both developed and emerging nations.

- Globalization has sped up to an unprecedented pace since the 1990s, with public policy changes and communications technology innovations cited as the two main driving factors.

- China and India are among the foremost examples of nations that have benefited from globalization.
- One clear result of globalization is that an economic downturn in one country can create a domino effect through its trade partners.