

## CHAPTER

# 1

## Introduction to Macro Economics



**“Macro economics is very much about tying together facts and theories”.**

**- Dorn Busch, Fischer and Startz**



### Learning Objectives

- 1 To enlighten the evolution, importance and basic concepts of macroeconomics, and
- 2 To understand the functioning of an economy.

#### 1.1

### Introduction

The subject Economics is classified into two branches, namely, Micro Economics and Macro Economics. Ragnar Frisch, a Norwegian economist and the co-recipient of the first Nobel Prize in Economic Sciences coined



**J.M.Keynes**

Father of Modern Macro Economics

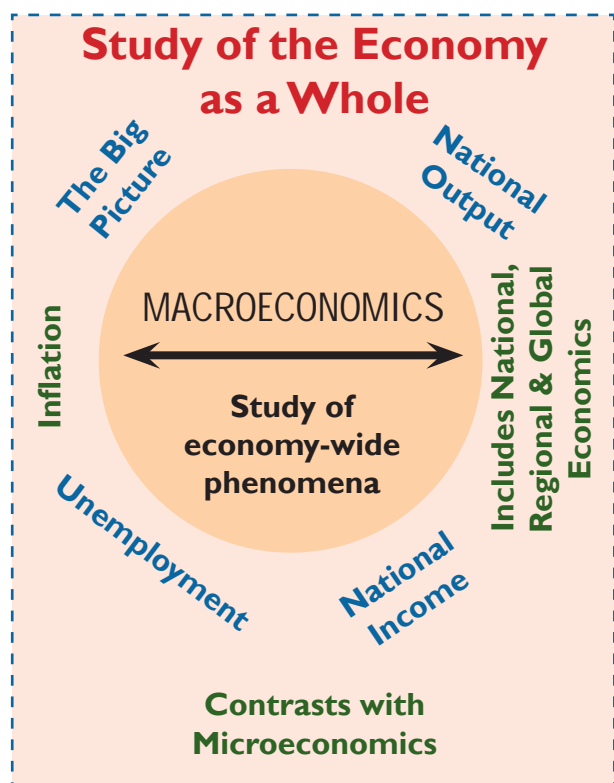
the words ‘micro’ meaning small and ‘macro’ meaning large in the year 1933. However, macroeconomics in its modern form, began with John Maynard Keynes and his book “The General Theory of Employment, Interest and Money” published in 1936. Keynes offered an explanation for fallout from the Great Depression, when goods remained unsold and workers unemployed. Hence, Keynes is regarded as the ‘Father of Modern Macro Economics’.

#### 1.2

### Meaning of Macro Economics

The word ‘Macro’ is derived from the Greek word ‘Makros’ meaning ‘large’. Hence, Macro Economics is the study of

the economy as a whole. In other words, macro economics deals with aggregates such as national income, employment and output. Macro Economics is also known as 'Income Theory'.



The subject matters covered in Macro Economics are the areas such as employment, national income, inflation, business cycle, poverty, inequality, disparity, investment and saving, capital formation, infrastructure development, international trade, balance of trade and balance of payments, exchange rate and economic growth.

## Importance of Macro Economics

The importance and the need for introducing a macro outlook of an economy are given below:

### 1.3

- ◆ There is a need to understand the functioning of the economy at the aggregate level to evolve suitable strategies and to solve the basic problems prevailing in an economy.
- ◆ Understanding the future problems, needs and challenges of an economy as a whole is important to evolve precautionary measures.
- ◆ Macro economics provides ample opportunities to use scientific investigation to understand the reality.
- ◆ Macro economics helps to make meaningful comparison and analysis of economic indicators.
- ◆ Macro economics helps for better prediction about future and to formulate suitable policies to avoid economic crises.

### 1.4

## Scope of Macro Economics

The study of macro economics has wide scope and it covers the major areas as follows

- ◆ **National Income:** Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis. The trends in National Income and its composition provide a long term understanding of the growth process of an economy.
- ◆ **Inflation:** Inflation refers to steady increase in general price level.

Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

- ◆ **Business Cycle:** Almost all economies face the problem of business fluctuations and business cycle. The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables.
- ◆ **Poverty and Unemployment:** The major problems of most resource - rich nations are poverty and unemployment. This is one of the economic paradoxes. A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.
- ◆ **Economic Growth:** The growth and development of an economy and the factors determining them could be understood only through macro analysis.
- ◆ **Economic Policies:** Macro Economics is significant for evolving suitable economic policies. Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

## 1.5

### Limitations

Macro economics suffers from certain limitations. They are:

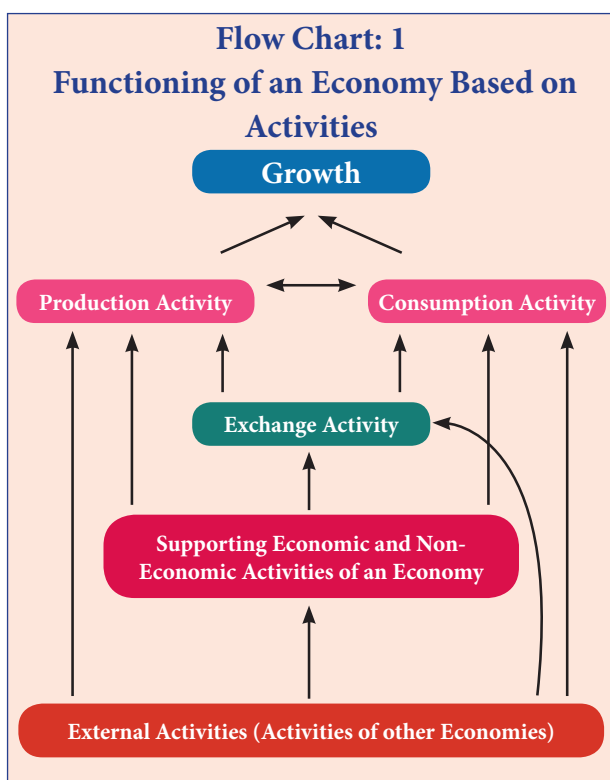
1. There is a danger of excessive generalisation of the economy as a whole.
2. It assumes homogeneity among the individual units.
3. There is a fallacy of composition. What is good of an individual need not be good for nation and viceversa. And, what is good for a country is not good for another country and at another time.
4. Many non - economic factors determine economic activities; but they do not find place in the usual macroeconomic books.

## 1.6

### Economy and its Types

The term economy has been defined by A. J. Brown as, "A system by which people earn their living." J. R. Hicks defined as, "An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers."

In short, an economy is referred to any system or area where economic activities are carried out. Each economy has its own character. Accordingly, the functions or activities also vary. The functioning of an economy by its activities is explained in flow chart 1.



In an economy, the fundamental economic activities are production and consumption. These two activities are supported by several other activities. The ultimate aim of these activities is to achieve growth. The 'exchange activity' supports the production and consumption activities. These activities are influenced by several economic and non-economic activities. The major economic activities include transportation, banking, advertising, planning, government policy and others. The major non-economic activities are environment, health, education, entertainment, governance, regulations etc. In addition to these supporting activities, external activities from other economies such as import, export, international relations, emigration, immigration, foreign investment, foreign exchange earnings, etc. also influence the entire functioning of the economy.

Economies can be classified into different types based on the

1. **Status of Development:** Developed, underdeveloped, undeveloped and developing economies.
2. **System of Activities:** Capitalistic, Socialistic and Mixed Economies.
3. **Scale of Activities:** Small and Large Economies.
4. **Nature of Functioning:** Static and Dynamic Economies.
5. **Nature of Operation:** Closed and Open Economies.
6. **Nature of Advancement:** Traditional and Modern Economies.
7. **Level of National Income:** Low Income, Middle Income and High Income Economies.

