

ECONOMICS

(Macro-Economics)



Important Questions

Multiple Choice questions-

Q1. At the time of independence, most of the land was owned by

- (a) farmers
- (b) zamindars
- (c) labour
- (d) all of these

Q2. What was the life expectancy in India during the British rule?

- (a) 65
- (b) 38
- (c) 32
- (d) 44

Q3. During colonial period India's demographic profile showed

- (a) high birth rate
- (b) low death rate
- (c) low infant mortality rate
- (d) high literacy rate

Q4. Indian economy on the eve of Independence was

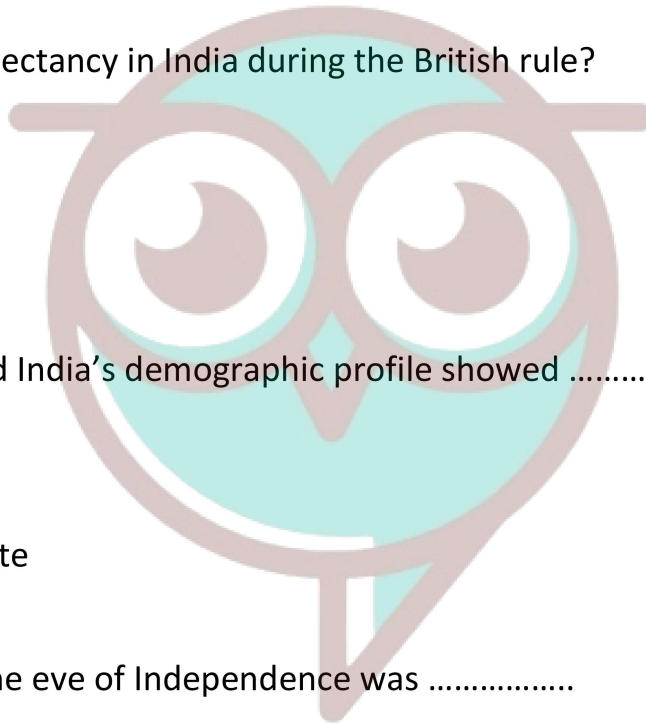
- (a) underdeveloped
- (b) developing
- (c) stagnant
- (d) semi-feudal

Q5. Suez Canal was opened for transport in

- (a) 1850
- (b) 1853
- (c) 1869
- (d) 1901

Q6. Who made significant estimates about calculating national income in India during the British period?

- (a) V.K.R.V. Rao



Swotters

- (b) Dadabhai Naoroji
- (c) Findlay Shirras
- (d) William Digby

Q7. In which of the following sectors is manufacturing activity included?

- (a) Primary
- (b) Tertiary
- (c) Secondary
- (d) All of these

Q8. Where was the first iron and steel company established?

- (a) Kolkata
- (b) Jamshedpur
- (c) Patna
- (d) Ranchi

Q9. What is the tax or duty on imports called?

- (a) Tariff
- (b) Quota
- (c) Export
- (d) None of these

Q10. Which of the following was the major occupation on the eve of independence?

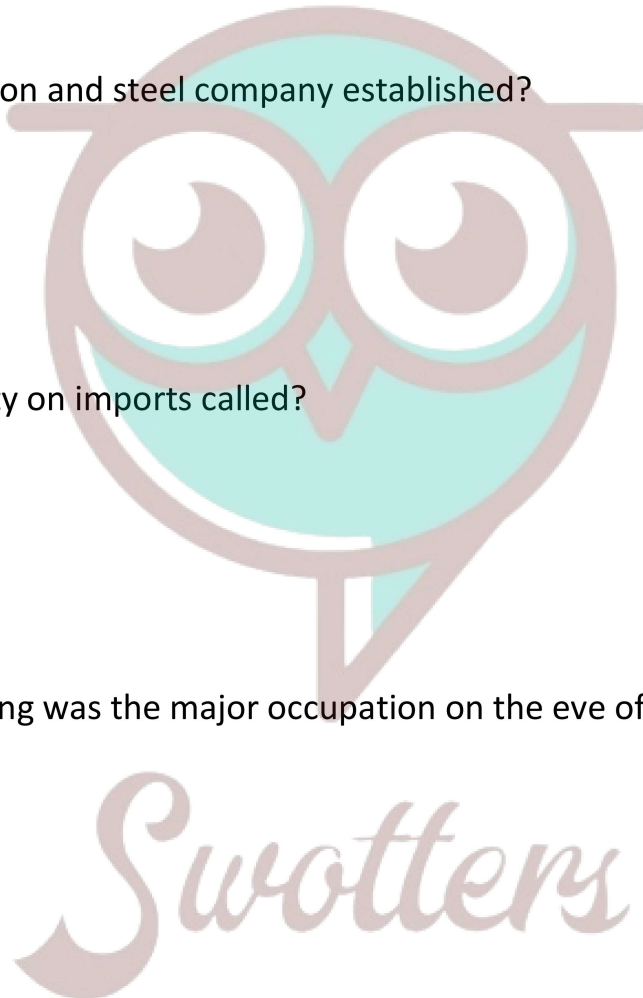
- (a) Industry
- (b) Services
- (c) Agriculture
- (d) None of these

