

JAYARANI MATRIC. HR. SEC. SCHOOL

XIIth

BEST SLOW BLOOMERS

Economics

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Jayarani Matric. Hr. Sec. School

XII- std



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LESSON-1 (2MARKS)

1. Define Macro Economics.

- Macros in Greek means 'large'. Macro Economics is a study of the economy as a whole.
- It deals with aggregates such as national income, employment and output.

2. Define the term 'Inflation'.

- Inflation refers to steady increase in general price level,

3. What is meant by an 'Economy'?

- An economy is referred to any system or area where economic activities are carried out.

4. Classify the economies based on status of development.

1. Developed economies.,
2. underdeveloped economies.,
3. undeveloped economies.
4. developing economies

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5. What do you mean by Capitalism?

- It is the system of total freedom and private ownership of means of production.

6. Define 'Economic Model'.

- A model is an explanation of how the economy, or part of the economy, works.

7. 'Circular Flow of Income' - Define.

- The circular flow of income is a model of an economy showing connections between different sectors of an economy.

LESSON- 2

8. Define National Income.

- "National Income is the total money value of all final goods and services produced in a country during a particular period of time".

9. Write the formula for calculating GNP.

- $GNP \text{ at Market Prices} = C + I + G + (X - M) + (R - P)$



**10. What is the difference between NNP and NDP?**

- The difference between NNP and NDP is net foreign factor income.

11. Trace the relationship between GNP and NNP.

- $GNP = GDP + \text{Net Factor income from Abroad}$
- $NNP = GNP - \text{depreciation allowance}$

12. What do you mean by the term 'Personal Income'?

- It is the total income received by the individuals of a country from all sources before-payment of direct taxes in a year.

13. Define GDP deflator.

GDP deflator is an index of price changes of goods and services.

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

14. Why is self consumption difficult in measuring national income?

- Farmers keep a large portion of food and other goods produced on the farm for self consumption.

LESSON-3**15. Define full employment.**

- Full employment refers to a situation in which every able bodied person who is willing to work at the prevailing wage rate, is employed.

16. What is the main feature of rural unemployment ?

- The major feature of rural unemployment is the existence of unemployment in the form of disguised unemployment and seasonal unemployment.

17. Give short note on frictional unemployment.

- Frictional unemployment arises due to imbalance between supply of labour and demand for labour.

18. Give reasons for labour retrenchment at present situation.

- Now a days, invention and innovations lead to the adoption of new techniques there by the existing workers are retrenched.

19. List out the assumptions of Say's law. (Any Two)

- No single buyer or seller of commodity or an input can affect price.
- Full employment.

**20. What is effective demand ?**

- Effective demand denotes money actually spent by the people on products of industry.

21. What are the components of aggregate supply ?

- $\text{Aggregate Supply} = C + S + T + R_f$.

LESSON-4**22. What is consumption function?**

- $C = f(Y)$ C-Consumption, Y-Income f = Function

23. What do you mean by propensity to consume?

- Propensity to consume refers to **income consumption relationship**.

24. Define average propensity to consume (APC).

- $APC = C / Y$
- C-consumption, Y-Income

25. Define marginal propensity to consume.(MPC)

- $MPC = \Delta C / \Delta Y$

26. What do you mean by propensity to save?

- Propensity to save refers to income and saving relationship.

27. Define average propensity to save (APS).

- It is the ratio of total savings to total income.
- $APS = S / Y$.

28. Define Marginal Propensity to Save (MPS).

- Marginal Propensity to Save is the ratio of change in saving (ΔS) to a change in income. (ΔY)
- $MPS = \Delta S / \Delta Y$

29. Define Multiplier.

- $K = \Delta Y / \Delta I$.
- change in income. (ΔY) / change in the Investment (ΔI)

30. Define Accelerator.

- $\text{Accelerator } (\beta) = \Delta I / \Delta C$
- change in the Investment (ΔI) / change in the Consumption (ΔC)





LESSON-5

31. Define Money.

“ Money is, what money does” - Walker.

32. What is barter?

- Exchange of goods for goods was known as “Barter Exchange” or “Barter System

33. What is commodity money?

- Commodity money has value in itself and value in its use of money.
- Example: Jewels

34. What is gold standard?

- It is a system in which the standard currency is directly linked with gold.

35. What is plastic money? Give example.

- It is the advanced form of financial products and it is an alternative to cash.
- Example: Credit cards, Debit cards, smart cards

36. Define inflation.

- “Too much of Money chasing too few goods” - Coulbourn.

37. What is Stagflation?

- Stagflation is a combination of stagnant economic growth, high unemployment and high inflation.

LESSON- 06

38. Define Commercial banks.

- According to Crowther “ The Banker’s business is to take the debts of other people to offer his own in exchange and there by create money”.

39. What is credit creation?

- Credit Creation means the multiplication of loans and advances.

40. Define Central bank.

- According to Samuelson “a central bank is a bank of bankers. Its duty is to control the monetary base and through control of high-powered money to control the community’s supply of money.

41. Distinguish between CRR and SLR.

- **Statutory Liquidity Ratio (SLR):** It is the amount which a bank has to maintain in the form of cash, gold or approved securities.
- **Cash Reserve Ratio (CRR):** Banks are required to hold a certain proportion of their deposits in the form of cash with RBI. This is known as CRR.

**42. Write the meaning of Open market operations**

- The Central Bank starts the purchase and sale of Government securities in the money market

43. What is rationing of credit?

- This is the oldest method of credit control. It aims to control and regulate the purposes for which credit is granted by commercial banks.

44. Manson the functions of agriculture credit department.

- To maintain an expert staff to study all questions on agricultural credit.
- To provide expert advice to Central and State Government.

LESSON-9**45. Define public finance.**

- "Public finance is an investigation into the nature and principles of the state revenue and expenditure". - Adam Smith

46. What is public revenue?

- The income of the government through all sources is called public income or public revenue.

47. Differentiate tax and fee.

- Tax is a compulsory payment by the citizens to the government.
- Fee is charged by public authorities for rendering a service to the citizens

48. Write a short note on zero based budget.

- The Government of India presented Zero-Base-Budgeting in 1987-88. It involves fresh evaluation of expenditure in the Government budget, assuming it as a new item.