## 1.7

### Economic Systems



Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area. It is the methodology of doing economic activities to meet the needs of the society. There are three major types of economic systems. They are:

1. Capitalistic Economy (Capitalism),
2. Socialistic Economy (Socialism) and
3. Mixed Economy (Mixedism)

## Globalism

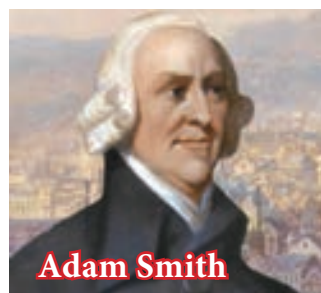
The term coined by Manfred D Steger (2002) to denote the new market ideology of globalisation that connects nations together through international trade and aiming at global development. This ideology is also termed as 'Extended Capitalism'.

Capitalism and socialism are two extreme and opposite approaches. In capitalism, there is total freedom and private ownership of means of production. In socialism, there is no freedom for private and there is public ownership of means of production. Mixedism denotes the Co-existence of capitalism and socialism. The features, merits and demerits of various economic systems are discussed below.



### 1.7.1 Capitalistic Economy (Capitalism)

Adam Smith is the 'Father of Capitalism'. Capitalistic economy is also termed as a free economy (*Laissez faire*, in Latin) or market economy where the role of the government is minimum and market determines the economic activities.



The means of production in a capitalistic economy are privately owned. Manufacturers produce goods and services with profit motive. The private individual has the freedom to undertake any occupation and develop any skill. The USA, West Germany, Australia and Japan are the best examples for capitalistic economies. However, they do undertake large social welfare measures to safeguard the downtrodden people from the market forces.

### Features of Capitalistic Economy

#### 1. Private Ownership of Property and

**Law of Inheritance:** The basic feature of capitalism is that all resources namely, land, capital, machines, mines etc. are owned by private individuals. The owner has the right to own, keep, sell or use these resources according to his will. The property can be transferred to heirs after death.

#### 2. Freedom of Choice and Enterprise:

Each individual is free to carry out any occupation or trade at any place and produce any commodity. Similarly, consumers are free to buy any commodity as per their choice.

#### 3. Profit Motive:

Profit is the driving force behind all economic activities in a capitalistic economy. Each individual and organization produce only those goods which ensure high profit. Advance technology, division of labour, and specialisation are followed. The golden rule for a producer under capitalism is 'to maximize profit.'



4. **Free Competition:** There is free competition in both product and factor market. The government or any authority cannot prevent firms from buying or selling in the market. There is competition between buyers and sellers.
5. **Price Mechanism:** Price mechanism is the heart of any capitalistic economy. All economic activities are regulated through price mechanism i.e, market forces of demand and supply.
6. **Role of Government:** As the price mechanism regulates economic activity, the government has a limited role in a capitalistic economy. The government provides basic services such as, defense, public health, education, etc.
7. **Inequalities of Income:** A capitalist society is divided into two classes – ‘haves’ that is those who own property and ‘have-nots’ who do not own property and work for their living. The outcome of this situation is that the rich become richer and poor become poorer. Here, economic inequality goes on increasing.

### Merits of Capitalism

1. **Automatic Working:** Without any government intervention, the economy works automatically.
2. **Efficient Use of Resources:** All resources are put into optimum use.
3. **Incentives for Hard work:** Hard work is encouraged and entrepreneurs get more profit for more efficiency.
4. **Economic Progress:** Production and productivity levels are very high in capitalistic economies.

5. **Consumers Sovereignty:** All production activities are aimed at satisfying the consumers.
6. **Higher Rates of Capital Formation:** Increase in saving and investment leads to higher rates of capital formation.
7. **Development of New Technology:** As profit is aimed at, producers invest on new technology and produce quality goods.