Q11. The Tata Iron and Steel Company was incorporated in the year:

- (a) 1907
- (b) 1947
- (c) 1908
- (d) 1950

Q12. The road which was built by British in India was to

- (a) Mobilizing the army within India
- (b) Drawing out of raw materials from the countryside



(c) To overcome the problem of frequent famines in India

(d) Only A and B

Q13. The exports surplus during the British rule was used:

(a) To make payments for expenses incurred by an office set up by the colonial government in Britain

(b) To meet expenses on war fought by the British government

(c) To import invisible items

(d) All of these

Q14. During the British rule, high mortality rate was due to

(a) Inadequate public health facilities

(b) Occurrence of frequent natural calamities

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q15. At the time of Independence, the infant mortality rate was:

(a) 220 per thousand

(b) 250 per thousand

(c) 218 per thousand

(d) 280 per thousand

Very Short Questions-

1. What is export?

2. What is import?

3. The term Macro is derived from

4. Who is called the 'father of modern economics'?

5. What is the name of John Maynard Keynes' celebrated book?

Short Questions-

1. Distinguish between microeconomics and macroeconomics.

2. What is entrepreneurship?

3. Define great depression.

4. What are the features of capitalist economy?

5. What are economic agents?

Long Questions-

1. What is Macroeconomics and microeconomics and what is the connection between the two?
2. Define and explain the importance of 'scarcity' and 'opportunity costs' in economics.
3. What are the different ways in which resources can be allocated and what are their respective advantages and disadvantages?
4. Explain the scope of Macroeconomics.
5. What are the different types of goods produced in an economy?

Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -
2. Read the following hypothetical text and answer the given questions: -

Assertion Reason Type Question-

1. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
 - a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - c. Assertion (A) is true but Reason (R) is False
 - d. Assertion (A) is False but Reason (R) is true.

Assertion: Production Possibility Frontier (PPF) is a concave-shaped curve.

Reason: PPF shows all the maximum possible combinations of two goods, which can be produced with the available resources and technology.

2. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
 - a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - c. Assertion (A) is true but Reason (R) is False
 - d. Assertion (A) is False but Reason (R) is true.

Assertion: Human wants differ in priorities.

Reason: For every individual, some wants are more important and urgent as compared to others

MCQ Answers-

1. (b) zamindars
2. (d) 44
3. (a) high birth rate
4. (a) underdeveloped
5. (c) 1869
6. (a) V.K.R.V. Rao
7. (c) Secondary
8. (b) Jamshedpur
9. (a) Tariff
10. (c) Agriculture
11. (a) 1907
12. (d) Only A and B
13. (d) All of these
14. (c) Both (a) and (b)
15. (c) 218 per thousand



Very Short Answers-

1. Ans: An export is a function of international trade in which items produced in one country are shipped to another for sale or trade in the future. The sale of such commodities contributes to the gross domestic product of the producing country.
2. Ans: Imports are goods or services that are brought into one country from another. Because commodities are frequently delivered by boat to foreign nations, the term "import" is derived from the word "port." Imports, together with exports, are the backbone of international trade.
3. Ans: Latin word 'Macros'.
4. Ans: Adam Smith
5. Ans: The title of the book is 'The General Theory of Employment, Interest, and Money,' and it was released in 1936.

Short Answers-

Ans 1:

Basis	Microeconomics	Macroeconomics
Focus upon	It investigates the individual economic unit.	It investigates the aggregate economic units.
Concerned with	It is concerned with the determination of prices and output in individual markets.	It is concerned with the determination of the general price level and output in the entire economy.
Challenges	The two most important central challenges are price determination and resource allocation.	The fundamental issue in this case is determining the level of income and addressing unemployment in the economy.
Approach.	Microeconomics analyzes the economy from the bottom-up.	Macroeconomics analyzes the economy from the top-down.

Ans 2: 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.

Ans 3: 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.

Ans 4: 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.

Ans 5: 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 Answers-

Ans 1: 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.

Ans 2: 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.

Ans 3: 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.

Ans 4: The scope of Macroeconomics is as follows:

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.

Ans 5: The following are some examples of different categories of goods:

1. 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.
2. 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.
3. 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.

4. 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.
5. 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.
6. 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.
7. 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.
8. 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.

Case Study Answer-

1. Answer:

1. a) absolute poverty
2. Poverty line
3. Consumption
4. per capita expenditure

2. Answer:

1. d) All of the above
2. Casualization
3. Gini Coefficient
4. d) all the above

Assertion Reason Answer-

1. b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
2. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).