

S.Y. B. Com.

NEW SYLLABUS

BUSINESS ECONOMICS (MACRO)

Dr. MUKUND MAHAJAN



NIRALI
PRAKASHAN
ADVANCEMENT OF KNOWLEDGE

A Book Of

BUSINESS ECONOMICS (MACRO)

For Second Year B. Com. (Course Code: 203)

As Per Revised Syllabus

Effective from June 2014

Dr. Mukund Mahajan

Ph.D.

Assisted By

Pushkar Mahajan

B.Com. (Hons.) B.A. (Journalism)

Price ₹ 175.00



N1687

Fifth Edition : May 2018**© : Author**

The text of this publication, or any part thereof, should not be reproduced or transmitted in any form or stored in any computer storage system or device for distribution including photocopy, recording, taping or information retrieval system or reproduced on any disc, tape, perforated media or other information storage device etc., without the written permission of Author with whom the rights are reserved. Breach of this condition is liable for legal action.

Every effort has been made to avoid errors or omissions in this publication. In spite of this, errors may have crept in. Any mistake, error or discrepancy so noted and shall be brought to our notice shall be taken care of in the next edition. It is notified that neither the publisher nor the author or seller shall be responsible for any damage or loss of action to any one, of any kind, in any manner, therefrom.

Published By :**(-ve)****Printed By :****NIRALI PRAKASHAN****YOGIRAJ PRINTERS AND BINDERS**

Abhyudaya Pragati, 1312, Shivaji Nagar,

Works: Sr. No. 10\1, Ghule Industrial Estate,

Off J.M. Road, PUNE – 411005

Nanded Village Road,

Tel - (020) 25512336/37/39, Fax - (020) 25511379

TAL-HAVELI, DIT-PUNE 41 1041.

Email : niralipune@pragationline.com

Mobile - 9850056517, 9404225254

 DISTRIBUTION CENTRES**PUNE****Nirali Prakashan** : 119, Budhwar Peth, Jogeshwari Mandir Lane, Pune 411002, Maharashtra

Tel : (020) 2445 2044, 66022708, Fax : (020) 2445 1538

Email : bookorder@pragationline.com, niralilocal@pragationline.com

Nirali Prakashan : S. No. 28/27, Dhyari, Near Pari Company, Pune 411041

Tel : (020) 24690204 Fax : (020) 24690316

Email : dhyari@pragationline.com, bookorder@pragationline.com

MUMBAI**Nirali Prakashan** : 385, S.V.P. Road, Rasdhara Co-op. Hsg. Society Ltd.,

Girgaum, Mumbai 400004, Maharashtra

Tel : (022) 2385 6339 / 2386 9976, Fax : (022) 2386 9976

Email : niralimumbai@pragationline.com

 DISTRIBUTION BRANCHES**JALGAON****Nirali Prakashan** : 34, V. V. Golani Market, Navi Peth, Jalgaon 425001,

Maharashtra, Tel : (0257) 222 0395, Mob : 94234 91860

KOLHAPUR**Nirali Prakashan** : New Mahadvar Road, Kedar Plaza, 1st Floor Opp. IDBI Bank

Kolhapur 416 012, Maharashtra. Mob : 9850046155

NAGPUR**Pratibha Book Distributors** : Above Maratha Mandir, Shop No. 3, First Floor,

Rani Jhanshi Square, Sitabuldi, Nagpur 440012, Maharashtra

Tel : (0712) 254 7129

DELHI**Nirali Prakashan** : 4593/15, Basement, Aggarwal Lane, Ansari Road, Daryaganj

Near Times of India Building, New Delhi 110002

Mob : 08505972553

BENGALURU**Pragati Book House** : House No. 1, Sanjeevappa Lane, Avenue Road Cross,

Opp. Rice Church, Bengaluru – 560002.

Tel : (080) 64513344, 64513355, Mob : 9880582331, 9845021552

Email: bharatsavla@yahoo.com

CHENNAI**Pragati Books** : 9/1, Montieth Road, Behind Taas Mahal, Egmore,

Chennai 600008 Tamil Nadu, Tel : (044) 6518 3535,

Mob : 94440 01782 / 98450 21552 / 98805 82331,

Email : bharatsavla@yahoo.com

niralipune@pragationline.com | www.pragationline.com**Also find us on  www.facebook.com/niralibooks**

Preface ...