49. Give two examples for direct tax.

- Corporation tax
- Income tax

50. What are the components of GST? The components of GST are..

- 1.CGST, 2.SGST 3.IGST

51. What do you mean by public debt?

- The amount of borrowing from individuals, and institutions within and outside the country, by the government is called public debt.



LESSON-10

52. State the meaning of environment.

- Environment means “all the conditions, circumstances, and influences surrounding and affecting the development of an organism or group of organisms”.

53. What do you mean by ecosystem?

- An ecosystem includes all living things (plants, animals and organisms) in a given Area, interacting with each other, and also with their non-living environments (weather, earth, sun, soil, climate, atmosphere).

54. Mention the countries where per capita carbon dioxide emission is the highest in the world.

- United States of America, Canada, Australia, South Korea.

55. What are environmental goods? Give examples.

- Environmental goods are typically non-market goods.
- Clear air, clean water, public parks, urban parks, rivers, mountains, forests, and beaches.

56. What are the remedial measures to control noise pollution?

- Use of noise barriers
- Regulation of Loudspeakers

57. Define Global warming.

- Global warming is the current increase in temperature of the Earth's surface (both land and water) as well as its atmosphere.

58. Specify the meaning of seed ball.

- A seed ball is a seed that has been wrapped in soil materials, usually a Mixture of clay and compost, and then dried.



**LESSON- 01 (3 MARKS)****1. State the importance of Macro Economics.**

- There is a need to understand the functioning of the economy at the aggregate level .
- Understanding the future problems.
- Macro economics helps to make meaningful comparison and analysis of economic indicators.
- Macro economics helps formulate suitable policies to avoid economic crises.

2. Describe the different types of economic systems.

- 1. Capitalistic economy (Free market economy)
- 2. Socialistic economy (Fully controlled by government)
- 3. In a mixed economy. (both public and private sector)

**3. Outline the major merits of capitalism.**

- 1. Automatic Working
- 2. Efficient Use of Resources
- 3. Incentives for Hard work
- 4. Consumers Sovereignty

4. Indicate the demerits of socialism.

- Red Tapism and Bureaucracy. o Absence of Incentive
- Limited Freedom of Choice
- Concentration of Power.

**5. Enumerate the features of mixed economy.**

- Ownership of Property and Means of Production.
- Coexistence of Public and Private Sectors
- Economic Planning.
- Solution to Economic Problems.
- Freedom and Control

6. Distinguish between Capitalism and Globalism.

- Capitalistic economy is also termed as a free economy where the role of the government is minimum and market determines the economic activities.
- This ideology is also termed as 'Extended Capitalism'.





7. Briefly explain the two sector circular flow model.

There are only two sectors namely,

- **Household Sector:**

- The household sector is the sole buyer of goods and services, and the sole supplier of factors of production, i.e., land, labour, capital and organisation.

- **Firms:**

- The firm sector generates its revenue by selling goods and services to the household sector.

LESSON- 2

8. Write a short note on per capita income.

- The average income of a person of a country in a particular year is called Per Capita Income.
- Per capita income is obtained by dividing national income by population.
- Per Capita income = National Income / Population.

9. Differentiate between personal and disposable income.

- Personal Income = National Income - undistributed corporate profits + Transfer payments.
- Disposable Income = personal income – direct tax.

10. Explain briefly NNP at factor cost.

- NNP refers to the market value of output.
- Whereas NNP at factor cost is the total of income payment made to factors of production.
- NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.

11. Give short note on Expenditure method.

- Under this method, the total expenditure incurred by the society in a particular year is added together.
- *Symbolically,* $GNP = C + I + G + (X-M)$
 - C - Private consumption expenditure
 - I - Private Investment Expenditure
 - G - Government expenditure, X-M = Net exports

12. What is the solution to the problem of double counting in the estimation of national income?

- To avoid double counting either the value of the final output should be taken into the estimate of GNP or the sum of values added should be taken.
- Double counting is to be avoided under the valued added method.

**13. Write briefly about national income and welfare.**

- National Income is considered as an indicator of the economic wellbeing of a country.
- A country with a higher per capita income is supposed to enjoy greater
- Economic welfare with a higher standard of living.

14. List out the uses of national income.

- To know the relative importance of the various sectors of the economy.
- To formulate the national policies such as monetary policy, fiscal policy and other policies.
- To formulate planning and evaluate plan progress.
- To build economic models both in short - run and long - run.

LESSON-3**15. Explain the following in short :(i) Seasonal unemployment (ii) Frictional unemployment (iii) Educated unemployment****(I) SEASONAL UNEMPLOYMENT.**

- This type of unemployment occurs during certain seasons of the year. In agriculture and agro based industries.

II) FRICTIONAL UNEMPLOYMENT.

- Frictional unemployment arises due to imbalance between supply of labour and demand for labour.

III) EDUCATED UNEMPLOYMENT.

- Sometimes educated people are underemployed or unemployed when qualification does not match the job.

16. Write short note on the implications of Say's law.

- There is no possibility for over production or unemployment.
- If there exist unutilized resources in the economy.
- As automatic price mechanism operates in the economy.
- Flexible interest rates.
- Money performs only the medium of exchange function in the economy.

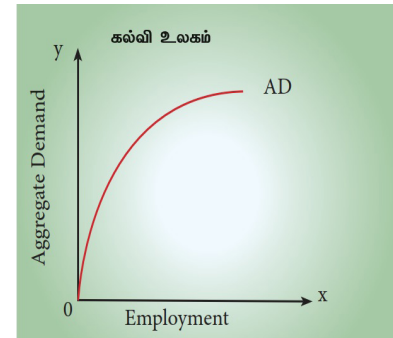
17. Explain Keynes' theory

- Keynes's theory was a general theory as it tried to explain all types of situations, i.e. not only equilibrium level of employment but also the concept of full employment as well as the possibility of underemployment.
- Keynes's theory of employment was based on the view of the short run.
- According to him, the factors of production such as capital goods, supply of labour, technology and efficiency of labour remain unchanged while determining the level of employment



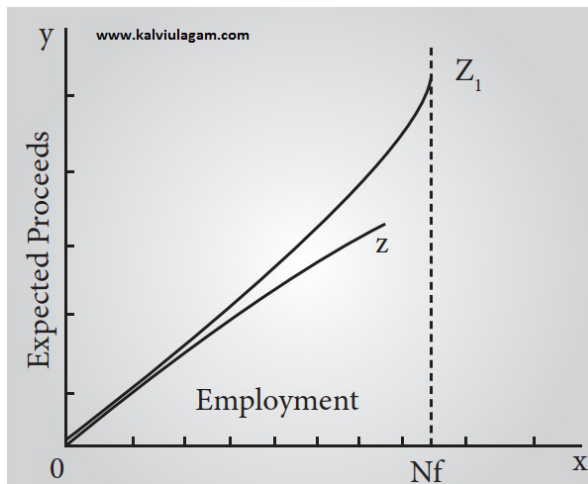
18. What do you mean by aggregate demand ? Mention its components.

