

As per the Latest CBSE/NCERT Syllabus

A TEXTBOOK OF MACROECONOMICS

FOR CLASS - XII



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PREFACE

Divine Mother continuously shower Her benign grace on us.

We always pay our respect in Her lotus feet and grateful to Her for blessing us a life of satisfaction through our services towards the academic world and the students in particular.

It gives us great pleasure to present this book which has been written strictly according to the revised syllabus issued by the Central Board of Secondary Education, New Delhi.

'Familiarisation paragraph' at the beginning of each unit has been especially made to lead the students gently into the unit and the subsequent chapters will reinforce a sense of progress and achievement. Questions asked during the previous examinations have also been included at suitable places.

Some special features of this book are as follows:

- **Theory** in a simple and lucid language.
- **In-text** Very Short Answer Type Questions.
- A large number and **variety of Illustrations** to give sound knowledge of the concepts.
- For quick **recaptulation of contents**, a detailed summary has been given at the end of each unit.

Unique features:

As per the Revised Syllabus of the CBSE, this book contains the following types of questions :

- Remembering
- Understanding
- Application
- High Order Thinking Skills (HOTS)
- Evaluation and Multi-disciplinary

Feedback from teaching fraternity has always been motivation for us. Hence, with due regard and gratitude, we acknowledge the contributions made by all of them for their extremely useful suggestions.

We are greatly indebted to **Ms. Pankhuri Wason** who supported and remained associated with us throughout writing this book.

We are thankful to the management and the editorial team of S.Chand & Company Pvt. Ltd., New Delhi for all help and support in publication of this edition.

Suggestions for further improvement of the book are always welcome.

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SUGGESTED QUESTION PAPER DESIGN
ECONOMICS (CODE 030)
CLASS XII (2014-15)
March 2015 Examination

Marks: 100

Duration : 3 hrs.

S. No.	Typology of Questions	Very Short Answer MCQ 1 Mark	Short Answer II 3 Marks	Short Answer I 4 Marks	Long Answer 6 Marks	Marks	%
1.	Remembering - (Knowledge based Simple recall questions, to know specific facts, terms, concepts, principles, or theories; Identify, define, or recite information)	2	1	2	2	25	25
2.	Understanding-(Comprehension- to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase, or interpret information)	3	2	1	2	25	25
3.	Application (Use abstract information in concrete situation, to apply knowledge to new situations; Use given content to interpret a situation, provide an example, or solve a problem)	-	2	2	1	20	20
4.	High Order Thinking Skills (Analysis & Synthesis- classify, compare, contrast, or differentiate between different pieces of information; Organize and/or integrate unique pieces of information from a variety of sources)	2	2	-	2	20	20
5.	Evaluation and Multi-Disciplinary- (Appraise, judge, and/or justify the value or worth or decision of a outcome, or to predict outcomes based on values)	1	1	-	1	10	10
	TOTAL	8×1 = 8	8×3 = 24	5×4 = 20	8×6 = 48	100 (29)	100

NEW SYLLABUS

Paper – 1

3 Hrs.

100 Marks

UNITS	PART-A	PERIODS	MARKS
Part B :	INTRODUCTORY MACROECONOMICS		
5.	National Income and Related Aggregates	32	15
6.	Money and Banking	18	8
7.	Determination of Income and Employment	27	12
8.	Government Budget and the Economy	17	8
9.	Balance of Payments	16	7
	Total	110	50

PART B : INTRODUCTORY MACROECONOMICS

Unit-5 : National Income and Related Aggregates (32 Periods)

Some basic concepts : consumption goods, capital goods, final goods, intermediate goods, stocks and flows; gross investment and depreciation.

Circular flow of income; Method of calculating National Income–Value Added or Product method, Expenditure method, Income method.

Aggregates related to National Income :

Gross National Product (GNP), Net National Product (NNP), Gross and Net Domestic Product (GDP and NDP)-at market price, at factor cost; National Disposable Income (gross and net), Private Income, Personal Income and Personal Disposable Income; Real and Nominal GDP.

GDP and Welfare.

Unit-6 : Money and Banking (Periods-18)

Money–its meaning and functions.

Supply of money–Currency held by the public and net demand deposits held by commercial banks.

Money creation by the commercial banking system.

Central Bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Controller of Credit through CRR, SLR, Reverse Repo, Open Market Operations, Margin requirement.

Unit-7 : Determination of Income and Employment (Periods-27)

Aggregate Demand and its components.

Propensity of consume and propensity to save (average and marginal).