The revised syllabus of Business Economics for S.Y.B.Com is coming into force with effect from June, 2014. Some modifications in the approach to the study of macro-economics are perceived in the new approach. At the same time, some additions and deletions are also there, which are in keeping with the needs of changing times. Such a change in syllabus always provides an opportunity to update and revise the book. Moreover, such revisions also enable the author to introduce innovations which would be more reader-friendly. Needless to say that all such changes have been made in the present book. This book basically caters to the needs of S.Y.B.Com. students of the University of Pune; but de facto it covers the prescribed syllabii of other universities like North Maharashtra, Dr. Ambedkar Marathwada, S. Ramanand Tirtha and Shivaji Universities.

While revising the text thoroughly to respond to the spirit of the revision of the new structure, the present revised edition claims of the following features :

1. Being familiar with the needs of the teachers and the students, I have taken care to see that full justice is done to the syllabus as revised by the University.
2. I have used this opportunity to simplify the discussion of some topics, however, the basic analytical rigour of the subject is something that cannot be sacrificed in our enthusiasm to over simplify the subject. The students therefore should better get used to the analytical discipline of the subject and the technical terminology which goes with it.
3. As usual, a minimum but necessary number of diagrams is given in the book. In fact, diagrams save a lot of toil and trouble involved in verbal discussion. The students therefore should study and practice drawing the diagrams rather than shying away from them.
4. A summary at the end of each chapter will help the students in recapitulating what they have read.
5. Questions from previous university exams would serve to assess the understanding and check the correctness by students themselves.
6. Some new diagrams have been inserted either to replace the old ones or to serve as additional aids to learning.

With these modifications and changes, I sincerely hope that this New Edition would fulfil the expectations and the learning needs of the students. Our earlier text was welcomed by the students and readers. This new edition will also be hopefully welcomed by them. As usual suggestions for improvement would be most welcomed.

Shri. Dineshbhai Furia has been first a friend and then a publisher for me. His motivation and unerring co-operation has been a great source of inspiration for me. I am grateful to Shri. Jignesh Furia, captain of the team of Nirali Prakashan, who placed the book on a fast track. I also appreciate the efforts taken by Mr. Malik Shaikh, Mr. Amol Mahabal, Mr. Prasad Chintakindi, Mrs. Anjali Muley and Mr. Damodar Goud in the preparation of this book.

6/4, Rambaug Colony
L.B. Shastri Road, Pune – 411 030
Telephone – 24324316
July, 2014.

– **Dr. Mukund Mahajan**

Syllabus ...

TERM I

Unit 1: Basic Concepts of Macro Economics

- 1.1 Meaning of Macro Economics
- 1.2 Nature and Scope of Macro Economics
- 1.3 Significance and Limitations of Macro Economics
- 1.4 Difference between Micro and Macro Economics

Unit 2: National Income

- 2.1 Meaning and Importance of National Income
- 2.2 Concepts –
 - (a) Gross National Product (GNP)
 - (b) Net National Product (NNP)
 - (c) Income at Factor Cost or National Income at Factor Prices
 - (d) Per Capita Income
 - (e) Personal Income (PI)
 - (f) Disposable Income (DI)
- 2.3 Measurement of National Income – Circular Flow of Income – Two Sector Model
- 2.4 Difficulties in Measurement of National Income

Unit 3: Money

- 3.1 Meaning and Functions of Money
- 3.2 Demand for Money – Classical and Keynesian Approach
- 3.3 Supply of Money
 - (a) Role of Central Bank – Credit Control – Quantitative and Qualitative
 - (b) Reserve Bank of India's New Money Measures
- 3.4 Role of Commercial Banks – Process of Multiple Credit Creation and its Limitations

Unit 4: Value of Money

- 4.1 Meaning and Concept of Value of Money
- 4.2 Quantity Theory of Money
- 4.3 Cash Balance Approach – Cambridge Equation – Pigou, Marshall, Keynes
- 4.4 Milton Friedman's Approach
- 4.5 Difference between Quantity Theory and Cash Balance Approach Theory