- The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed.
- Aggregate demand has the following four components:
 - Consumption Demand (C)
 - Investment Demand (I)
 - Government Expenditure (G)
 - Net Export (export - import) (X-M)
- $AD = C + I + G + (X - M)$



19. Explain about aggregate supply with the help of diagram.

Aggregate supply function is an increasing function of the level of employment. In other words, aggregate supply is equal to the value of national product, i.e., national income.



- **Z curve is linear** where money wages remains fixed.
- **Z1 curve is non - linear** since wage rate increases with employment.
- When full employment level of N_f is reached it is impossible to increase output by employing more men.
- So aggregate supply curve becomes inelastic (Vertical straight line).

20. Write any five differences between classism and Keynesianism.

No	Keynesianism	Classicism
1	Short-run equilibrium	Long-run equilibrium
2	Saving is a vice	Saving is a social virtue.
3	The function of money is a medium of exchange on the one side and a store of value on the other side	The function of money is to act as a medium of exchange
4	Demand creates its supply	Supply creates its own demand

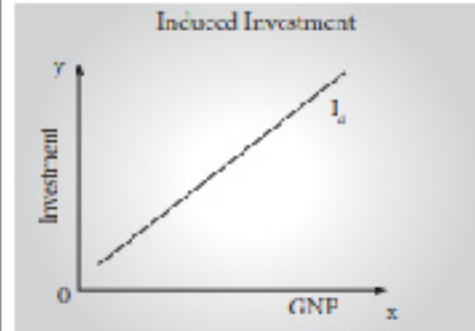
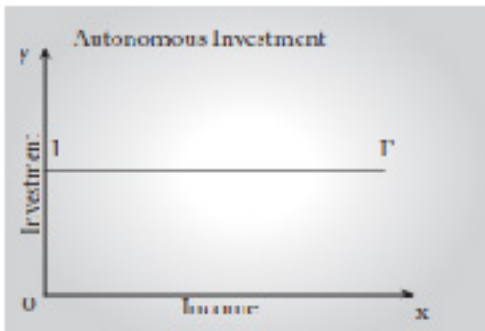


21. State the propositions of Keynes's Psychological Law of Consumption.

- (1) When income increases, consumption expenditure also increases but by a smaller amount.
- (2) The increased income will be divided in some proportion between consumption expenditure and saving.
- (3) Increase in income always leads to an increase in both consumption and saving.

22.2. Differentiate autonomous and induced investment.

S.No	Autonomous Investment	Induced Investment
1.	Independent	Planned
2.	Income inelastic	Income elastic
3.	Welfare motive	Profit Motive



23. Explain any three subjective and objective factors influencing the consumption function.

	Subjective Factors	Objective Factors.
1	The motive of precaution.	Income Distribution
2	The motive of foresight.	Price level
3	The motive of financial independence.	Interest rate.

24. Mention the differences between accelerator and multiplier effect.

S.No	Accelerator	Multiplier
1.	An initial change in aggregate demand can have a much greater final impact on equilibrium national income.	The accelerator effect is when an increase in national results in a proportionately larger rise in income reseedment.
2.	Change in consumption forms the effect	Change in investment forms the effect
3.	$\beta = \Delta I / \Delta C$	$K = \Delta Y / \Delta I$
4.	The accelerator coefficient	Investment multiplier

**25. State the concept of super multiplier.**

- The super multiplier is greater than simple multiplier which includes only autonomous investment and no induced investment, while super multiplier includes induced investment.
- In order to measure the total effect of initial investment on income, Hicks has combined the k and β mathematically and given it the name of the Super Multiplier.
- **Super multiplier = $K + \beta$**

26. Specify the limitations of the multiplier.

- It assumes an instantaneous relationship between income, consumption and investment—it is a timeless phenomenon.
- It ignores the influence of induced consumption on induced investment.
- Further, its sole emphasis on consumption is also not proper.

LESSON -5**27. Write a note on metallic money.**

- Under the modern money systems metallic standard is the premier one.
- Under metallic standard, some kind of metal either gold or silver is used to determine the standard value of the money and currency.
- Standard coins made out of the metal are the principal coins used under the metallic standard.

28. What is money supply?

- Money supply means the total amount of money in an economy.
- It refers to the amount of money which is in circulation in an economy at any given time.
- RBI publishes information for four alternative measures of Money supply,
- namely M1, M2, M3 and M4.

29. What are the determinants of money supply?

- 1. Currency Deposit Ratio (CDR)
- 2. Reserve deposit Ratio (RDR)
- 3. Cash Reserve Ratio (CRR)
- 4. Statutory Liquidity Ratio (SLR)



**30. Write the types of inflation.****I. ON THE BASIS OF SPEED-**

- (i) Creeping inflation
- (ii) Walking inflation
- (iii) Running inflation and
- (iv) Galloping inflation or Hyperinflation.

**II. DEMAND-PULL INFLATION AND COST-PUSH INFLATION****III. OTHER TYPES OF INFLATION (ON THE BASIS OF INDUCEMENT)**

- i) Currency inflation
- ii) Credit inflation:
- iii) Deficit induced inflation
- iv) Profit induced inflation.

31. Explain Demand-pull and Cost push inflation.**I) DEMAND-PULL INFLATION:**

- If the demand is high for a product and supply is low, the price of the products increases.

II) COST-PUSH INFLATION:

- When the cost of raw materials and other inputs rises inflation results.
- Increase in wages paid to labour also leads to inflation.

