

SAMPLE CONTENT

SMART NOTES



Based on New Paper Pattern
and Latest Textbook

Std. XII com. & Arts

Economics

In a free market economy,
prices are determined by
the combined forces of
demand and supply.

Target Publications® Pvt. Ltd.

SMART NOTES

ECONOMICS

Std. XII

MAHARASHTRA STATE BOARD

(Written as per the Latest Textbook published by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune.)

Salient Features:

- ☞ Based on the Latest Textbook
- ☞ Exhaustive content coverage in Question and Answer format
- ☞ Answers presented exactly the way they are to be written in exams
- ☞ 'Smart Codes' and 'Smart Recaps' to memorise answers
- ☞ 'For your understanding' section for conceptual clarity
- ☞ Includes GG - our very own mascot that offers a practical touch to theory
- ☞ Includes QR codes for reference content
- ☞ Replete with practical and real life examples
- ☞ Highlighted key words and sentences that aid recall as well as revision
- ☞ Tagging of relevant board questions upto March 2022 exam
- ☞ Assessment and answer key at the end of every chapter for self-evaluation
- ☞ Includes Board Question Paper of March 2023 (Solution in pdf format through QR code)

Printed at: **Print to Print, Mumbai**

© Target Publications Pvt. Ltd.

No part of this book may be reproduced or transmitted in any form or by any means, C.D. ROM/Audio Video Cassettes or electronic, mechanical including photocopying; recording or by any information storage and retrieval system without permission in writing from the Publisher.

PREFACE

Smart Notes: Economics is a book curated to facilitate learning and instil conceptual understanding within students. This treasure trove of knowledge fosters robust conceptual clarity and inspires confidence within the nimble mind of young learners. This book not only provides answers to all textual questions but also addresses extra questions in each lesson with the aim of covering the entire topic and making students ready to face the competition. Throughout this book, questions are answered in a detailed, point-wise format which is exactly how the students are expected to write their answers in the exam.

We have incorporated 'Smart Codes' to facilitate easy answer recall. In case of long and complex answers, we have provided 'Smart Recap' for quick revision. 'For your understanding' section provides the required conceptual clarity to understand a particular point. 'Gyan Guru', our very own mascot, offers a practical touch to theory by sharing interesting and real facts. 'QR codes' present throughout the book offer students practical knowledge through reference content. We're sure that students, parents and teachers alike would love our value proposition and the unique presentation of content.

- Publisher
Edition: Fifth

The journey to create a complete book is strewn with triumphs, failures and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

Please write to us at: mail@targetpublications.org

Disclaimer

This reference book is transformative work based on 'Economics; Second Reprint: 2022' published by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. We, the publishers are making this reference book which constitutes as fair use of textual contents which are transformed by adding and elaborating, with a view to simplify the same to enable the students to understand, memorize and reproduce the same in examinations.

This work is purely inspired upon the course work as prescribed by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. Every care has been taken in the publication of this reference book by the Authors while creating the contents. The Authors and the Publishers shall not be responsible for any loss or damages caused to any person on account of errors or omissions which might have crept in or disagreement of any third party on the point of view expressed in the reference book.

© reserved with the Publisher for all the contents created by our Authors.

No copyright is claimed in the textual contents which are presented as part of fair dealing with a view to provide best supplementary study material for the benefit of students.

Why to study Economics?

Apart from the basic objective of doing well in your exams, there are various reasons for studying Economics:

1. Economics is something that you experience on a daily basis. Studying this subject will solve a lot of your unresolved questions. Also, it will make you more aware about the world you live in.
2. It helps you understand human economic behaviour in a better manner. Why a person reacts in a certain manner in a particular economic situation is clearly explained in various economic laws.
3. It explains simple things like why you save?, why is a product priced at ₹ X?, why is rent higher at certain places compared to another?, why is the price of two substitute products similar?, why do interest rates keep changing?, why do we need banks?, what causes recession?, what causes inflation? etc.
4. We always criticise the government for its various policies but the government also has certain objectives and limitations. Economics helps you understand and analyse from the other side.

Economics is going to be with you all through your academic life. Hereafter, any course related to commerce that you select will include Economics as a subject.

How to study from this book ?

This book is divided into the following parts:

1. **Theory questions**
2. **Interpretative based questions**

Theory questions

Questions covered in theory section are in the flow of textbook. Thus, once you read all the questions, it's as good as reading an entire chapter from the textbook. We advise you to study from this section first.

Interpretative based questions

This section is at the end of the theory section. Questions covered in this section are either objectives or application-based questions. Once you have read and understood the theory, you are better equipped to solve and answer these questions. We have also provided answers for you to enable self-evaluation.

KEY FEATURES

At times, answers are too lengthy and it's difficult to remember all the points. Hence, we have created 'Smart Codes' for a few questions to aid you in remembering and recollecting these points. Please do not memorise each and every smart code. Instead of helping, it might end up confusing you. Memorise only those smart codes wherein you find the answer difficult to remember.