TERM II

Unit 5: Inflation and Deflation

- 5.1 Inflation and Deflation – Meaning, Causes and Effects
- 5.2 Demand Pull and Cost Push Inflation
- 5.3 Inflationary Gap
- 5.4 Philips Curve – Supply Side Economics
- 5.5 Stagflation

Unit 6: Trade Cycle

- 6.1 Meaning, Definition and Features of Trade Cycle
- 6.2 Phases of Trade Cycle
- 6.3 Policy for Control of Trade Cycle – Monetary and Fiscal Measures

Unit 7: Theories of Output and Employment

- 7.1 Classical Theories of Employment – Says, Pigou, Fisher
- 7.2 Keynesian Criticism on Classical Theories of Employment
- 7.3 Keynesian Theory of Employment

Unit 8: Public Finance

- 8.1 Meaning, Nature and Scope of Public Finance
- 8.2 Principle of Maximum Social Advantage – Dr. Dalton's Approach
- 8.3 Public Revenue and Expenditure
- 8.4 Types of Taxation
- 8.5 Principles of Taxation
- 8.6 Effects of Taxation
- 8.7 Causes of Increasing Public Expenditure

Contents ...

TERM I

1. Basic Concepts of Macro Economics	1.1 – 1.12
2. National Income	2.1 – 2.14
3. Money	3.1 – 3.48
4. Value of Money	4.1 – 4.18



TERM II

5. Inflation and Deflation	5.1 – 5.32
6. Trade Cycle	6.1 – 6.20
7. Theories of Output and Employment	7.1 – 7.22
8. Public Finance	8.1 – 8.32
• University Question Papers	P.1 – P.2

Chapter 1 ...

Basic Concepts of Macro Economics

Contents ...

- 1.1 Meaning of Macro-economics
 - 1.2 Nature and Scope of Macro-economics
 - 1.3 Significance and Limitations of Macro-economics
 - 1.4 Difference between Micro and Macro-economics
 -  Summary
 -  Questions from Previous Pune University Examinations
-

Introduction

Macro-economics is the study of the major economic “aggregates’ or totals. It is the study of the aggregate behaviour of the economy as a whole. Macro-economics is a policy-oriented subject. It deals with a number of policies of macro nature to solve many issues and problems. Macro-economics deals with economic affairs ‘in the large’, it concerns the overall dimensions of economic life.

1.1 Meaning of Macro-Economics

The economic science is one; but the overall field of study of economics is broadly divided into two parts; micro-economics and macro-economics. The word *macro-economics* was originally used by Ragnar Frisch, in 1933, and in subsequent years it gained popularity. The macro approach, however, dates back to the physiocrats of the eighteenth century. The most important developments in macro-economic analysis however were triggered off by the publication of *John Maynard Keynes’s General Theory of Employment, Interest and Money* in 1936. So great was the influence of the General Theory that the modern theory of output and employment still bears the label of ‘*Keynesian economics*’, though several developments have taken place in macro-economic analysis since the death of Keynes in 1946.

As an introduction to macro-economics, we can look into how various economists have described the subject-matter of macro-economics.

- In the opinion of **R. G. D. Allen**, “the term ‘macro-economics’ applies to the study of relations between broad economic aggregates”. The theory of income, employment, prices and money constitutes macro-economic theory in the eyes of *J. M. Culbertson*.
-

- Macro-economics, in the eyes of **Kenneth Boulding** is, *“that part of economics which studies the overall averages and aggregates of the system”*.
- **Ackley** views macro-economics as *“the study of the forces or factors that determine the levels of aggregate production, employment and prices in an economy, and their rates of change over time”*.

The various attempts at describing the subject-matter of macro-economics shows that:

- (i) Macro-economics deals with the functioning of the economy as a whole. Macro-analysis conceives of equilibrium between demand and supply in the economy as a whole.
- (ii) Among other things, macro-economics seeks to explain how the economy's total output of goods and services, the price level of goods and services and the total employment of resources are determined.
- (iii) Macro-economics also seeks to investigate into the causes responsible for initiating changes in total output, aggregate employment and the general price level.

1.2 Nature and Scope of Macro-Economics

(A) Nature of Macro-economics

Micro-economics is the analysis of the economy's constituent elements. It is selective and not aggregative. Individual buyer, individual seller, their behaviour patterns, markets for individual commodities and their working, and so on are studied in micro-economics. Micro-analysis concerns itself with how the price of a table is determined; while macro-analysis investigates into why so many tables are produced. Micro-analysis concentrates on a single commodity assuming 'other things equal' while macro-analysis simplifies by aggregation or adding together.

