Guru Gobind Singh Public School

Sector5B Bokaro Steel City, Class 12

Sub: Economics (030)

Assignment And Notes

Chapter 1. Some Basic Concepts of Macroeconomics

Macro Economics: It is the branch of economics which studies economic issues or economic problems at the level of economy as a whole.

Goods :In economics a goods is defined as any physical object, manmade, that could command a price in the market and these are the materials that satisfy human wants and provide utility

Consumption Goods/ Consumer goods : Those final goods which satisfy human wants directly. ex- ice-cream and milk used by the households.

(a)Durable consumption goods: These goods repeatedly used before being discarded as useless like TV, Radio ,Car , Scooter.

(b)Semi Durable Consumption Goods: Those goods which can be used for a period of one year or slightly more like Clothes, Crockery, Electric goods etc.

(c)Non- Durable or Single Use Consumption Goods: Those goods which are used up in single act of consumption. eg. Ink , milk , petrol etc.

(d)Services: services are those non material goods which directly satisfy human wants eg. Service of a doctor, lawyer etc.

Capital Goods :Those final goods which help in production. These goods are used for generating income. These goods are fixed assets of the producers .ex- plant and machinery.

Final Goods are those goods which are used either for final consumption or for investment.

Intermediate Goods refers to those goods and services which are used as a raw material for further production or for resale in the same year. These goods do not fulfill needs of mankind directly.

Investment : Addition made to the physical stock of capital during a period of time is called investment. It is also called capital formation.

Capital formation :- Change in the stock of capital is also called capital formation.

Depreciation : means fall in value of fixed capital goods due to normal wear and tear and expected obsolescence. It is also called consumption of fixed capital.

Gross Investment : Total addition made to physical stock of capital during a period of time. It includes depreciation. OR Net Investment + Depreciation

Net Investment : Net addition made to the real stock of capital during a period of time. It excludes depreciation.

Net Investment = Gross investment – Depreciation.

Stocks : Variables whose magnitude is measured at a particular point of time are called stock variables. Eg. National Wealth, Inventory etc.

Flows : Variables whose magnitude is measured over a period of time are called flow variable. Eg. National income, change in stock etc.

Sectors of the economy: Economy is often divided into four sectors

(a)Household sector: Engaged in the consumption of goods and services.

(b)Producer sector: Engaged in the production of goods and services.

(c)Government sector: Engaged in such activities which are related to taxation and subsidies.

(d)External sector/ Rest of the world sector: Engaged in exports and imports.

Intersectoral flow: Each sector of the economy depends on the other in one way or the other. This is called intersectoral interdependence.

Circular flow of income : It refers to continuous flow of goods and services and money income among different sectors in the economy. It is circular in nature. It has neither any end and nor any beginning point. It helps to know the functioning of the economy.

Leakage : It is the amount of money which is withdrawn from circular flow of income. For eg. Taxes, Savings and Import. It reduces aggregate demand and the level of income.

Injection : It is the amount of money which is added to the circular flow of income. For eg. Govt. Exp., investment and exports. It increases the aggregate demand and the level of income.

National Income at Current Prices : It is also called nominal National income. When goods and services produced by normal residents within and outside of a country in a year valued at current years prices i.e. current prices is called national income at current prices.

Y = Q x P

Y = National income at current prices

Q = Quantity of goods and services produced during an accounting year

P = Prices of goods and services prevailing during the current accounting year

National Income at Constant Prices : It is also called as real national income. When goods and services produced by normal residents within and outside of a country in a year valued at constant price i.e. base year's price is called National Income at Constant Prices.

Y' = Q x P'

Y' = National income at constant prices

Q = Quantity of goods and services produced during an accounting year

P' = Prices of goods and services prevailing during the base year

GDPmp : It is the market value of final goods and services produced within the domestic territory of a country during the period of an accounting year.

GDP and Welfare :

In general GDP and Welfare are directly related with each other. A higher GDP implies that more production of goods and services. It means more availability of goods and services. But more goods and services may not necessarily indicate that the people were better off during the year. In other words, a higher GDP may not necessarily mean higher welfare of the people. There are two types of GDP:

Real GDP : When the goods and services are produced by all producing units in the domestic territory of a country during an a/c. year and valued these at base year's prices or constant price, it is called real GDP or GDP at constant prices. It changes only by change in physical output not by change price level. It is called a true indicator of economic development.