Smart Code

In theory subjects, at times, answers are quite long and complex. It's difficult to remember the entire answer. Hence, we have provided 'Smart Recap' i.e. summary of the entire answer for students to revise it quickly.

Smart Recap

Certain concepts are tricky and difficult to understand with a limited amount of explanation. To explain these concepts efficiently, we have provided a section named 'For your understanding' that provides better conceptual clarity. Please note that the content provided in this section need not be written in the examination.

For Your Understanding

Gyan Guru, our very own mascot, keeps popping up throughout the book. He offers you a practical and real-life example or an interesting fact associated with the topic. Look out for him!

GG – Gyan Guru

Economics has numerous real-life applications. An additional piece of relevant information or video related to a particular concept will make the concept more relatable to you. We have given such links via QR Code.

QR Code

Chapter assessment is provided at the end of every chapter for self-evaluation. The answer key of assessment is provided in the form of QR Code.

Chapter Assessment

- i. Selective questions from Board Question Papers till March 2022 along with their solutions have been included.
- ii. Includes Board Question Paper of March 2023.

Board Question Papers

PAPER PATTERN

Marks: 80

Time: 3.00 Hrs.





Q. No.	Questions	Marks as per Que.	No. of Questions to Attempt	Marks without option	Marks with option
1.	From the following types of sub questions, any 4 will be asked.				
	1. Choose the correct option.	1	5	5	5
	2. Complete the correlation.	1	5	5	5
	3. Give economic term.	1	5	5	5
	4. Find the odd word out.	1	5	5	5
	5. Complete the following statements.	1	5	5	5
	6. Choose the wrong pair.	1	5	5	5
	7. Assertion and reasoning questions	1	5	5	5
	8. Identify the right group of pairs from the given option.	1	5	5	5
2.	A. Identify and explain the concept.	2	Any (3) Out of (5)	6	10
	B. Distinguish between.	2	Any (3) Out of (5)	6	10
3.	Answer the following questions.	4	Any (3) Out of (5)	12	20
4.	State with reasons whether you agree or disagree with the following statements.	4	Any (3) Out of (5)	12	20
5.	Study the following table, figure, passage and answer the questions given below it.	4	Any (2) Out of (3)	8	12
6.	Answer in detail.	8	Any (2) Out of (3)	16	24
	Total Marks			80	116

Question Wise Distribution of Marks

Sr.No.	Types of Question	Net Marks	Marks With Option	Percentage
1	Objective	20	20	25%
2	Very Short	12	20	15%
3	Short Answer	32	52	40%
4	Long Answer	16	24	20%
	Total	80	116	100%

Variety of questions covered

In this book, you will be studying below types of questions:

Sr. No.	Nature of Question	Ch. 1	Ch. 2	Ch. 3A	Ch. 3B	Ch. 4	Ch. 5	Ch. 6	Ch. 7	Ch. 8	Ch. 9	Ch. 10
Theory section												
1.	Answer the following.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2.	Distinguish between:	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3.	Solve the following.	NA	NA	NA	NA	NA	NA	✓	NA	NA	NA	NA
A.	Choose the correct option.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
B.	Assertion and reasoning - Choose the correct answer from the following.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
C.	Complete the following statements by choosing the correct alternative.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
D.	Choose the correct pair.	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	✗
E.	Complete the correlation.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
F.	Find the odd word out.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
G.	Suggest an economic term for the given statements.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Identify and explain the concepts from the given illustrations.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	State with reasons whether you agree or disagree with the following statements	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Read the following passage and answer the questions given below/ Answer the following questions on the basis of following information.	✗	✗	✗	✗	✗	✓	✗	✓	✓	✓	✗
	Observe the chart and answer the following questions.	NA	✓	✓	✓	✓	✓	NA	NA	NA	NA	✓

Note : All the above variety of questions are a part of textbook.

INDEX

Sr. No.	Titles	Total Marks	Marks with option	Page No. (Theory)	Page No. (Objectives)
1.	Introduction to Micro-economics and Macro-economics	07	10	1 - 14	210 - 217
2.	Utility Analysis	07	10	15 - 34	218 - 228
3A.	Demand Analysis	08	12	35 - 56	229 - 239
3B.	Elasticity of Demand	08	12	57 - 81	240 - 250
4.	Supply Analysis	07	10	82 - 103	251 - 261
5.	Forms of Market	07	10	104 - 120	262 - 270
6.	Index Numbers	08	11	121 - 138	271 - 276
7.	National Income	08	12	139 - 159	277 - 287
8.	Public Finance in India	08	12	160 - 177	288 - 297
9.	Money Market and Capital Market in India	08	11	178 - 198	298 - 309
10.	Foreign Trade of India	04	06	199 - 209	310 - 316
	Total	80	116		
	Includes Board Question Paper of March 2023 (Solution in pdf format through QR code)			317	

- Note:**
1. All textual questions are represented by (T) mark.
 2. At the start of each chapter, we have provided a chapter index to enable the students to get an overview of the chapter. We have also marked the years in which the questions have been previously asked. Kindly note that this marking is only indicative and not exhaustive.