(i) Aggregative Approach: The approaches of the two analyses are different. But both study the conditions of equilibrium between demand and supply. The difference, however is that, micro-economics studies a market for a single commodity or a single factor of production. Macro-economics also studies equilibrium; but this equilibrium is between demand and supply in the economy as a whole. Supply, on the macro level, consists of all goods and services being made available in the country while the demand is the aggregate of demands for all commodities. Total output includes a vast number of different goods and services, about whose production and consumption millions of individual decisions are being taken every day. To examine each of these decisions is impossible. Simplification is, therefore, done by considering aggregates which are manageable. Individual differences between one consumer and another or between one producer and another are ignored. Statistically also such differences can be ironed out when a large number is chosen.

(ii) Expression in Money Terms: On the macro level, we cannot add up physical qualities. For example there is no way of adding together the number of shoes, the number of typewriters, the quantity of milk and the total electricity generated in the Indian economy. Therefore, aggregate demand and aggregate supply have to be expressed in money terms. Thus, aggregate demand can be expressed by a certain amount of rupees that all the buyers

wish to spend and aggregate supply can be expressed in terms of a certain amount of rupees as the value of all the goods and services the sellers are offering to sell. If the amount of money buyers wish to spend is not equal to the value of commodities which the sellers are offering, the equilibrium cannot be achieved. Such a disequilibrium may generate several changes in the economy. For instance, it may cause changes in production leading to changes in employment and prices. In case of the micro equilibrium, such changes are not expected or, at any rate, they are ignored.

(iii) Underlying Relationships between Demand and Supply: In micro-analysis, the underlying relationships between demand and supply can be neglected. But in the economy as a whole, these relationships are very important. In micro-analysis, we suppose that buyers and sellers are different people and they take their decisions independently. This is a reasonable assumption in case of any single market. All of us buy ball-point pens or notebooks; but very few of us are engaged in factories producing these goods. It is therefore possible to assume buyers and sellers of ball-point pens and notebooks to be independent groups which influence each other's decisions only through the market itself. An increase in the wages of workers employed by the ball-point pen producers will not cause an increase in the demand for ball-point pens themselves. In other words, there is no feedback of purchasing power from the supply side to the demand side. But when supply and demand are aggregated (on the macro-level), the '*feedback*' cannot be ignored. Buyers and sellers are the same people. People who work in factories and on farms receive money for their contribution to the productive process. This money received by people on the supply side of the economy is the same money which the same people spend on goods and services, from the demand side.

(iv) Income as the Link: In case of the market for a single commodity, there is a direct link of strength between demand and supply. When buyers demand less of a product, supply being given the price of the product falls, causing losses to the firms at the margin. This results in reduction in supply and the balance between demand and supply is restored.

On the macro-level, when all the people as buyers demand less of every thing i.e. they spend less, the value of commodities supplied falls and people as participants in production get less money. This causes a further fall in demand. Conversely, when people demand more, i.e. they spend more, the value of goods supplied increases. This causes an increase in the income of the suppliers. They can spend more and cause the demand to rise further. For the economy as a whole, the general price level does not have the same effect as it has in a single commodity market. When all prices rise, the incomes of the people also increase and they can continue, buying the same quantities of goods and services as before. The real question here is whether they buy the same quantities. If they do not, then there would be an imbalance between commodities produced and commodities sold (i.e. aggregate supply and aggregate demand). In other words, in case of a single commodity, changes in demand can be linked with changes in price. On the other hand, on macro level changes in demand have to be linked with changes in the level of income. Thus, in macro-analysis, *income* and not *price* is the link between demand and supply.

(v) Aggregate Demand: What is aggregate demand? It is the sum total of individual consumers' demand for bread and butter, shoes and cinema tickets etc. plus the individual producers' demand for machines and factory buildings and pick-up vans and also the demand coming from the government for clerks' services and for typing machines etc. All these buyers obviously do not react in the same way to changes in income. But the reaction can be broadly thought to be similar. Accordingly we can think of four groups of buyers: consumers, business firms, governmental bodies and foreign customers who buy the country's exports. Sometimes, it may be advisable to consider sub-groups like wage-earners and others or the rich and the poor. But the important fact is that macro-economics seeks to study the relationship between aggregate demand and the level of income.