32. State Cambridge equations of value of money.**I) MARSHALL'S EQUATION**

- The Marshall equation is expressed as:

$$M = KPY$$

II) KEYNES' EQUATION

- Keynes equation is expressed as:

$$n = pk \quad n = p(k + rk') \text{ or}$$

$$p = n/(k + rk')$$

33. Explain disinflation.

- Disinflation is the slowing down the rate of inflation by controlling the amount of credit (bank loan, hire purchase) available to consumers without causing more unemployment.
- Disinflation may be defined as the process of reversing inflation without creating unemployment or reducing output in the economy.



**LESSON-9****34. Describe canons of Taxation.**

- **Canon of Ability:-**
 - The people have to pay taxes according to their ability. In such case a rich person should pay more tax compared to others.
- **Canon of Certainty:**
 - The Government must ensure that there is no uncertainty regarding the rate of tax or the time of payment.
- **Canon of Convenience:-**
 - The method of tax collection and the timing of the tax payment should suit the convenience of the people.
- **Canon of Economy:-**
 - According to Smith, the Government should impose only those taxes whose collection costs are very less and cheap .

35. Mention any three similarities between public finance and private finance.

- **1. Rationality**
 - Both public finance and private finance are based on rationality.
 - Maximization of welfare and least cost factor combination underlie both.
- **2. Limit to borrowing**
 - Both have to apply restraint with regard to borrowing.
- **3. Resource utilization**
 - Both the private and public sectors have limited resources at their disposal.
 - So both attempt to make optimum use of resources.

36. What are the functions of a modern state?

- **1. Defence :**
 - The primary function of the Government is to protect the people from external aggression and internal disorder.
- **2. Social Welfare :**
 - It is the duty of the state to make provisions for education, social security, social insurance, health and sanitation for the betterment of the people in the country.
- **3. Judiciary:**
 - Rendering justice and settlement of disputes are the concern of the government.
- **4. Infrastructure :**
 - Modern States have to build the base for the economic development of the country by creating social and economic infrastructure.



**37. State any three characteristics of taxation.**

- 1. A tax is a compulsory.
- 2. Every tax involves some sacrifice on part of the tax payer.
- 3. A tax is not levied as a fine or penalty for breaking law.

38. Point out any three differences between direct tax and indirect tax.

DIRECT TAX	INDIRECT TAX.
Direct tax is referred to as the tax, levied on person's income and wealth and is paid directly to the government	Indirect tax is referred to as the tax, levied on a person who consumes the goods and services and is paid indirectly to the government
Progressive	Regressive
Falls of the same person	Falls on different persons
E.g. Income Tax	E.g. GST

**39. What is primary deficit?**

- Primary deficit shows the real burden of the government and it does not include the interest burden on loans taken in the past.
- primary deficit reflects borrowing requirement of the government exclusive of interest payments.

$$\text{Primary Deficit (PD)} = \text{Fiscal deficit (PD)} - \text{Interest Payment (IP)}$$

40. Mention any three methods of redemption of public debt.

- **1 Sinking Fund :-**

- Under this method, the Government establishes a separate fund known as "Sinking Fund".

- **2. Conversion :-**

- It means that an old loan is converted into a new loan.

- **3. Budgetary Surplus :-**

- When the Government presents surplus budget, it can be utilised for repaying the debt.

- **4. Terminal Annuity :-**

- In this method, Government pays off the public debt on the basis of terminal annuity in equal annual instalments.

- **5.Reduction in Rate of Interest**

- Another method of debt redemption is the compulsory reduction in the rate of interest, during the time of financial crisis.



LESSON -10

41. Brief the linkage between economy and environment.

- 1. Man's life is interconnected with various other living and non-living things.
- 2. The life also depends on social, political, ethical, philosophical and other aspects of economic system.
- 3. In fact, the life of human beings is shaped by his living environment.

42. Specify the meaning of material balance principle.

- The first law of thermodynamics, i.e. the law of conservation of matter and energy, emphasizes that in any production system "what goes in must come out".
- This is known as the Material Balance Approach or Material Balance Principle.
- The material flow diagram implies that mass inputs must equal mass outputs for every process.



43. Explain different types of air pollution.

TYPES OF AIR POLLUTION.

1. INDOOR AIR POLLUTION:

- It refers to toxic contaminants that we encounter in our daily lives in our homes, schools and workplaces.
- For example, cooking and heating with solid fuels on open fires or traditional stoves results in high levels of indoor air pollution.

2. OUTDOOR AIR POLLUTION:

- It refers to ambient air.
- The common sources of outdoor air pollution are caused by combustion processes from motor vehicles, solid fuel burning and industry.

44. What are the causes of water pollution?

CAUSES OF WATER POLLUTION:-

- Water pollution is caused due to several reasons. Here are the few major causes of water pollution.
 - 1. Discharge of sewage and waste water
 - 2. Dumping of solid wastes
 - 3. Industrial waste
 - 4. Oil Spill
 - 5. Acid rain
 - 6. Global warming
 - 7. Eutrophication





45. State the meaning of e-waste.

- Electronic waste which is commonly referred as “**e-waste**” is the new byproduct of the Info Tech society.
- Similarly, e-waste can be defined as the result when consumer, business and household devices are disposed or sent for re-cycling (example, television, computers, audio-equipment's, VCR, DVD, telephone, Fax, Xerox machines, wireless devices, video games, other household electronic equipment's).

46. What is land pollution? Mention the causes of land pollution.

- The land pollution is defined as, “the degradation of land because of the disposal of waste on the land”.

CAUSES OF LAND POLLUTION

- i. Deforestation and soil erosion
- ii. Agricultural activities
- iii. Mining activities
- iv. Landfills
- v. Industrialization
- vi. Construction activities
- vii. Nuclear waste

47. Write a note on a) Climate change and b) Acid rain

A) CLIMATE CHANGE:-

- Climate change refers to any significant change in temperature, precipitation, or wind patterns that occur over several decades or longer.

B) ACID RAIN :

- The result of sulphur dioxide (SO₂) and nitrogen oxides (NO_x) reacting in the atmosphere with water and returning to earth as rain, fog or snow



**LESSON-1 (5 MARKS)****1. Discuss the scope of Macro Economics.**

The study of macro economics has wide scope and it covers the major areas as follow:

1. National Income:

- Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis.