Scan the adjacent QR Code to know more about our **“Supplementary Questions Book”** for Std. XII (Comm). Get sufficient practice of all objective questions across all subjects.



Scan the adjacent QR Code to know more about our **“HSC 30 Question Papers & Activity Sheets with Solutions”** for Std. XII (Comm). Gear up yourself to score more in the XII Board Examination.



Sample Content

SR. NO.	PARTICULARS	BOARD EXAM
1.	Give a historical review of micro-economics and macro-economics.	
2.	Explain the scope of micro-economics.	Mar' 18, '16, '14
3.	Explain the features of micro-economics. (T)	July' 18, '17, Mar' 16
4.	Explain the importance of micro-economics. (T)	Mar' 20, '19, July' 17, Mar' 17
5.	Explain the scope of macro-economics. (T)	Mar' 22, 20, July' 18, Mar' 14
6.	Explain the concept of macro-economics and its features. (T)	Mar' 19, '18, '17, July' 17
7.	Explain the importance of macro-economics. (T)	
8.	Distinguish between:	
9.	Chapter Assessment	

INTRODUCTION

Economics is a social science which studies economic behaviour of people. Economic behaviour comprises of income earning and income spending activities of people. Economics analyses the production, distribution and consumption of goods and services. The subject was earlier called "Political Economy" but scientists in the late 19th century suggested "Economics" as a shorter name. This chapter deals with the two main branches of Economics i.e. Micro-economics and Macro-economics.

• MICRO-ECONOMICS AND MACRO-ECONOMICS

- 1) Micro-economics and Macro-economics are the two main branches of modern economics.
- 2) The term 'micro' is derived from the Greek word 'Mikros' which means small or a millionth part.
- 3) The term 'macro' is derived from the Greek word 'Makros' which means large.
- 4) These terms were coined by Norwegian Economist Ragnar Frisch of Oslo University in 1933.

Terms	Derived from the Greek word	Which means
Micro	Mikros	Small or millionth part
Macro	Makros	Large

**Q.1.****Answer the following**

1. Give a historical review of micro-economics and macro-economics.

Ans: Micro-economics and Macro-economics are the two main branches of modern economics. The term 'micro' is derived from the Greek word 'Mikros' which means small or a millionth part. The term 'macro' is derived from the Greek word 'Makros' which means large. These terms were coined by Norwegian Economist Ragnar Frisch of Oslo University in 1933.

HISTORICAL REVIEW OF MICRO-ECONOMICS

- 1) Micro-economic analysis was developed first and it is a traditional approach.
- 2) Origin of this approach can be traced back to the era of Classical Economists such as Adam Smith, David Ricardo, J. S. Mill etc.
- 3) It was popularised by Neo-Classical Economist, Prof. Alfred Marshall in his book 'Principles of Economics' published in 1890.
- 4) Other economists like Prof. Pigou, J.R. Hicks, Prof. Samuelson, Mrs. Joan Robinson etc. have also contributed to the development of Micro-economics.

**GG - Gyan Guru**

Adam Smith is known as "The Father of Economics" and is considered as the founder of Micro-economics. In his book "Wealth of Nations" published in 1776, he discussed how prices of individual commodities and factors of production are determined.

Prof. Alfred Marshall is considered as the real architect of Micro-economics. He popularised Micro-economics in his book "Principles of Economics" published in 1890.

HISTORICAL REVIEW OF MACRO-ECONOMICS

- 1) Macro-economics existed in the past before the evolution of Micro-economics.
- 2) In the 16th and 17th century, Mercantilists (a group of English merchants) advocated policies to the government which were based on macro approach.
- 3) In the 18th century, Physiocrats (French Thinkers) tried to analyse the concept of national income and wealth.
- 4) Even the Classical Economic theories of Prof. Adam Smith, Prof. Ricardo and Prof. J. S. Mill discussed the determination of national income and wealth. However, their macro analysis was combined with micro analysis.
- 5) Thus, micro analysis ruled the world of Economics till the Great Depression of 1930s.



- 6) After the Great Depression, Lord John Maynard Keynes published his famous book the "General Theory of Employment, Interest and Money" in 1936.
- 7) Lord Keynes used macro-economic approach to analyse economic problems.
- 8) The credit for the development of macro-economic approach goes to Lord Keynes.
- 9) Besides Lord Keynes, Malthus, Wicksell, Walras, Irving Fisher are other economists who have contributed to the development of macro-economics.

