Unit 7

I. Choose the correct answer (each question carries 1 mark)

1. The individuals or institutions which take economic decisions are.

   a) Economic Variables
   b) Economists
   c) Economic Agents
   d) none of the above

2. In 1936 British economist J.M. Keynes published his celebrated book

   a) Wealth of nations
   b) General theory of employment interest and Money.
   c) Theory of Interest
   d) Theory of Employment

3. All the labourers who are ready to work will find employment and all the factories will be working at their full capacity, this school of thought is known as

   a) Modern thought
   b) Contemporary thought
   c) Classical thought
   d) None of the above

4. The year of Great Depression

   a) 1920
   b) 1889
   c) 1929
   d) 2018

5. In a capitalist country production activity are mainly carried out by

   a) Private enterprises
   b) Government authority
   c) Planning authority
   d) None of the above

II. Fill in the blanks (each question carries 1 mark)

1. Macroeconomics tries to address situation facing the economy __AS A WHOLE _
2. A part of the revenue is paid out as REST for the service rendered by land.
3. The domestic country may sell goods to the rest of the world. These are called EXPORTS
4. THE PRODUCTION UNITS will be called as firms
5. MACROECONOMICS policies are pursued by the state itself or statutory bodies like the RBI, SEBI etc.

IV. Answer the following questions in a sentence/word. (each question carries 1 mark)

1. Who are economic agents?

Economic agents mean those individual or institutions which take economic decisions

2. What does classical school of thought say?

All the labourers who are ready to work will find employment all factories will be working in full capacity

3. Give the meaning of imports.

Buying goods from the rest of the world is called imports

4. Name the well-known work of Adam Smith.

An Enquiry into the Nature and Cause of Wealth of Nations (1776)

5. What do you mean by wage rate?

The sale and purchase of labour services at a price which is called the wage rate

IV. Answer the following questions in 4 sentences. (each question carries 2 marks)

1. What are the features of capitalistic economy?

A capitalist economy can be defined as an economy in which most of the economic activities have the following characteristics

(a) there is private ownership of means of production

(b) production takes place for selling the output in the market

(c) there is sale and purchase of labour services at a price which is called the wage rate (the labour which is sold and purchased against wages is referred to as wage labour).

2. Name and write the meaning of two kinds of trade in external sector.

Trade with the external sector can be of two kinds

(a) The domestic country may sell goods to the rest of the world. These are called exports.
(b) The economy may also buy goods from the rest of the world. These are called imports. Besides exports and imports, the rest of the world affects the domestic economy in other ways as well.

3. Who are the macroeconomic decision makers?

Macroeconomic policies are pursued by the State itself or statutory bodies like the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and similar institutions. Typically, each such body will have one or more public goals to pursue as defined by law or the Constitution of India itself. These goals are not those of individual economic agents maximising their private profit or welfare. Thus the macroeconomic agents are basically different from the individual decision-makers.

V. Answer the following questions in 12 sentences. (each question carries 4 marks)

1. Briefly explain in what way Macro Economics is different from Micro Economics.

Parameter	Micro Economics	Macro Economics
Scope	Study of individual economic units such as firm, industry or consumer.	Study of large segments of economy such as aggregate demand and supply.
Method of study	Intensive study	Brief study
Different Economic Agents	Economic agent thinks about its own interest and welfare. Consumers get maximum satisfaction by combination of optimum goods and services at lower prices. Producers get maximum profit at minimum cost of production.	Economic agents are different from individual economic agents and their aim is to get maximum welfare of a country.
Equilibrium Analysis	Studies partial equilibrium in the economy such as consumer equilibrium, producer equilibrium etc	Studies general equilibrium in the economy such as price levels, market equilibrium etc.
Domain	Comprises of theories on consumer behaviour, production and cost etc.	Comprises of economic welfare, industry behaviour such as money and banking, budgets etc.

2. Explain the working of the economy of a capitalist country.

In a capitalist country production activities are mainly carried out by capitalist enterprises. A typical capitalist enterprise has one or several entrepreneurs (people who exercise control over major decisions and bear a large part of the risk associated with the firm/enterprise).

They may themselves supply the capital needed to run the enterprise, or they may borrow the capital. To carry out production they also need natural resources – a part consumed in the process of production (e.g. raw materials) and a part fixed (e.g. plots of land). And they need the most important element of human labour to carry out production. This we shall refer to as labour.

After producing output with the help of these three factors of production, namely capital, land and labour, the entrepreneur sells the product in the market. The money that is earned is called revenue. Part of the revenue is paid out as rent for the service rendered by land, part of it is paid to capital as interest and part of it goes to labour as wages.

The rest of the revenue is the earning of the entrepreneurs and it is called profit. Profits are often used by the producers in the next period to buy new machinery or to build new factories, so that production can be expanded. These expenses which raise productive capacity are examples of investment expenditure.

3. Explain the role of the Government (State) and household sector in both developed and developing countries.

Apart from the firms and the government, there is another major sector in an economy which is called the household sector. By a household we mean a single individual who takes decisions relating to her own consumption, or a group of individuals for whom decisions relating to consumption are jointly determined. Households also save and pay taxes.

We must remember that the households consist of people. These people work in firms as workers and earn wages. They are the ones who work in the government departments and earn salaries, or they are the owners of firms and earn profits. Indeed, the market in which the firms sell their products could not have been functioning without the demand coming from the households.

But all the countries of the world are also engaged in external trade. The external sector is the fourth important sector in our study.

Trade with the external sector can be of two kinds

a) The domestic country may sell goods to the rest of the world. These are called exports.
b) The economy may also buy goods from the rest of the world. These are called imports. Besides exports and imports, the rest of the world affects the domestic economy in other ways as well.
c) Capital from foreign countries may flow into the domestic country, or the domestic country may be exporting capital to foreign countries.