Economics Class 12 Important Question Chapter 1 Introduction to Macro Economics

1. What is entrepreneurship?

Ans: The ability and willingness to conceive, organize, and manage a business initiative, as well as any risks associated with it, in order to generate profit is called entrepreneurship. The establishment of new businesses is the most visible manifestation of entrepreneurship.

2. Define great depression.

Ans: The Great Depression was the worst economic downturn in the history of the industrialized world, lasting from 1929 to 1933. Economic historians typically ascribe the commencement of the Great Depression to the abrupt and disastrous drop of US stock market prices on October 29, 1929, known as Black Tuesday. Some, however, disagree with this conclusion, viewing the stock market crash as a symptom rather than a cause of the Great Depression.

3. What are the features of capitalist economy?

Ans: According to Karl Marx's 'Das Kapital,' the capitalist takes on average twelve hours of work from the worker and pays him wages equivalent to six hours of effort.

"Capitalism is a free-market form or capitalistic economy that may be regarded as an automatic self-regulating system motivated by self-interest of individuals and regulated by competitions," writes Ferguson.

The main features are:

- Private ownership exist, and the property is owned by the private sector or individuals or companies.
- No or minimum interference from the government takes place.
- There exists the influence of the private sector in all the decisions.
- The forces of demand and supply, as well as the behaviour of economic participants determines the economy.
- The main objective is profit maximisation.
- USA, and Japan are examples of capitalist economies.
- There exists freedom of enterprise, where individuals are free to make their own economic choices.

4. What are economic agents?

Ans: Individuals or institutions that make economic decisions are referred to as economic units or economic agents.

- They could be consumers who choose what and how much to consume.
- They could be manufacturers of goods and services who decide what and how much to produce.
- They could be institutions such as the government, corporations, or banks that make economic decisions such as how much to spend, what interest rate to charge on credit, how much to tax, and so on.

Long Answer Questions (6 Marks)

5. What is Macroeconomics and microeconomics and what is the connection between the two?

Ans: Many books have been written about macroeconomics and microeconomics, as well as the underlying concepts that underpin them. Microeconomics is the study of decisions made by individuals and businesses regarding resource allocation and the pricing of goods and services. It focuses on supply and demand, as well as other forces that influence price levels in the economy. Macroeconomics is the branch of economics that studies the behavior of the economy as a whole, rather than just individual businesses.

While these two economics subjects appear to be distinct, they are actually interrelated and complement one another due to many overlapping concerns.

- For example: Higher inflation would raise the cost of raw materials for businesses, influencing the price of the end product charged to the public. According to Professor Ackley, "the link between macroeconomics and theory of individual behavior is a two-way street."
- Microeconomic theories should serve as the foundation for our collective ideas, but macroeconomics can also aid in microeconomic knowledge. For example, empirically stable macroeconomic generalizations that appear to contradict microeconomic theories may help us better understand individual behavior.

6. Define and explain the importance of 'scarcity' and 'opportunity costs' in economics.

Ans: Scarcity

Scarcity is the condition that exists when there are insufficient resources to meet all of an individual's or society's desires. Any resource with a non-zero cost to use is rare to some extent, but relative scarcity is what matters in practice.

- Scarcity is sometimes known as "paucity."

- Economics is the study of how people use finite resources to meet their boundless desires.
- At the heart of economics is the notion that our world is afflicted by scarcity, that we do not have access to all of the resources we desire. As a result, we must make a decision.

Importance of Scarcity:

- It influences the level of supply and demand in the economy.
- The production of goods and services is influenced by the scarcity of input resources. If the resources are scarce, producers will find it difficult to produce the required level of goods and services.
- It affects the price of goods and services, as scarce resources are high in demand but low in supply, leading to higher price charges.
- No economy would exist if there is no scarcity. As due to scarcity of resources the problem of choice and problem of resource allocation arises.

Opportunity cost

When we make a decision, it is unavoidable that we will have to give up something. The thing we give up is referred to as opportunity cost.

- Economists describe opportunity cost as the next best or highest valued alternative to the chosen option. If we choose to make a product out of a resource, the opportunity cost of making that good is the highest valued alternative use of that resource.
- Opportunity Costs are the costs incurred when the next highest valued alternative is foregone when a decision is taken. Every resource used in the economy has a limited quantity available.
- This is what leads to the existence of a price for all commodities and services. If there were no scarcity of resources, everything would be free, and there would be no opportunity cost of choosing the next best opportunity. Because neither the customer nor the producer has an infinite supply of anything, hence opportunity cost is tied to scarcity.

7. What are the different ways in which resources can be allocated and what are their respective advantages and disadvantages?

Ans: The problem of resource allocation can be settled either by free interaction of individuals or a government controlled economic system. Mainly three market systems exist that decide about the allocation of resources.