- **MEANING OF MICRO-ECONOMICS (Mar' 20)**

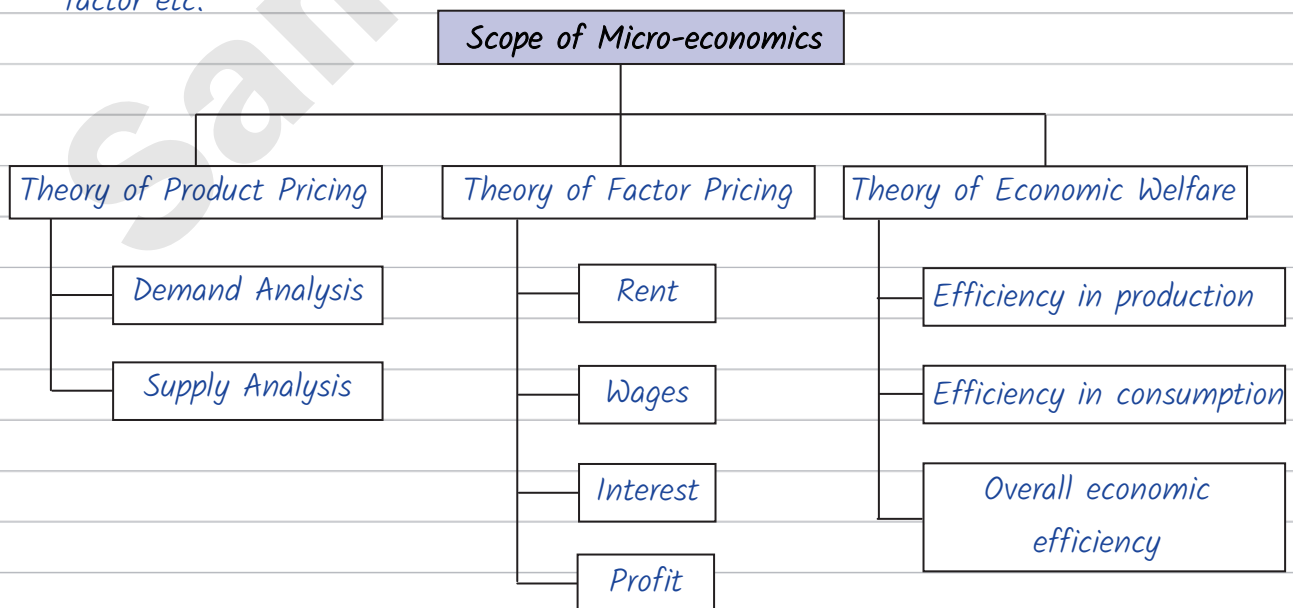
- 1) Micro means a small part of a thing.
- 2) Micro-economics thus deals with a small part of the national economy.
- 3) It studies the individual economic units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.
- 4) In simple terms, it is examination of the 'tree' and not the 'forest'.

- **DEFINITIONS OF MICRO-ECONOMICS (Mar' 20)**

- 1) **Maurice Dobb:** "Micro-economics is in fact a microscopic study of the economy."
- 2) **Prof. A. P. Lerner:** "Micro-economics consists of looking at the economy through a microscope, as it were, to see how the millions of cells in the body of economy – the individuals or households as consumers and individuals or firms as producers play their part in the working of the whole economic organism."

2. Explain the scope of micro-economics. (Mar' 18, '16, '14)

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual economic units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.





The scope of micro-economics can be explained with the following points:

1) **THEORY OF PRODUCT PRICING**

The price of an individual commodity is determined by the market forces of demand and supply. Micro-economics is concerned with demand analysis i.e. individual consumer behaviour and supply analysis i.e. individual producer behaviour. The theory of product pricing explains how the price of a commodity is determined.

2) **THEORY OF FACTOR PRICING**

Land, labour, capital and entrepreneur are all factors of production and contribute to the process of production. For this contribution, they get rewards in the form of rent, wages, interest and profits, respectively. The theory of factor pricing explains how the factor prices (or rewards) are determined.

3) **THEORY OF ECONOMIC WELFARE**

Theory of Economic Welfare basically deals with the efficiency in allocation of resources. Efficiency in the allocation of resources is attained when it results in maximisation of satisfaction of people. Economic efficiency involves three efficiencies:

- i. **Efficiency in production:** Efficiency in production means producing maximum possible amount of goods and services from the given amount of resources.
- ii. **Efficiency in consumption:** Efficiency in consumption means distribution of produced goods and services among the people for consumption in such a way as to maximise total satisfaction of the society.
- iii. **Overall economic efficiency:** Overall efficiency means the production of those goods which are most desired by people.

Micro-economic theories show under what conditions these efficiencies are achieved.

Thus, we can conclude that the scope of Micro-economics is limited to price theory (factor pricing and product pricing) and allocation of resources. It does not study the aggregates relating to the whole economy.

