

# QB365 Question Bank Software Study Materials

## Introduction to Macro Economics Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

12th Standard

**Economics**

Total Marks : 75

2 Marks

10 x 2 = 20

1) Define Macro Economics

**Answer :** Macro economics is the branch of economics that studies the behaviour and performance of an economy as a whole.

2) Define the term 'Inflation'.

**Answer :** (i) Inflation refers to steady increase in general price level.  
(ii) The General price level is based on Wholesale Price Index, Consumer Price Index.

3) What is meant by an 'Economy'?

**Answer :** An Economy is referred to any system or area where economic activities are carried out.

4) Classify the economies based on status of development.

**Answer :** Economies can be classified into different types based on the Status of Development are

1. Developed
2. Underdeveloped
3. Undeveloped and
4. Developing economies

5) What do you mean by Capitalism?

**Answer :** (i) Capitalism is a system where the means of production are privately owned.  
(ii) Market determines the economic activities (e.g.) The USA, Japan.

6) Define 'Economic Model'.

**Answer :** (i) A Model is a simplified representation of real situation.  
(ii) Economists use models to describe economic activities, their relationships and their behaviour.

7) 'Circular Flow of Income' - Define.

**Answer :** (i) Circular flow of income is a model of an economy showing connections between different sectors of an economy.  
(ii) It shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations.

8) Define Globalism.

**Answer :** 1. The term coined by Manfred D Steger (2002) to denote the new market ideology of globalisation that connects nations together through international trade and aiming at global development.  
2. This ideology is also termed as 'Extended Capitalism' or 'Globalism'.

9) Identify the following topics which are predominantly macroeconomic

- Answer :** (a) Provision by firms of medical benefits for employees  
(b) The demand for coffee  
(c) Unemployment  
(d) The price of a government bond relative to the price of IBM stock  
(e) Unemployment among economics professors  
(f) The business cycle  
(g) Consumption spending by the household sector

(h) Rent controls in New York

(i) Inflation

(j) The money supply

Macro Economic topics are as follow,

(c) Unemployment

(f) The business cycle

(g) Consumption spending by the household sector

(i) Inflation

(j) The money supply

10) What is Mixedism?

**Answer :** An ideology that combines the principles of Capitalism (Private sector) and Socialism (Public sector) in an economy.

3 Marks

10 x 3 = 30

11) State the importance of Macro Economics.

**Answer :** (i) Macro economics helps to understand the functioning of the economy at the aggregate level, to evolve strategies to solve the basic problems.

(ii) To understand the future problems, needs and challenges.

(iii) To provide opportunities to use scientific investigation to understand reality.

(iv) To make meaningful comparison and analysis of economic indicators. To predict the future and formulate suitable policies to avoid economic crises.

12) Describe the different types of economic systems.

**Answer : Capitalism:**

(i) The means of production are privately owned.

(ii) Manufacturers produce goods and services with profit motive.

(iii) Individual can take up any occupation and develop any skill. E.g. USA.

**Socialism:**

(i) All resources are owned and operated by the government.

(ii) Public welfare is the main motive.

(iii) There is equality in the distribution of income and wealth. E.g. China

**Mixedism:**

(i) Both private and public sectors co-exist and work together.

(ii) Resources are owned by individuals and the government. E.g. India

13) Outline the major merits of capitalism.

**Answer :** (i) Automatic working without any government intervention.

(ii) Efficient use of resources.

(iii) Incentives for hard work.

(iv) Production and productivity are high, so there is economic progress.

(v) Consumers sovereignty exist.

(vi) Increased saving and investment leads to higher capital formation.

(vii) Development of new technology.

14) Indicate the demerits of socialism.

**Answer :** (i) Red tapism and bureaucracy since, approval of many officials is needed.

(ii) Absence of incentive and so productivity is less.

(iii) Limited freedom of choice in the consumption of goods and services.

(iv) The state takes all major decisions. There is concentration and misuse of power.

15) Enumerate the features of mixed economy.

- Answer :** (i) The means of production and properties are owned by private and public.  
(ii) Public and Private Sectors co-exist private sectors are profit motivated and public sectors aims at maximum social welfare.  
(iii) The national plans prepared by the central planning authority is accepted by all sectors.  
(iv) Basic economic problems are solved through the price mechanism and state intervention.  
(v) Though the private can own resources, produce and distribute goods and services, the overall control on the economic activities is with the government.

16) Distinguish between Capitalism and Globalism.

**Answer :**

| S.No. | Capitalism  | Globalism   |
|-------|---|---|
| 1     | Also called free economy or laissez faire or market economy where the role of the government is minimum | Also called extended capitalism. It connects nations together through international trade |
| 2     | Market determines economic activities within a nation   | It aims at global development Manfred   |
| 3     | Adam Smith is the father of the capitalism  | D. Steger (2002) coined the term  |

17) Briefly explain the two sector circular flow model.

**Answer :** There are only two sectors - household sector and firm sector.

**(i) Household Sector**

1. It supplies the factors of production and gets income from the firm sector
2. It buys goods and services with its entire income.