(vi) Aggregate Supply: On the supply side, the relationship with income has to take into account only one important distinction: goods and services produced within the country and those imported from abroad. Goods produced within the country provide income and employment to the residents of the country and therefore are more important. This is because an increase in the supply of domestic products causes an increase in income and through income, changes in demand. In case of imported products, however, the income of foreign suppliers would increase, having no effect on our domestic demand (since the same people may not buy our goods).

(vii) Conditions of Equilibrium: The foregoing discussion suggests that various balances must be considered. The *aggregate demand* (comprising of spendings of consumers, business firms, governmental bodies and foreign buyers) must balance with the *aggregate supply* (consisting of the country's output plus imports). But because domestic purchases provide income to the producers which is spent by the four groups stated above, *incomes* must balance with *demand*. Demand expressed by expenditure should be neither lower nor higher than income. On the supply side also, *income distribution* must balance with *total output* required for meeting the demand.

A fall in profits or a fall in wages may adversely affect the supplies of enterprise or labour respectively. This would cause a fall in total output. Similarly, there must be a balance between our expenditure on *foreign goods and services imported* and our *income from exports of our goods and services*. Again, we must remember that buying and selling or borrowing and lending are done through money. In addition to the above balances, full equilibrium requires a balance between the *supply of money* and the *demand for money*. In the absence of such a balance, prices, savings etc. may change, causing a change in goods produced, incomes received by the people and the level of employment.

The equilibrium so attained will not be lasting. Over a period of time, the position may change and a new equilibrium may be established, which will be different from the old one. Thus, the conditions of equilibrium are not only complex but are required to work under continuously changing circumstances.

(B) Scope of Macro-economics

After giving a careful thought to the nature of macro-economics, we can now turn to the task of demarcating the scope of macro-economics. Let us remind ourselves that

Economics is a social science concerned with the problem of administering scarce resources so as to attain maximum fulfillment of society's unlimited wants. Because wants are unlimited, we cannot satisfy all of them. But we can try to satisfy as many of them as possible.

(i) Employment and Output: The first basic economic problem, as pointed out by Prof. Lipsey, is: Are the country's resources being fully utilized or are some of them lying idle? We are already aware that even when all of a country's resources are utilized, some of the very pressing wants of the people remain unfulfilled. This question of keeping some resources idle should not, therefore, arise at all. But it arises because of various maladjustments. The various balances which we noted earlier do not come into reality. Some of the resources therefore remain idle. The problem thus conceived is the problem of full employment and full production. By the term '*full employment*' we mean that all available resources are employed. All workers available for work should be employed. All land available for cultivation must be cultivated. All machinery and equipment should be productively employed. Full production refers to efficient allocation, i.e. the best utilization of resources so as to maximize their contribution to output. A physician's energies should not be utilized for teaching physiology nor should the land suitable for producing cashew nuts be used for growing *ragi* (or any other coarse crop). When all resources are thus fully and efficiently utilized, the country's output can be maximized. Output of all goods and services is the country's real income. Hence, this part of macro-economic study receives our attention under the head '*the theory of income and employment*'. The most important contribution, in fact the foundation of macro-economics in this area was by Lord J.M. Keynes.

(ii) Consumption and Investment: People spend on bread and butter or on machines and factory buildings. This means that people purchase consumer's goods or producer's goods. But what they do purchase is important. This is because producers' goods purchased today (i.e. investment) produce consumers' goods tomorrow. Future consumption of the society thus depends upon present investment. *The theory of consumption and the theory of investment* therefore need to be examined on the macro-level.

(iii) Economic Fluctuations: In a dynamic world, an equilibrium once attained does not remain stable. In fact, because the tastes of the consumers change, the consumers also would not like things to remain unchanged. But one fact is certainly desirable: all the resources should continue to remain fully utilised. The stability we should aim at is the stability in resource use. Fluctuations lead to waste or under utilization of resources. As noted earlier, we cannot afford to keep some of the resources idle since they are already scarce. But what causes economic fluctuations? Can we avoid these ups and downs in the level of economic activity? What measures can be taken to ensure economic stability? Questions like these are dealt within the *Theory of Business Cycles* which forms an important part of macro-economics.