2. Inflation:

- Inflation refers to steady increase in general price level.

3. Business Cycle:

- Almost all economies face the problem of business fluctuations and business cycle.

4. Poverty and Unemployment:

- A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.

5. Economic Growth:

- The growth and development of an economy could be understood only through macro analysis.

6. Economic Policies:

- Macro Economics is significant for evolving suitable economic policies.

2. Compare the feature among Capitalism, Secularism and Mixedism.

	Features	Capitalism	Socialism	Mixedism
1	Ownership	Private Ownership	Public Ownership	Private Ownership <u>and</u> Public Ownership
2	Economic Motive	Profit	Social Welfare	Social Welfare <u>and</u> Profit Motive
4	Government Role	Internal Regulation only	Complete Involvement	Limited Role
5	Income Distribution	Unequal	Equal	Less unequal
6	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private <u>and</u> State Enterprises.
7	Economic Freedom	Complete Freedom	Lack of Freedom	Limited Freedom
8	Major Problem	Inequality	Inefficiency	Inequality <u>and</u> Inefficiency

**3. Illustrate the functioning of an economy based on its activities.**

- In an economy, the *fundamental economic activities* are production and consumption.
- The ultimate aim of these activities is to achieve growth.
- The '*exchange activity*' supports the production and consumption activities.
- These activities are influenced by several economic and non-economic activities.
- The *major economic activities* include transportation, banking, advertising, planning, government policy and others.

LESSON-2**4. Explain the importance of national income.****Importance of National Income:**

1. To know the relative importance of the various sectors of the economy.
2. To build economic models both in short - run and long - run.
3. To know a country's per capita income.
4. To know the distribution of income for various factors of production .
5. To arrive at many macro economic variables
6. To formulate the national policies such as monetary policy, fiscal policy.
7. To formulate planning and evaluate plan progress.

8. Discuss the various methods of estimating the national income of a country.**Methods of Measuring National Income.**

There are **three methods** that are used to measure national income.

1. Production or value added method
2. Income method or factor earning method
3. Expenditure method

1. PRODUCTION OR VALUE ADDED METHOD:

- Under this method, the gross value of output from different sectors like agriculture, industry, trade and commerce, etc., is obtained for the entire economy during a year.
- The value obtained is actually the GNP at market Prices.

2. INCOME METHOD (FACTOR EARNING METHOD):

- This method approaches national income from the distribution side.
- Under this method, national income is calculated by adding up all the incomes generated in the course of producing national product.

$$\underline{Y = w + r + i + \pi + (R-P)}$$



**3. THE EXPENDITURE METHOD (OUTLAY METHOD):**

- Under this method, the total expenditure incurred by the society in a particular year is added together.

Symbolically,

$$\text{GNP} = C + I + G + (X-M)$$

4. What are the difficulties involved in the measurement of national income?

1. Transfer payments
2. Difficulties in assessing depreciation allowance
3. Unpaid services
4. Income from illegal activities.
5. Production for self-consumption and changing price.
6. Capital Gains
7. Statistical problems

5. Discuss the importance of social accounting in economic analysis.**IMPORTANCE:**

- Classifying various economics transactions.
- Social accounting helps us to understand the structure of the body economic .
- Social accounts throw light on the relative importance of the different sectors and flows in the economy.
- Social accounts help in clarifying the relationships between concepts(NNPFC at NNPMC)
- It explain the movements of GNP.
- It provide the picture of the working of economy.
- It explaining interdependence of different sectors of the economy.

Lesson-3**6. Describe the types of unemployment.****TYPES OF UNEMPLOYMENT.****1.Cyclical Unemployment:-**

- Unemployment due to cyclical fluctuations in the economy.

2.Seasonal Unemployment:-

- This type of unemployment occurs during certain seasons of the year.

3.Frictional Unemployment:-

- Frictional unemployment arises due to imbalance between supply of labour and demand for labour.





4. Educated Unemployment:-

- Sometimes educated people are underemployed or unemployed when qualification does not match the job.

5. Technical Unemployment:-

- Modern technology being capital intensive requires less labourers and contributes to technological unemployment.

6. Disguised Unemployment:-

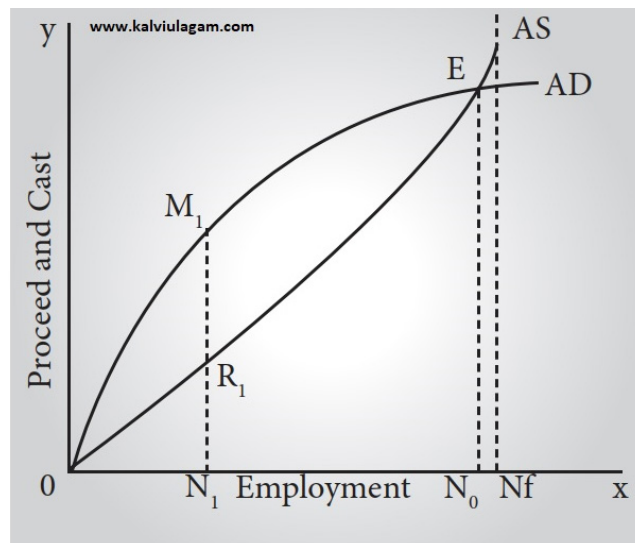
- Marginal productivity of labour is zero or less or negative.

7. Critically explain Say's law of market.

J.B. Say enunciated the proposition that "Supply creates its own demand".

- According to Keynes, supply does not create its demand.
- Automatic adjustment process will not remove unemployment. .
- Money is not neutral.
- Keynes said that over production is possible.
- Full employment is not possible in capitalistic countries.

8. Narrate the equilibrium between ADF and ASF with diagram.



The equilibrium between ADF and ASF is clearly shown in the figure.

1. The aggregate demand and aggregate supply reach equilibrium at point E. The employment level is N_0 at that point.
2. At ON_1 employment, the aggregate supply is Low, and the aggregate demand is high.
3. At all levels of employment beyond, ON_0 , the aggregate demand curve is below the aggregate supply curve indicating loss to the producers.

