Unit 1

Q. No 1 **Explain the significance of generation of healthy aggregate demand for the economic growth of the country.**

Aggregate demand: Aggregate demand essentially means the total demand for the various good and the services with in the country.

Generation of sustainable healthy aggregate demand promotes economic growth and economic development of the country. Therefore it is rightly said that healthy total demand is an engine of growth.

When total demand for various consumer goods, industrial goods and various services is strong in that case the economy gets benefited in a following way.

1. Positive business sentiments prevail in the economy.

2. Positive investment climate prevail in an economy.

3. Industries and investment communities get positive encouragement.

4. Industries commit additional investment into the businesses.

5. Due to strong overall investment the process of industrialization gets necessary boost up.

6. More and more employment opportunities are created with in the country across all the sectors of an economy.

7. Due to employment people get regular stream of income.

8. It enhances the purchasing power of the individual,

9. Per capita income in the country gets increased.

10. Due to strong economic activism across all the sectors of an economy the gross domestic product of the country increases.

11. High level of GDP enhances the standard of living of the people.

Therefore overall strong demand for various products and the services is essential for the economic growth and economic prosperity of any nation.

Q. No. 2

Differentiate between Macro and Micro economics.

Macro-economics

Macroeconomics is a branch of economics study which brings under focus the broad picture of an economy. For example a study of Indian economy is a macroeconomics. It does not study a part of a whole but it studies the whole. Examples includes –

Total employment status of the country.

Total investment status in the economy.

Total exports of the country.

Total imports in to the country.

Total number of industries established in the country.

Total percentage of people living below the poverty line.

Micro-economics.

Micro economics on the other hand is the branch of economics which brings under focus the picture of an individual or group of individual. It does not study the whole but it studies only the part of a whole. Example includes –

What is the employment status of one or group of companies under textile industry?

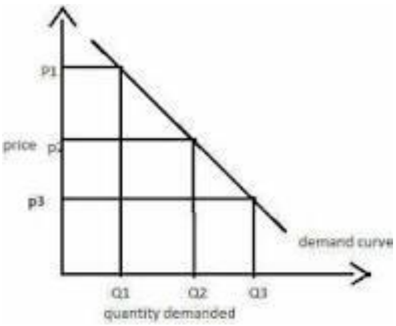
What is the level of prices for consumer goods like vegetables, fuel etc.

What are the prices of crude oil?

Q.No. 3. What is the law of demand?

The law of demand says that other factors being constant, the prices and demand for goods and services are inversely related. It means when the prices of goods and services are more the demand for them is less. Conversely when the prices of goods and services are less the demand for them is high.

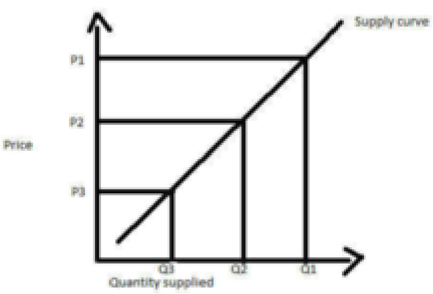
Diagram depicting the inverse relationship between price and demand.



Q.No.4. what is the law of supply.

The law of supply states that there is a positive relationship between price and the demand. It means when other factors being constant as the price level increases the supply also increase and vice versa. It means producers are willing to supply more when the prices are high because they earn more profit under higher prices scenario.

A diagram depicting the positive relationship between the price and supply.



Q.No. 5 Explain the concept of elasticity of demand.

Ans. Concept of elasticity of demand is also called as price elasticity of demand; it measures the change in demand due to change in the prices. In other words it measures how much the demand will fall if price is increased and how much demand will increase if the price is fall.

Formula for measuring the elasticity of demand.

$$\text{Price elasticity of demand (PE)} = \frac{\text{Percentage change in the quantity demanded}}{\text{Percentage change in the price}}$$

Various types of elasticity of demand are explained below.

1) **Elastic demand.**

Demand for the goods and services is said to be elastic when it is hyper sensitive towards increase or decrease in the prices.

For example if price of the product is increased marginally the demand for the product will fall substantially. This shows a hypersensitivity of the demand towards even a slight increase in the price.

Similarly when the price is decreased marginally the demand will increase substantially.

Example

Luxurious goods they face elastic demand in the market. They are the goods which are not essential for living the life. Therefore it is observed that even after a slight increase in the price of Air Conditioners the demand for them fall substantially and with slight fall in the prices of air conditioners the demand for them increases substantially.

2) **In-Elastic demand.**

Certain products they are less sensitive to the movement in price. It means although the price is increased substantially the demand for them will not fall substantially. Similarly when the prices are dropped substantially the demand for them will not increase substantially.

Example.

The goods which are necessary for life such as vegetables, medicine, water etc. face in-elastic demand. No matter how costly are the lifesaving drugs demands for them will not decrease. Similarly the vegetables and fruits which are perishable commodities in spite of their prices are dropped their consumption will not increase substantially.

3) **Unitary elastic demand.**

Unitary elastic demand states that the change in price and the change in the quantity demanded is exactly the same. It means if price is increased by 10% the demand will fall exactly by 10%.

Q, No.6. Illustrate what is called deflation.

Deflation is an economic phenomenon in which there is a sharp decline in the total demand for various goods and services. Due to sharp decline in the prices of commodities and services the prices also fall and supply of them also falls because now it is not profitable for the producers to sell the goods at low prices.

The possible causes of deflation are listed below.

1) **Drastic reduction in government spending.**

2) High rate of taxes.

3) Costly finances.

4) High unemployment.

5) High inflation

6) Tight money policy by the central bank.

Q.No. 7. Explain what is called recession.

Ans. Recession is an economic phenomenon in which the economic activity and the size of an economy shrink. The performance of various sectors of an economy like agriculture, manufacturing and services sector drops substantially.

As a result there is a general contraction in the economy.

Negative impact of recession on the economy is mentioned below.

1**. Reduction in gross domestic product of the country.**

2. Reduction in overall investment in the country.

3. Reduction in employment opportunities.

4. Reduction in per capita income of the country.

5. Increase in unemployment.

6. Increase in level of poverty.

7. Reduction in the standard of living of the people.

To overcome the recessionary trend the government and central bank takes following measures.

1. The government increase its public spending so that the people will get more money in their hand and they will spend and consume more.

2. The government at all level takes up mega projects across the country which provide large numbers of direct and indirect employment to the people so that the personal income and consumption can be increased.

3. The government reduces the direct and indirect taxes so that the disposable income with the people will increase.

4. The government announce massive tax incentives to the industry.

5. The central bank reduces the rate of interest so that the consumer finance, home loans and personal finance becomes affordable.