3. Explain the features of micro-economics. (July' 18, '17, Mar' 16)

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.



The following are the features of micro-economics:



SMART CODE

P

A

S

S

P

B

U

S

1) **PRICE THEORY**

Micro-economics deals with the determination of prices of goods and services as well as factors of production. Hence, it is known as price theory.

2) **ANALYSIS OF MARKET STRUCTURE**

Micro-economics analyses different market structures like perfect competition, monopoly, oligopoly, monopolistic competition etc.

3) **SLICING METHOD**

Micro-economics uses slicing method. It splits or divides the entire economy into small individual units and then studies each unit separately in detail. *E.g.:* study of individual income out of national income, study of individual demand out of aggregate demand etc.

4) **STUDY OF INDIVIDUAL UNITS**

Micro-economics is the study of the behaviour of small individual economic units like individual firm, individual price, individual household etc.

5) **PARTIAL EQUILIBRIUM**

Equilibrium means the balance between two factors. Micro-economics studies the behaviour of individual economic units like individual firm, individual consumer, individual household etc. However, while doing so, it isolates the individual unit from other forces and studies its equilibrium independently. Hence, micro-economics deals with partial equilibrium.

6) **BASED ON CERTAIN ASSUMPTIONS**

Micro-economic laws begin with the fundamental assumption, “Other things being constant” (*Ceteris Paribus*). Micro-economics assumes perfect competition, laissez-faire policy (minimal government intervention), pure capitalism, full employment etc. These assumptions are unrealistic. However, they make the analysis simple.

FOR YOUR UNDERSTANDING

Ceteris Paribus is a Latin phrase. Its English translation is “Other things being equal or constant”.

7) **USE OF MARGINALISM PRINCIPLE**

The concept of ‘marginalism’ is the key tool in micro-economic analysis. The term ‘marginal’ means a change brought about in the total by an additional unit.



Marginal analysis helps to study a variable through the changes. Producers and consumers take economic decisions using this principle.

8) SCOPE IS LIMITED

The scope of micro-economics is limited to only individual units. It doesn't deal with nationwide economic problems like inflation, deflation, balance of payments, poverty, unemployment, population, economic growth etc.

4. Explain the importance of micro-economics. (Mar' 20, '19, July' 17, Mar' 17) T

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.

The following points explain the importance of micro-economics:



SMART CODE

P

U

B

F

R

E

E

1) PRICE DETERMINATION

Micro-economics explains how the prices of different products and various factors of production are determined. It is also known as price theory.

2) UNDERSTANDING WORKING OF FREE MARKET ECONOMY

A free market economy refers to an economy where the economic decisions regarding:

- i. What to produce?
- ii. How much to produce?
- iii. How to produce? etc.

are taken at individual level. There is no intervention by the government or any other agency in decisions regarding the production. Micro-economics helps in understanding the working of such free market economy.

3) BUSINESS DECISIONS

Micro-economic theories are helpful to businessmen for taking crucial business decisions like determination of price of goods, determination of cost of production, maximisation of output and profit etc.

4) FORMS BASIS OF WELFARE ECONOMICS

Resources are scarce and the government must allocate these resources properly for ensuring maximum social welfare. Micro-economic analysis helps the government in optimal allocation and utilisation of scarce resources in order to achieve maximum welfare. It also studies how taxes affect social welfare.



5) REQUIRED BY GOVERNMENT

Micro-economics is useful to government in framing economic policies such as taxation policy, public expenditure policy, price policy etc. These policies help the government to attain its goals of efficient allocation of resources and economic welfare of the society.

6) EXPLAINS ASPECTS OF FOREIGN TRADE

Micro-economics explains various aspects of foreign trade like effects of tariff on a particular commodity, determination of foreign exchange rates of any two countries, gains from international trade to a particular country etc.

7) ECONOMIC MODEL BUILDING

Micro-economics helps in understanding various complex economic situations by way of simple economic models. Economic models are built using various economic variables. Micro-economics has also helped in development of various terms, concepts, terminologies and tools of economic analysis.

FOR YOUR UNDERSTANDING

Economic models generally consist of a set of mathematical equations that describe economic behaviour. Some examples of economic models are the production possibility frontier, the Keynesian IS/LM model, and the Mundell-Fleming model.

• MEANING OF MACRO-ECONOMICS

- 1) Macro-economics is the branch of economics which analyses the entire economy.
- 2) It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, inflation, trade cycles, business fluctuations etc.
- 3) Thus, macro-economics is the study of aggregates.