**(ii) Firms:**

1. It hires factors of production from the household sector.
2. It gets revenue by selling goods and services to the household sectors.
3. The production and sales are equal.

$$Y = C + I$$

Y is income

C is consumption

I is investment

18) Outline major demerits of capitalism.

- Answer :** (i) Concentration of wealth and income  
(ii) Wastage of Resources  
(iii) Class struggle  
(iv) Business cycle  
(v) Production of non essential goods.

19) Write the basis how Economies can be classified into different types.

- Answer :** **1. Status of Development:** Developed, underdeveloped, undeveloped and developing economies.  
**2. System of Activities:** Socialistic and Mixed Economies.  
**3. Scale of Activities:** Small and Large Economies.  
**4. Nature of Functioning:** Static and Dynamic Economies.  
**5. Nature of Operation:** Closed and Open Economies.  
**6. Nature of Advancement:** Traditional and Modern Economies.  
**7. Level of National Income:** Low Income, Middle Income and High Income Economies capitalistic

20) What are the special advantages to the society under mixed economy?

- Answer :** 1. The government safeguards the interest of the workers and weaker sections.  
2. The government fixes the minimum wages.  
3. Fair price shops are established and there is rationing of goods.  
4. Government formulates social welfare measures.

21) Discuss the scope of Macro Economics.

**Answer : National Income:**

- (i) Measurement of national income and its composition by sectors are the basic aspects of macro economic analysis.
- (ii) It gives a long term understanding of the growth process of an economy.

**Inflation:**

- (i) Estimating the general price level based on wholesale price, index, consumer price.

**Business Cycle:**

- (i) Cyclical movements can be studied based on aggregate economic variables.

**Poverty and Unemployment:**

- (i) Clear understanding about the magnitude of poverty and unemployment helps allocation of resources and adapting corrective measures.

**Economic Growth:**

- (i) The growth and development of an economy and the factors determining them could be understood only through macro analysis.

**Economic Policies:**

- (i) Macro Economics is used to frame economic policies.
- (ii) Economic policies are used to solve the basic problems, to overcome the obstacles and to achieve growth.

22) Illustrate the functioning of an economy based on its activities

**Answer :** 1. In an economy, the fundamental economic activities are production and consumption.

- 2. These are several other activities.
- 3. The ultimate aim is to achieve growth.
- 4. The exchange activity supports production and consumption.
- 5. These activities are influenced by economic and non economic activities.
- 6. The economic activities include transportation, banking, advertising, planning.
- 7. The non-economic activities are environment, education, health, entertainment.
- 8. The external activities are import, export, international relations, emigration, immigration, foreign investment, foreign exchange earnings.
- 9. All these activities influence the entire functioning of the economy.

23) Compare the features among Capitalism, Secularism and Mixedism

**Answer :**

| S.NO | FEATURES                         | CAPITALISM               | SOCIALISM               | MIXEDISM                                       |
|------|----------------------------------|--------------------------|-------------------------|--|
| 1.   | Ownership of Means of Production | Private Ownership        | Public Ownership        | Private Ownership and Public Ownership         |
| 2.   | Economic Motive                  | Profit                   | Social Welfare          | Social Welfare and Profit Motive               |
| 3.   | Solution of Central Problems     | Free Market System       | Central Planning System | Central Planning System and Free Market System |
| 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 and State Enterprises             |
| 7.   | Economic Freedom                 | Complete Freedom         | Lack of Freedom         | Limited Freedom                                |
| 8.   | Major Problem                    | Inequality               | Inefficiency            | Inequality and Inefficiency                    |

24) Enumerate the limitations of macro economics.

**Answer :** (i) There is a danger of excessive generalisation of the economy as a whole.

(ii) It assumes homogeneity among the individual units.

(iii) There is a fallacy of composition.

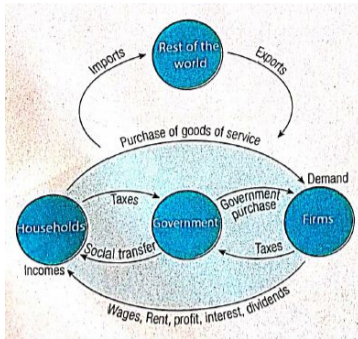
(iv) What is good for an individual need not be good for a nation.

(v) What is good for a country is not good for another country and at another time.

(vi) Many non-economic factors determine economic activities; but they are not explained under macro economics.

25) Draw and explain that circular flow of income in a four sector economy.

**Answer :**



1. In a Four-sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included. In real life, only four-sector economy exists. This model is composed of four sectors namely,

(i) Houscholds

(ii) Firms

(iii) Government

(iv) External sector

2. The external sector comprises exports and imports. It is illustrated in the Flow Chart.

3. In four-sector economy, expenditurc for the entire economy include domestic expenditure (C+I+G) and net exports (X-M).

Therefore,  $Y=C+I+G+(X-M)$