(iv) The General Price Level: Money, as was pointed out earlier, can express the value of all goods and services produced as well as demanded because money is a medium of exchange. Borrowing and lending as well as saving and hoarding activities are carried out in terms of money. Money is demanded for all these activities and the demand for money, at

any given time, can be equal to or more than or less than the existing supply of money. Excess or deficiency of money supply may cause changes in the general price level which in turn cause changes in the aggregate demand and supply of goods and services.

The demand for the supply of money need a more careful study. Thanks to the insight of Lord Keynes, the economists have developed what is called the *theory of general price level*. This theory investigates into the causes and consequences of inflation and deflation and forms a part of macro-economics.

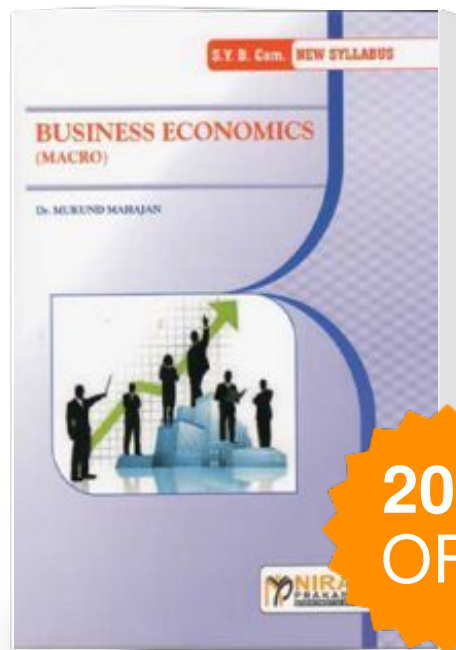
(v) Economic Growth: Another basic economic problem underlined by Prof. Lipsey is: Is the economy's capacity to produce goods and services growing from year to year or is it remaining static? It has been an instinctive desire of man that every new day in his life should be brighter than the one gone by. Moreover, several members of every society are deprived of even the basic amenities making for a tolerable living. Such a betterment of living standards is possible only if the capacity of the economy to produce goods and services increases. The horrors of poverty described by Charles Dickens and the disasters predicted by Malthus have found no place in the present-day British society because the capacity of the British economy to produce has grown faster than the country's population growth. Why does the capacity of some economies to produce grow more rapidly than some others and why some economies refuse to grow at all, are questions which have engaged the minds of several economists since the time of Adam Smith. Problems like these, are a concern of the *Theory of Economic Growth or Economics of Development*. This branch of macro-economics has special relevance in developing and poor third world countries like India. The development of this branch is still incomplete but whatever we have today, owes a great deal to economists like Roy Harrod and E.D. Domar who extended the Keynesian analysis to the long-term problems of growth.

(vi) Macro Theory of Distribution: How are the supplies of goods allocated among the members of the society? This is another basic economic problem. Determination of the share of individual factor-owners is a subject dealt within factor-pricing by micro-economics. But the issue of relative shares in the national product of various groups have attracted the attention of all great economists from Smith to Keynes and from Ricardo to Marx. How national income is shared between labourers and capitalists, for example, was an issue of great interest to Marx. In modern times, Kalecky and Kaldor have greatly revived the interest in this part of macroeconomics known as the *Macro Theory of Distribution*.

(vii) Theory of International Trade: While talking of aggregate demand, in our discussion of nature of macro-economics, we said the buyers can be grouped into four groups: consumers, business firms, governmental bodies and foreign customers. Imports and exports, international flows of investible funds and international price movements have, therefore, an important bearing on a country's economy. Issues related to this aspect are studied in the *Theory of International Trade*.

In short, the scope of macro-economics encompasses (or covers) the theory of income and employment along with the theories of consumption, investment and trade (or business) cycles, the theory of general price level, the theory of economic growth and the macro theory of distribution and the theory of international trade.

Business Economics (Macro)



20%
OFF

Publisher : Nirali Prakashan

ISBN : 9789351640943

Author : Dr. Mukund
Mahajan

Type the URL : <http://www.kopykitab.com/product/21903>



Get this eBook