• DEFINITIONS OF MACRO-ECONOMICS

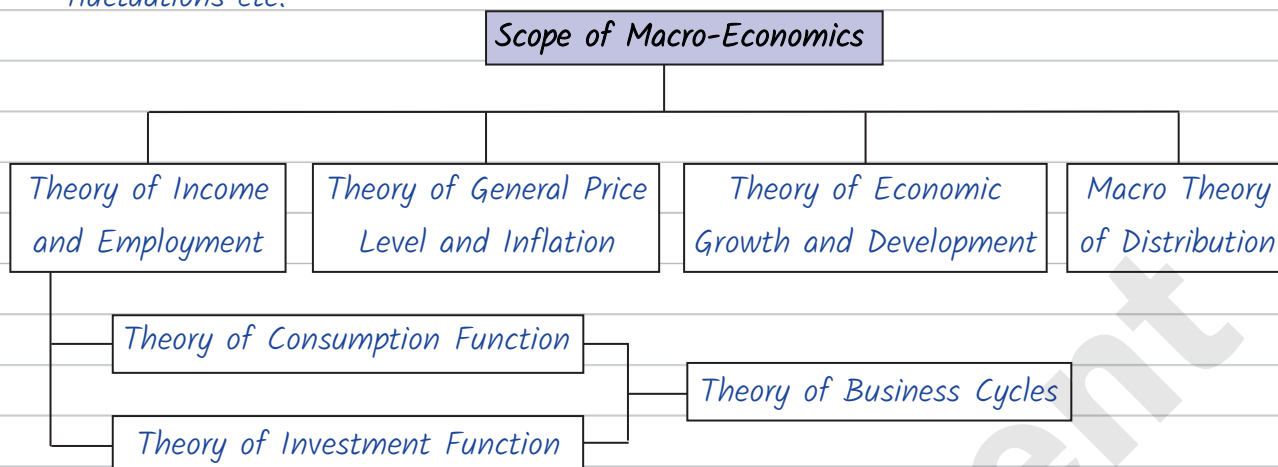
- 1) J. L. Hansen: "Macro-economics is that branch of economics which considers the relationship between large aggregates such as the volume of employment, total amount of savings, investment, national income etc."
- 2) Prof. Carl Shapiro: "Macro-economics deals with the functioning of the economy as a whole."

5. Explain the scope of macro-economics. (Mar' 22, 20, July' 18, Mar' 14) T

Ans: Macro-economics is the branch of economics which analyses the entire economy. It deals with the total employment, national income, national output, total investment,



total consumption, total savings, general price level, interest rates, trade cycles, business fluctuations etc.



The scope of macro-economics can be explained with the following points:

1) THEORY OF INCOME AND EMPLOYMENT

- i. Macro-economic analysis explains which factors determine the level of national income and employment in the country. It also explains the causes of fluctuations in income, output and employment.
- ii. Therefore, Macro-economics is also called as “Theory of Income and Employment”.
- iii. In order to understand what determines the level of employment in the country, the following needs to be studied:
 - a. Consumption function
 - b. Investment function
- iv. The Theory of Business Cycles is also a part and parcel of Theory of Income and Employment.

2) THEORY OF GENERAL PRICE LEVEL AND INFLATION

Macro-economic analysis shows how the general price level in the economy is determined. It further explains what causes fluctuations in it. The study of general price level is important on account of problems created by inflation and deflation.

3) THEORY OF GROWTH AND DEVELOPMENT

Macro-economics consists of the theory of economic growth and development. It explains the causes of underdevelopment and poverty. It also suggests strategies for accelerating growth and development.

4) MACRO THEORY OF DISTRIBUTION

The macro theory of distribution deals with the relative shares of rent, wages, interest and profits in the total national income.



6. Explain the concept of macro-economics and its features. (Mar' 19, '18, '17, July' 17) T

Ans: Macro-economics is the branch of economics which analyses the entire economy. It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, trade cycles, business fluctuations etc.

The following are the features of macro-economics:



SMART CODE

G	I	G	I	G	P	L	S
---	---	---	---	---	---	---	---

1) **GENERAL EQUILIBRIUM ANALYSIS** (Mar' 20)

Equilibrium means the balance between two factors. Macro-economics studies the behaviour of large aggregates like aggregate demand, aggregate supply, national income, total investment etc. It studies the equilibrium of these variables as a whole, taking into account the other market forces. Hence, macro-economics deals with general equilibrium.

E.g.: Macro-economics explains how equilibrium is achieved between aggregate demand and aggregate supply and how it determines price level in the economy.

2) **INTERDEPENDENCE**

Macro analysis takes into account the interdependence between aggregate economic variables such as income, output, employment, investments, price level etc.

E.g.: Changes in the level of investment will finally result into changes in the levels of income, output, employment and eventually the level of economic growth.

3) **GENERAL PRICE LEVEL**

General price level is the average of all prices of goods and services currently being produced in the economy. Macro-economics studies how the general price levels are determined and the causes for their fluctuation.

4) **INCOME THEORY**

Macro-economics studies the concept of national income, its different elements, methods of measurement and social accounting. It also explains the causes of fluctuations in national income, which lead to business cycles, i.e. inflation and deflation.