Short-run-equilibrium output; investment multiplier and its mechanism.

Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand; measures to correct them-change in government spending, availability of credit.

Unit-8 : Government Budget and the Economy (Periods-17)

Government budget-meaning, objectives and components.

Classification of receipts-revenue receipts and capital receipts, classification of expenditure-revenue expenditure and capital expenditure.

Measures of government deficit-revenue deficit, fiscal deficit, primary deficit their meaning

Unit-9 : Balance of Payments (Periods-16)

Balance of payments account-meaning and components; balance of payments deficit-meaning.

Foreign exchange rate-meaning of fixed and flexible rates and managed floating.

Determination of exchange rate in a free market.

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APPENDIX: CBSE Papers 2013 A.3 – A.26

- Annual Papers (Fully Solved)
- Compartment Papers (Unsolved for Practice)

UNIT - 5

NATIONAL INCOME AND RELATED AGGREGATES

INTRODUCTION

In macroeconomics various aspects of economy are studied as a whole. '**National Income**' is a 'macroeconomic aggregate'.

It is the monetary value of economic activities carried out by the residents of a country. National Income at constant prices helps in measuring the economic growth.

'**Production Method**' (Net Output Method), '**Income Method**' and '**Expenditure Method**' are the three methods used to estimate the National Income of a country. National Income Accounting helps the Government in framing its policies for the development of the nation. In India a combination of different methods is used for estimating National Income, by the Central Statistical Organisation.

How the National Income of a country is calculated by the government?



Why there is a need to calculate National Income?



CHAPTER

1

INTRODUCTION

LEARNING OBJECTIVES

After studying this chapter, the students will be acquainted with:

- Meaning of Macro and Microeconomics
- Distinction Between Micro and Macroeconomics
- Classification of Goods and Services
- Sectors of Economy
- Concepts and Types of Investment
- Factors of Production
- Flow and Stock
- Production for Self-consumption and Production for Exchange
- Domestic Territory of a Country
- Normal Resident of a Country
- Value of Output and Value Added
- Domestic Income/Domestic Product/Value Added
- National Income/National Product
- Net Factor Income from Abroad (NFIFA)
- National Income Accounting
- Uses of National Income Accounting

MEANING OF MACROECONOMICS AND MICROECONOMICS

Macroeconomics: Study of economic variables from economy's point of view is termed as Macroeconomics. In microeconomics we study the economic variables from individual's point of view.

Example: When we study Demand, we discuss those factors which affect the demand for a particular commodity, hence it is considered as Microeconomics.

On the other hand when we study Aggregate Demand, we discuss the factors which affect demand for all goods and services in an economy, hence it is considered as Macroeconomics.

DISTINCTION BETWEEN MICROECONOMIC AND MACROECONOMICS

Difference between Microeconomics and Macroeconomics is detailed here below—

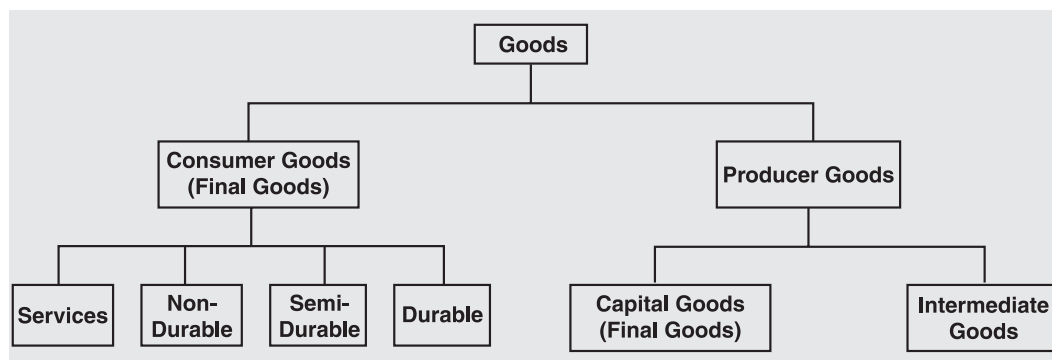
S.No.	Basis	Microeconomics	Macroeconomics
1.	Focus	Various aspects of individual units of an economy.	Various aspects of the economy as a whole. (whole economy as a single unit).
2.	Goal	Resource allocation and level of price, income, output.	Determination of aggregate employment/output/income.
3.	Fundamental parameter for decision making	Price	National Income
4.	Key tools	Demand/supply of a commodity	Aggregate demand/aggregate supply.