Centrally Planned Economy: A centrally planned economy is one in which the government or a central authority plans all the economy's major activities. All major decisions regarding the production, exchange, and consumption of goods and services are made by the government. The central authority attempts to achieve a specific resource allocation and also the distribution of the final combination of goods and services that is deemed desirable for the society as a whole. The primary goal is social welfare.

Advantages:

- Higher economic growth and development due to social welfare objectives.
- Reduced income and social inequalities.
- Reduced duplication of resources
- Better and optimum utilisation of resources.

Disadvantages:

- Lack of individual choice.
- Restricts individual rights
- As the government makes the decisions, there is no say of individuals.
- Inefficiency is there, as the products are as per government decisions, irrespective of consumer choice.

Market Economy: All economic activities in a market economy are organised through the market. Free interaction of individuals who pursue their respective economic activities takes place in a market.

In other words, a market is a collection of arrangements in which economic agents freely exchange their endowments or products with one another. Also, no interference of government takes place, and there exists the influence of the private sector. The forces of demand and supply, as well as the behaviour of economic participants determines the economy. The main objective is profit maximisation.

Advantages:

- Higher efficiency due to competition between firms.
- To enable differentiation, and gain competitive advantage, firms offer wide variety of products.
- Innovation in products take place to boost consumer demand.
- Efficient production, and utilisation of resources is there

Disadvantages:

- Due to profit motive, no/less concern to society and environment is there.
- Exploitation of people takes place.

- Cut throat competition leads to competitive disadvantages.
- The social, economic, and income inequalities take place.
- **Mixed Economy:** The economy in which both the government and the private sector own and operate production factors. Profit maximisation in the private sector and social welfare in the public sector are the primary goals. The central planning authority and the price mechanism solve central problems.

Advantages:

- Efficient allocation of resources.
- Social welfare
- Private sector is encouraged.
- Reduction in economic differences

Disadvantages:

- Delay in decision making.
- High possibility of resource wastage.
- More chances of corruption and black marketing.
- Lack of proper economic planning.

8. Explain the scope of Macroeconomics.

Ans: The scope of Macroeconomics is as follows:

To comprehend the operation of the economy: The study of macroeconomic variables is essential for understanding how the economy works. Our key economic challenges are related to the behavior of total income, output, employment, and the economy's overall price level.

Economic Policies: Macroeconomics is particularly useful in terms of economic policy. Modern governments, particularly those in developing countries, face a slew of domestic issues. They are overcrowding, inflation, balance of payments, general underproduction, and so on.

Unemployment in General: Unemployment is thus generated by a lack of effective demand. To eradicate it, total investment, total output, total income, and total consumption should be increased to increase effective demand. As a result, macroeconomics is especially important in investigating the origins, impacts, and treatments of general unemployment.

National Income: Understanding macroeconomics is critical for assessing the overall performance of the economy in terms of national income. With the onset of the 1930s Great Depression, it became necessary to investigate the causes of general overproduction and general unemployment.

Economic Growth: Growth economics is a branch of macroeconomics. The resources and capacities of an economy are assessed using macroeconomic principles. Plans for overall increases in national income, output, and employment are developed and implemented in order to boost the economy's overall level of economic development.

9. What are the different types of goods produced in an economy?

Ans: The following are some examples of different categories of goods:

Ordinary products: The quantity requested of such commodities rises as the consumer's income rises and falls as the consumer's income falls. Such items are referred to as regular goods.

Free Products: These are goods that have an infinite supply and are offered as a free gift from nature. These items are referred to as 'Free Goods.' For example, air, sea, water, sunlight, desert sand, and so on.

Economic Goods: Vegetables, cereals, minerals, fruits, and fish, etc which are neither man-made nor limitless in supply from nature are referred to as 'Economic Goods.' All of these items are exclusively available for purchase and sale in the market.

Substitute goods: These are items that can be consumed or used in lieu of one another. Also, an increase in the price of one type of good leads to an increase in the demand for its replacements, and a decrease in the price leads to a decrease in the demand for its substitutes. For example, tea and coffee are substitutes.

Private Goods Private goods are all goods owned by private entities. A car, a house, a motorcycle, a mobile phone, books, a television set, and so on are examples of private commodities.

Public Goods: There are many goods that are jointly owned by society, the public, or the government. These are referred to as public or government products. Roads, bridges, hospitals, government schools, and so on are examples of public goods, social goods, or government goods.

Consumer Goods: Consumer Goods are goods that are directly used by the consumer for the purpose of consumption. Bread, biscuits, butter, jam, rice, fish, eggs, shoes, clothes, fans, books, pens, cooking gas, and so on are examples of consumer products.

Capital Goods: All that are not immediately utilized to satisfy consumption but are used in subsequent manufacturing are referred to as 'Producer Goods' or 'Capital Goods.' Examples include seeds, fertilizers, tools, machineries, raw materials, and so on.