**9. Explain the differences between classical theory and Keynes theory.**

Keynesian	Classicism
Short-run equilibrium	Long-run equilibrium
Savings is a vice	Saving is a social virtue
The function of money is a medium of exchange on the one side and a store of value on the other side.	The function of money is to act as a medium of exchange.
Macro approach to national problems.	Micro foundation to macro problems.
State intervention is advocated.	Champions of laissez-fair policy.
Rate of interest is determined by the demand for and supply of money.	Rate of interest is determined by saving and investment.
Rate of interest is a flow.	Rate of interest is a stock.
Demand creates its own supply.	Supply creates its own demand.
Rate of interest is a reward for parting with liquidity.	Rate of interest is a reward for savings.

LESSON-5**10. Illustrate Fisher's Quantity theory of money.**

- The quantity theory of money is a very old theory.
- It was first propounded Davanzatti later popularized by Irving Fisher
- He gave it a quantitative form in terms of his famous "Equation of Exchange".

The general form of equation given by Fisher is **MV = PT**

Where,

- M = Money Supply/quantity of Money
- V = Velocity of Money
- P = Price level
- T = Volume of Transaction.

The above equation considers only currency money. But, in a modern economy, bank's demand deposits or credit money and its velocity play a vital part in business. Therefore, Fisher extended his original equation of exchange to include bank deposits M₁ and its velocity V₁. The revised equation was:

$$PT = MV + M_1 V_1$$

$$P = (MV + M_1 V_1) / T$$

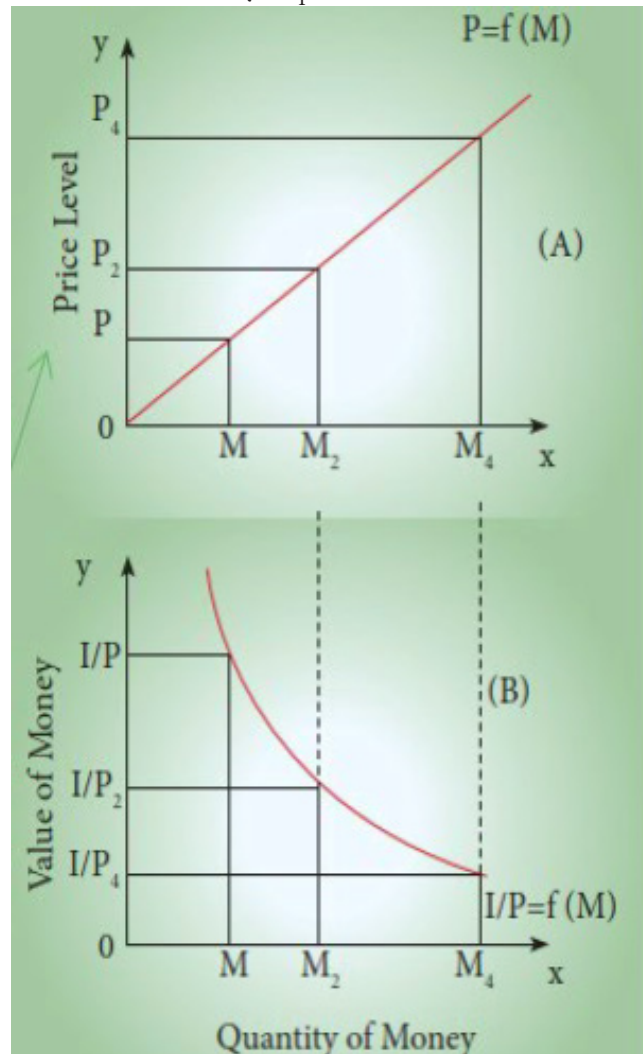
From the revised equation, it is evident, that the price level is determined by

- (a) the quantity of money in circulation 'M'
- (b) the velocity of circulation of money 'V'





- (c) the volume of bank credit money M_1
- (d) the velocity of circulation of credit money V_1 and the volume of trade (T)



11. Explain the functions of money.

1. PRIMARY FUNCTIONS:

- Money as a medium of exchange.
- Money as a measure of value.

2. SECONDARY FUNCTIONS.

- Money as a Store of value.
- Money as a Standard of Deferred Payments.
- Money as a Means of Transferring Purchasing Power.

3. CONTINGENT FUNCTIONS

- Money is the basis of the Credit System.
- Money facilitates distribution of National Income.

4. OTHER FUNCTIONS

- Money helps to maintain Repayment Capacity
- Money represents Generalized Purchasing Power
- Money gives liquidity to Capital.

**12. What are the causes and effects of inflation on the economy?****I. CAUSES OF INFLATION.**

- Increase in Money Supply
- Increase in Disposable Income:
- Increase in Public Expenditure
- Adoption of Cheap Money Policy
- Deficit Financing
- Black Assests, Activities and Money.

II. EFFECTS OF INFLATION**(1) Effects on Production:-**

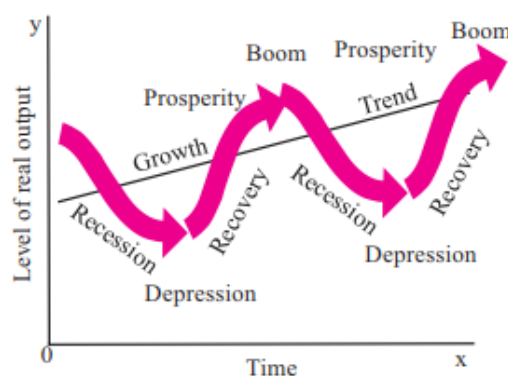
- When the inflation is very moderate, it acts as an incentive to traders and producers.

(2) Effects on Distribution.

- During inflation, debtors are the gainers while the creditors are losers.
- The fixed income groups are the worst hit during inflation

13. Describe the phases of Trade cycle. Phases of Trade Cycle.

The four different phases of trade cycle is referred to as

**(i) Boom or Prosperity Phase:**

- The full employment and the movement of the economy beyond full employment is characterized as boom period.

ii) Recession:

- The turning point from boom condition is called recession. Investments are drastically reduced, production comes down and income and profits decline.

iii) Depression:

- Depression is the worst phase of the business cycle. During depression the level of economic activity becomes extremely low.

iv. Recovery:

- After a period of depression, recovery sets in. This is the turning point from depression to revival towards upswing.



LESSON-6

14. Explain the role of Commercial Banks in economic development.

ROLE OF COMMERCIAL BANKS.