5) **GROWTH MODELS**

Macro-economics studies various factors that contribute to economic growth and development. It is useful in developing growth models. These growth models are used for studying economic development.

E.g.: Mahalanobis growth model focused on basic heavy industries.



Macro-economics studies factors that contribute to economic growth and development

That study is useful in developing growth models

These growth models are used for studying economic development



GG - Gyan Guru

Prasanta Chandra Mahalanobis (1893-1972) was an Indian scientist and statistician. He is considered as the father of modern statistics in India. According to Mahalanobis, rate of economic growth depends on the capital formation or real investment. The greater the rate of capital formation, the greater is the rate of economic growth. Capital formation takes place when savings are invested.

6) POLICY-ORIENTED

According to Keynes, macro-economics is a policy-oriented science. It suggests suitable economic policies to promote economic growth, generate employment, control inflation and depression etc.

7) LUMPING METHOD

Macro-economics deals with macro-variables like aggregate demand, aggregate supply, national output etc. Unlike micro-economics, it does not split up the economy into small slices but studies it in big lumps. Thus, it uses the lumping method. According to Prof. Boulding, "Forest is an aggregation of trees, but it does not reveal the properties of an individual tree." Macro-economics is said to study the forest as opposed to micro-economics which studies individual trees.

8) STUDY OF AGGREGATES

Macro-economics deals with the study of the economy as a whole. It is concerned with the aggregate concepts such as national income, national output, national employment, general price level, business cycles etc.

7. Explain the importance of macro-economics. (T)

Ans: Macro-economics is the branch of economics which analyses the entire economy. It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, trade cycles, business fluctuations etc.



The following points explain the importance of macro-economics:

1) **UNDERSTANDING FUNCTIONING OF ECONOMY**

Macro-economic analysis gives us an idea about the functioning of an economic system. It also helps to understand the behavioural pattern of aggregate variables in a large and complex economic system.

2) **ANALYSES ECONOMIC FLUCTUATIONS**

Macro-economics helps to analyse the causes of fluctuations in income, output and employment. It also makes an attempt to control the fluctuations or reduce their severity.

3) **NATIONAL INCOME**

The study of macro-economics has highlighted the importance of studying national income and social accounts. Without a study of national income, it is not possible to formulate correct economic policies.

FOR YOUR UNDERSTANDING

Social accounts refer to the process of measuring, monitoring and reporting to stakeholders the social and environmental effects of government's actions.

4) **STEPS FOR ECONOMIC DEVELOPMENT**

Advanced studies in macro-economics help to understand the problems of developing countries such as poverty, inequalities of income and wealth, differences in standard of living etc. It suggests important steps to achieve economic development.

5) **PERFORMANCE OF AN ECONOMY**

Macro-economics helps us to analyse the performance of an economy. National Income (NI) estimates are used to measure the performance of an economy by comparing the production of goods and services in one period with that of the other period.

6) **STUDY OF MACRO-ECONOMIC VARIABLES**

To understand the working of an economy, study of macro-economic variables is important. Main economic problems are related to the economic variables such as behaviour of total income, output, employment and general price level in the economy.

7) **LEVEL OF EMPLOYMENT**

Macro-economics helps to analyse the general level of employment and output in an economy.



Q.2. Distinguish between:

1. Micro-economics and Macro-economics (Mar' 19, July' 18, '17, Mar' 16, Oct' 15, '14)

Ans:

Micro-economics	Macro-economics
1) Micro-economics deals with a small part of national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.	1) Macro-economics analyses the entire economy. It deals with total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, inflation, trade cycles, etc.
2) Micro-economics is a study of micro variables.	2) Macro-economics is a study of macro variables or aggregates.
3) It uses slicing method.	3) It uses lumping method.
4) Micro-economic analysis is based on partial equilibrium analysis. It neglects the interdependence between economic variables.	4) Macro-economic analysis is based on general equilibrium analysis. It studies the functional relationship and interdependence between economic variables.
5) The scope of micro-economics is narrow or limited.	5) The scope of macro-economics is wide.
6) It deals with determination of factor prices as well as prices of goods and services. Hence, it is also called as price theory.	6) It explains what determines level of national income and employment and what causes fluctuations in them. Hence, it is also called theory of income and employment.

2. Slicing Method and Lumping Method (Mar' 22, 20, 18, 15)

Ans:

Slicing method	Lumping method
1) When the aggregate is divided into small units for the purpose of study of each unit in depth, it is called as slicing method.	1) When the economy is not split up into small slices; but it is studied in big lumps as it is, it is called as lumping method.
2) Micro-economics uses slicing method.	2) Macro-economics uses lumping method.



3) It gives a worm's eye view of the economy.	3) It gives a bird's eye view of the economy.
4) It studies in depth individual units like household, firm, consumer, producer, individual wages, individual prices, individual incomes, particular commodity etc.	4) It studies aggregates such as total employment, national income, national output, total investment, total savings, total consumption, aggregate supply, aggregate demand etc.