CLASSIFICATION OF GOODS AND SERVICES

Broadly goods and services are classified into:

- (a) **Consumer goods:** Goods used by consumers.
- (b) **Producer goods:** Goods used by producers.

The following chart will help us in understanding the classification of goods and services.



Final goods: Goods used for final consumption and final investment are known as final goods. Final goods include those goods which crosses the production boundary. Final goods are further classified into:

(1) Final consumer goods: Goods purchased by consumers to satisfy their wants are known as final consumer goods.

Example: Purchase of food items, luxury items, and essential items by consumer will be considered as final goods.

Classification of consumer goods: Consumer goods are further classified into:

(a) Services: It includes all invisible items used by consumers to satisfy their wants.

Example: Services of domestic servants, barber, cobbler etc.

(b) Durable consumer goods: It includes those consumer goods which are used by consumer again and again for years.

Example: Purchase of fridge, air-conditioner, car, etc. by a consumer.

(c) Semi-durable consumer goods: It includes those goods which are used by consumer again and again for a short period.

Example: Purchase of clothes, crockery by a consumer.

(d) Non-durable/Single-use goods: Goods used in the single act of consumption are known as non-durable consumer goods. Such goods are included in the category of principle goods.

Example: Purchase of ice-cream, milk, coffee, etc. by a consumer.

(2) Final producer goods: These goods have producer as their final users. It includes all the fixed assets purchased by a producer for the further production of goods and services.

Example: Purchase of tractor, harvester by a farmer. Purchase of refrigerator and air-conditioner by a restaurant owner for the restaurant. Purchase of machine by an entrepreneur.

Capital Goods: Fixed assets which are also termed as producer final goods are called capital goods.

Example: Machine with producer. Refrigerator for a medical store

Intermediate Goods: Goods used in production or purchased for resale are known as intermediate goods. These goods remain inside the production boundary.

Example: Purchase of vegetables by a restaurant. Purchase of milk by tea seller for making tea. Purchase of refrigerator from the company by a dealer.

Expenditure on final goods by consumer is known as **final consumption expenditure**.

Expenditure on final goods by producer is known as **final investment expenditure**.

Expenditure on intermediate goods is known as **intermediate consumption expenditure**.

Here we must notice two important points:

- (a) All fixed assets are not capital goods. Only fixed assets with producer are considered as capital goods and fixed assets with consumer are considered as durable consumer goods.

Example: Refrigerator in medical store is capital good whereas refrigerator with house-hold is durable consumer good.

- (b) All producer goods are not capital goods: We must understand that all producer goods are not capital goods because producer goods include capital goods as well as intermediate goods. All capital goods can be considered as producer good.

Example: Producer producing food grain is using tractor, this will be considered as capital good whereas seed, pesticides, fertilizers will be considered as intermediate goods.

Distinction between final goods and intermediate goods

S.No.	Final Goods	Intermediate goods
1.	Goods outside the production boundary	Goods inside the production boundary.
2.	Goods for final users.	Goods for further production of goods and services.
3.	Not for resale	Goods for resale.
4.	Included in National Income	Not included in National Income.

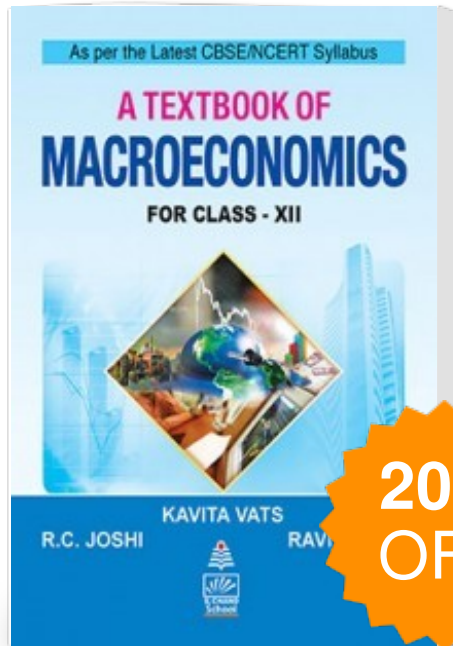
SECTORS OF AN ECONOMY

On the basis of economic activities an economy can be classified into following sectors :

(a) Household Sector : It includes all the consumers. They use different goods and services to satisfy their wants.

(b) Producing Sector : This sector hire factors of productions from household sector and after production of goods and services sales it to household sector.

A Text Book Of Macro Economics For XII



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