- 1. Capital Formation .
- 2. Creation of Credit .
- 3. Channelizing the Funds towards Productive Investment.
- 4. Encouraging Right Type of Industries
- 5. Banks Monetize Debt
- 6. Finance to Government
- 7. Employment Generation .
- 8. Banks Promote Entrepreneurship

15.36. Elucidate the functions of Commercial Banks.



(A) PRIMARY FUNCTIONS:

1. Accepting Deposits .

There are two types of deposits, .

- (i) Demand Deposits .
- (ii) Time Deposits .

2. Advancing Loans

- It refers to granting loans to individuals and businesses.

II. SECONDARY FUNCTIONS:

1. Agency Functions:

- commercial banks act as agents of customers by performing various functions.
Collecting Cheques, Collecting Income, Paying Expenses.

2 GENERAL UTILITY FUNCTIONS:

- Providing Locker Facilities, Issuing Travellers Cheques, Dealing in Foreign Exchange

3. Transferring Funds .

4. Letter of Credit .

5. Electronic Banking.

16. Describe the functions of Reserve Bank of India.

Functions of Reserve Bank of India:-

- The Reserve Bank of India (RBI) is India's central banking institution.





1. Monetary Authority.
2. The issuer of currency.
3. The issuer of Banking License.
4. Banker to the Government.
5. Banker's Bank.
6. Lender of last resort.
7. Custodian of foreign exchange reserves.
8. Regulator of Economy.

9. 38. What are the objectives of Monetary Policy? Explain.

OBJECTIVES OF MONETARY POLICY:

1. Neutrality of Money :

- Monetary changes could be the root cause of all economic fluctuations.
- According to neutralists, the monetary change causes distortion and disturbances in the proper operation of the economic system of the country.

2. Exchange Rate Stability:-

- If there is instability in the exchange rates, it would result in outflow or inflow of gold resulting in unfavorable balance of payments.
- Therefore, stable exchange rates are advocated.

3. Price Stability:-

- Price stability is considered the most genuine objective of monetary policy.

4. Full Employment:-

- Full employment was considered as the main goal of monetary policy. .

5. Economic Growth:-

- Monetary policy should promote sustained and continuous economic growth by maintaining equilibrium between the total demand for money and total production .

Lesson-7

10. Discuss the differences between Internal Trade and International Trade.

S.No	Internal Trade	International Trade
1	Trade takes place between different individuals and firm within the same nation .	Trade takes place between different individuals and firms in different countries .
2	Labour and capital move freely from one region to another.	Labour and capital do not move easily from one nation to another



3	There will be free flow of goods and services since there are no restrictions.	Goods and services do not easily move from one country to another since there are a number of restrictions like tariff and quota.
4	There is only one common currency .	There are different currencies .
5	The physical and geographical conditions of a country are <i>more or less similar</i> .	There are <i>differences</i> in physical and geographical conditions of the two countries.
6	<i>Trade and financial</i> regulations are more or less the same .	<i>Trade and financial</i> regulations such interest rate laws differ between countries .
7	There is no difference in <i>political affiliations, customs and habits of the people and government policies</i> .	Difference are pronounced in <i>political affiliations, habit and customs of the people and government policies</i>



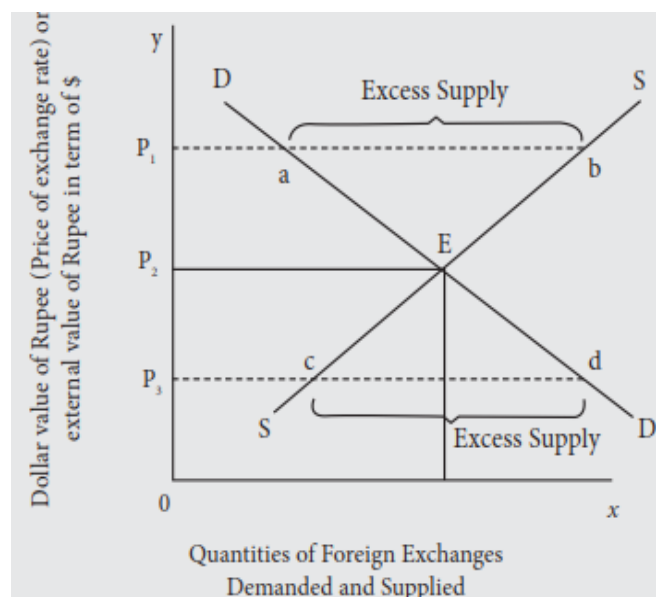
11. How the Rate of Exchange is determined? Illustrate.

DEFINITION:

The equilibrium exchange rate is that rate which over a certain period of time, keeps the balance of payments in equilibrium.

DETERMINATION OF EQUILIBRIUM EXCHANGE RATE:

- The equilibrium rate of exchange is determined in the foreign exchange market in accordance with the general theory of value.
- The equilibrium determined in the interaction of the forces of demand and supply.
- Thus, the rate of exchange is determined at the point where demand for forex is equal to the supply of forex.



Explanation:

- In the above diagram, Y axis represents exchange rate, that is, value of rupee in terms of dollars.
- X axis represents demand and supply of forex.



- E is the point of equilibrium where DD intersects SS.
- The exchange rate is P2.

LESSON-9

12. Explain the scope of public finance.

In Modern times, the subject 'Public Finance' includes five major sub-divisions

1. Public Revenue:

- Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.

2. Public Expenditure

- This part studies the fundamental principles that govern the Government expenditure, effects of public expenditure and control of public expenditure.

3. Public Debt:

- Public debt deals with the methods of raising loans from internal and external sources.
- The burden, effects and redemption of public debt fall under this head.

4. Financial Administration:

- This part deals with the study of the different aspects of public budget.
- The various objectives and steps in preparing a public budget, passing or sanctioning, allocation evaluation and auditing fall within financial administration.

5. Fiscal Policy:

- Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy.