Nominal GDP : When the goods and services are produced by all producing units in the domestic territory of a country during an a/c. year and valued these at current year's prices or current prices, it is called Nominal GDP or GDP at current prices. It is influenced by change in both physical output and price level. It does not consider a true indicator of economic development.

Price index plays the role of deflator deflating current price estimates into constant price estimates. In this way it may be called GDP deflator.

Welfare mean material well being of the people. It depends on many economic factors like national income, consumption level quality of goods etc . and non-economic factor like environmental pollution, law and order etc. the welfare which depends on economic factors is called economic welfare and the welfare which depends on non-economic factor is called non-economic welfare. The sum total of economic and non-economic welfare is called social welfare. Conclusion thus GDP and welfare directly related with each other but this relation is incomplete because of the following reasons.

Limitation of per capita real GDP/GDP as a indicator of Economic welfare :

- Non-monetary exchange
- Externalities not taken into GDP but it affects welfare.

- Distribution of GDP.
- All product may not contribute equally to economic welfare.
- Contribution of some products may be negative.
- Inflation may give falls impression of growth of GDP.

Write down some of the limitations of using GDP as an index of the welfare of a country.

Ans: Limitations of using GDP as an indicator are as follows:

Distribution of GDP: It is possible that with a rise in GDP, inequalities in the distribution of income may also increase, i.e. the gap between rich and poor increases. GDP does not take into account changes in inequalities in the distribution of income. So, the welfare of the people may not rise as much as the rise in GDP.

Change in prices: If the increase in GDP is due to a rise in prices and not due to an increase in physical output, then it will not be a reliable index of economic welfare.

Non-monetary exchanges: Many activities in an economy are not evaluated in monetary terms. For example- non-market transactions like services of a housewife, kitchen gardening, leisure time activities etc. are not included in GDP, due to non-availability of data. However, such activities influence the economic welfare. In India, non-monetary transactions are quite evident in rural areas. So, Gross Domestic Product is not a good indicator of economic welfare.

Externalities: Externalities refer to the good and bad impact of an activity without paying the price or penalty for that. Activities which results in benefits to others are termed as **positive externalities** and activities which result in harm to others are termed as **negative externalities**.

Rate of population growth: GDP does not consider the changes in the population of a country. If the rate of population growth is higher than the rate of growth of GDP, then it will decrease the per capita availability of goods and services, which will adversely affect economic welfare.

Finally, it can be conducted that GDP may not be taken as a satisfactory measure of economic

1.Distinguish between stock and flow. Between net investment and capital, which is a stock and which is a flow? Compare net investment and capital with the flow of water into a tank.

2. Define stock variable.

3. Define capital goods.

4. What is nominal gross Domestic product ?

5. Define flow variables.

6. Define 'real' gross domestic product.

7. Define capital formation.

8. Why is the study of the problem of unemployment in India considered a macro economic study?

Ans. The problem of unemployment in India is an economic issue at level of economy as a whole, hence considered as macroeconomic study.

9. State whether the following is a stock or flow:

(a) Wealth

(b) Cement production

(c) Saving of a household

(d) Income of household

10. State whether the following is a stock or flow:

(a) National capital

(b) Exports

(c) Capital formation

(d) Expenditure on food by household

11. Differentiate final goods and intermediate goods.

12. Give two examples of stock.

13. Give two examples of flow.

14. What are semi- durable consumer goods?

15. Define single use consumer goods.

16. What do you mean by consumption goods?

18. What are final goods?

19. Define intermediate goods.

20. Classify the following goods into intermediate goods and final goods. Give reason to support your answer.

(a)Milk purchased by a household.

(b)Purchase of rice by a grocery shop.

(c)Purchase of an air conditioner for use in shop.

(d)Cloth used for making a sofa-set by the carpenter.

21. Differentiate between gross investment and net investment.

22. Describe the four major sectors of the economy according to macroeconomic point of view.