3. Partial Equilibrium and General Equilibrium (Oct' 21, Mar' 17, Mar' 14,)

Ans:

Partial equilibrium	General equilibrium
1) Partial equilibrium means an equilibrium derived by considering the effect of only two variables at a time. All other variables are considered to be constant.	1) General equilibrium means an equilibrium which is derived by considering the effect of many variables at a time.
2) It neglects the interdependence between variables.	2) It takes into account the interdependence between variables.
3) Micro-economic analysis is based on partial equilibrium analysis.	3) Macro-economic analysis is based on general equilibrium analysis.
4) It studies the equilibrium position of consumer, a firm, an industry, a market etc.	4) It studies the equilibrium position of the economy as a whole.

CHAPTER ASSESSMENT

Time: 1 hour

Marks: 25 marks

Q.1. A) Complete the following statements by choosing the correct alternative. [2]

1. The terms Micro and Macro-economics were first used by _____.

- | | |
|------------------|-------------|
| a. Adam Smith | b. Robbins |
| c. Ragnar Frisch | d. Marshall |

2. Macro-economics is a study of _____.

- | | |
|--------------------|------------------|
| a. aggregates | b. firm |
| c. individual unit | d. factor prices |

B) Complete the correlation. [2]

1. Micro-economics : Slicing method : : Macro-economics : _____.

2. General equilibrium : Macro-economics : : _____ : Micro-economics



C) Suggest an economic term for the given statements. [3]

1. The micro-economic theory which deals price of individual commodity.
2. This macro-economic theory is a part and parcel of the Theory of Income and Employment.
3. A type of economy where economic decisions regarding production of goods are taken at individual level.

D) Choose the correct option. [2]

1. Concepts studied under Micro-economics:

- | | |
|---------------------|-------------------------|
| i. National income | ii. General price level |
| iii. Factor pricing | iv. Product pricing |
| a. ii and iii | b. ii, iii and iv |
| c. i, ii and iii | d. iii and iv |

2. Concepts studied under Macro-economics

- | | |
|-----------------------|--------------------------|
| i. Whole economy | ii. Economic development |
| iii. Aggregate supply | iv. Product pricing |
| a. i, ii and iii | b. ii, iii and iv |
| c. only iv | d. i, ii, iii and iv |

Q.2. Identify and explain the concepts from the given illustrations. [4]

1. Mrs. Sharma paid salaries to workers in her shop and rent to landlord.
2. Preeti collected the information about the income of a company ABC.

Q.3. State with reasons whether you agree or disagree with the following statements.

(Any 1) [4]

1. The scope of Micro-economics is unlimited.
2. Micro-economics is known as income theory.

Q.4. Answer in detail. [8]

1. Explain the concept of Macro-economics and its features.

Scan the given Q. R. Code in Quill - The Padhai App
to view the answers of the Chapter Assessment.





Smart Notes

The preferred choice of thousands of students for smart study in commerce
Book Keeping & Accountancy | Economics | Organisation of Commerce & Management |
Secretarial Practice | Mathematics & Statistics – I & II | English Yuvakbharati |
Hindi Yuvakbharati | Marathi Yuvakbharati

Smart PPT*

Attractive presentations to make lectures more engaging & more interesting.

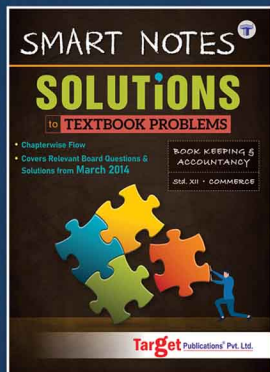
Prudent Test Series*

Ready-made test papers (chapter-wise tests, unit tests & prelim papers) in
PDF format along with solutions.

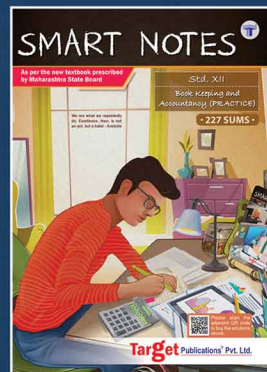
Quill – The Padhai App

To help you study on the move. The mobile app includes PDF files of
all the books for you to read.

* - For coaching institutes only



Detailed solutions of
all textual problems &
board problems from
March 2014.



Practice yourself to
perfection with this
practice book that
covers 227 additional
sums.

Target Publications® Pvt. Ltd.
Transforming lives through Learning.

Address:

2nd floor, Aroto Industrial Premises CHS,
Above Surya Eye Hospital, 63-A, P. K. Road,
Mulund (W), Mumbai 400 080

Tel: 88799 39712 / 13 / 14 / 15

Website: www.targetpublications.org

Email: mail@targetpublications.org



Explore our range
of **STATIONERY**



Visit Our Website