13. State and explain instruments of fiscal policy.

- Fiscal Policy is implemented through fiscal instruments also called '**fiscal tools**'.
- Government expenditure, taxation and borrowing are the fiscal tools.

i) Taxation:

- Taxes transfer income from the people to the Government.
- Taxes are either direct or indirect.
- An increase in tax reduces disposable income.
- So taxation should be raised to control inflation.
- During depression, taxes are to be reduced.





ii) Public Expenditure:

- Public expenditure raises wages and salaries of the employees and thereby the aggregate demand for goods and services.
- Hence public expenditure is raised to fight recession and reduced to control inflation.

iii) Public debt:

- When Government borrows by floating a loan, there is transfer of funds from the public to the Government.
- At the time of interest payment and repayment of public debt, funds are transferred from Government to public.

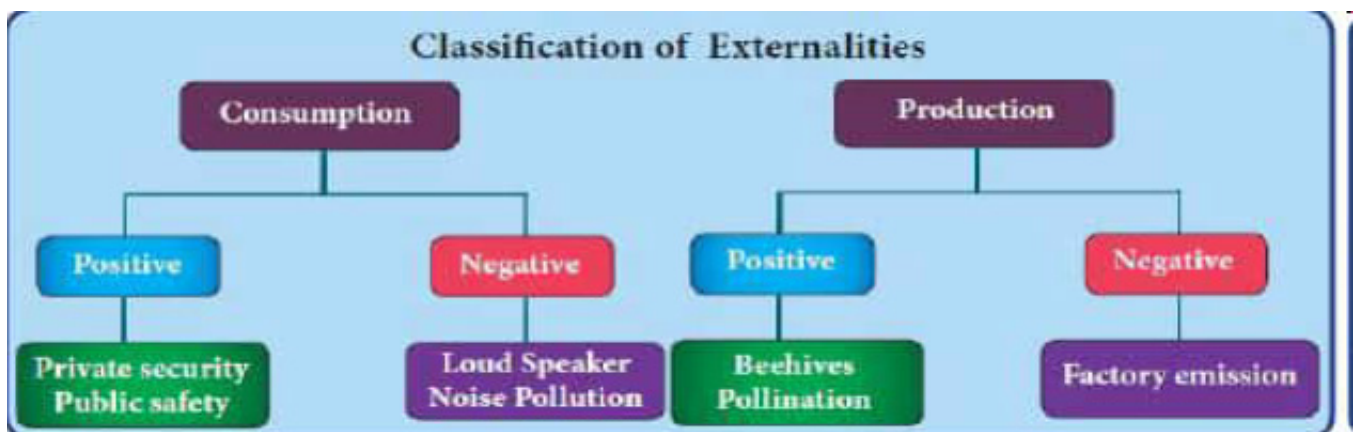
LESSON- 10

14. Briefly explain the relationship between GDP growth and the quality of environment.

- The relationship between the economy and the environment is generally explained in the form of a “Material Balance Model” developed by *Alen Kneese and R.V. Ayres*.
- Environmental quality has been continuously declining due to capitalistic mode of functioning.
- Environment is a pure public good that can be consumed simultaneously by everyone and from which no one can be excluded.
- Pure public goods pose a free-rider problem. As a result, resources are depleted.
- The contribution of the nature to GDP as well as depletion of natural resources are not accounted in the present system of National Income Enumeration.

15. Explain the concepts of externality and its classification

- Externalities refer to external effects or spillover effects resulting from the act of production or consumption on the third parties.
- Externalities arise due to interdependence between economic units.





16. Explain the importance of sustainable development and its goals.

SUSTAINABLE DEVELOPMENT :-

- It is crucial to harmonize three core elements such as economic growth, social inclusion and environmental protection.

SUSTAINABLE DEVELOPMENT GOALS (SDGs)

1. End Poverty in all its forms everywhere
2. Ensure healthy lives and promote well-being for all at all ages
3. Ensure inclusive and quality education for all and promote lifelong learning
4. Achieve gender equality and empower women and girls
5. Ensure access to water and sanitation for all
6. Ensure access to affordable, reliable, sustainable and modern energy for all
7. Promote inclusive and sustainable economic growth, employment and decent work for all
8. Ensure sustainable consumption and production pattern
9. Take urgent action to combat climate change and its impacts
10. Promote just, peaceful and inclusive societies.

LESSON-11

27. Discuss the economic determinants of economic development.

i). Natural Resource:

- The principal factor affecting the development of an economy is the availability of natural resources.
- The existence of natural resources in abundance is essential for development.

ii). Capital Formation:

- Capital formation is the main key to economic growth.
- It facilitates adoption of advanced techniques of production.

iii). Size of the Market:

- Large size of the market would stimulate production, increase employment and raise the National per capita income.

iv). Financial System:

- A It implies the existence of an efficient and organized banking system in the country.

v). Foreign Trade:

- The country which enjoys favorable balance of trade and terms of trade is always developed.

**28. Bring out the arguments against planning.****i). Loss of freedom**

- The absence of freedom in decision making may act as an obstacle for economic growth.
- Regulations and restrictions are the backbone of a planned economy.

ii). Elimination of Initiative

- There will be no incentive for initiatives and innovations.

iii). High cost of Management

- No doubt the fruits of planning such as industrialization, social justice and regional balance are good.

iv). Difficulty in advance calculations:

- Price mechanism provides for the automatic adjustment among price, demand and supply in a Laissez Faire economy.

29. Describe different types of Planning.**i). Democratic Vs Totalitarian:**

Democratic	Totalitarian
<ul style="list-style-type: none"> • Planning within democracy. • People are associated at every step in the formulation and implementation of the plan. 	<ul style="list-style-type: none"> • There is central control and direction of all economic activities in accordance with a single plan.

ii). Centralized Vs Decentralized:

Centralized	Decentralized
<ul style="list-style-type: none"> • The entire planning process in a country is under a central 	<ul style="list-style-type: none"> • There is central authority which plans, directs and orders the execution of the plan in accordance with predetermined targets and priorities.

iii). Planning by Direction Vs Inducement:

Direction	Inducement
<ul style="list-style-type: none"> • There is a central authority which plans, directs and orders the execution of the plan in accordance with pre-determined targets and priorities. 	<ul style="list-style-type: none"> • The people are induced to act in a certain way through various monetary and fiscal measures.

iv) Short, Medium and Long term Planning:

- Short-Term Planning concerns the plans in a time period of 1 year – Operational Planning
- Medium-Term Planning is considered for a time period 5 years – Tactical Planning
- Long-Term Planning is considered for a time period over 10 years – Strategic Planning