### Demerits of Capitalism

1. **Concentration of Wealth and Income:** Capitalism causes concentration of wealth and income in a few hands and thereby increases inequalities of income.
2. **Wastage of Resources:** Large amount of resources are wasted on competitive advertising and duplication of products.
3. **Class Struggle:** Capitalism leads to class struggle as it divides the society into capitalists and workers.
4. **Business Cycle:** Free market system leads to frequent violent economic fluctuations and crises.
5. **Production of non essential goods:** Even the harmful goods are produced if there is possibility to make profit.

### 1.7.2 Socialistic Economy (Socialism)

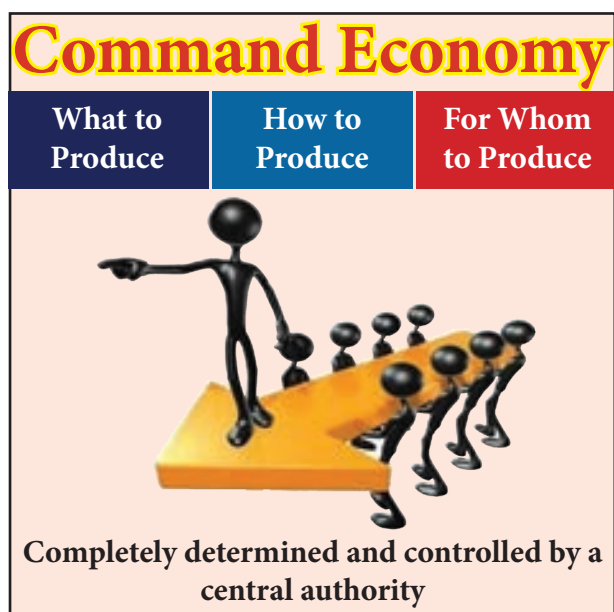
The **Father of Socialism** is Karl Marx. Socialism refers to a system of total planning, public ownership and state control on economic activities. Socialism is defined as a way of organizing a society in which major industries are owned and controlled by the government, A Socialistic economy is also known

as 'Planned Economy' or 'Command Economy'.



Karl Marx  
- Father of Socialism

In a socialistic economy, all the resources are owned and operated by the government. Public welfare is the main motive behind all economic activities. It aims at equality in the distribution of income and wealth and equal opportunity for all. Russia, China, Vietnam, Poland and Cuba are the examples of socialist economies. But, now there are no absolutely socialist economies.



### Features of Socialism:

**1. Public Ownership of Means of Production:** All resources are owned by the government. It means that all the factors of production are nationalized and managed by the public authority.

**2. Central Planning:** Planning is an integral part of a socialistic economy. In this system, all decisions are undertaken by the central planning authority.

**3. Maximum Social Benefit:** Social welfare is the guiding principle behind all economic activities. Investments are planned in such a way that the benefits are distributed to the society at large.

**4. Non-existence of Competition:** Under the socialist economic system there is absence of competition in the market. The state has full control over production and distribution of goods and services. The consumers will have a limited choice.

**5. Absence of Price Mechanism:** The pricing system works under the control and regulation of the central planning authority.

**6. Equality of Income:** Another essential feature of socialism is the removal and reduction of economic inequalities. Under socialism private property and the law of inheritance do not exist.

**7. Equality of Opportunity:** Socialism provides equal opportunity for all through free health, education and professional training.

**8. Classless Society:** Under socialism, there is a classless society and so no class conflicts. In a true socialist society, everyone is equal as far as economic status is concerned.

### Merits of Socialism

**1. Reduction in Inequalities:** No one is allowed to own and use private property to exploit others.

## 2. Rational Allocation of Resources:

The central planning authority allocates the resources in a planned manner. Wastages are minimised and investments are made in a pre planned manner.

## 3. Absence of Class Conflicts:

As inequalities are minimum, there is no conflict between rich and poor class. Society functions in a harmonious manner.

## 4. End of Trade Cycles:

Planning authority takes control over production and distribution of goods and services. Therefore, economic fluctuations can be avoided.

## 5. Promotes Social Welfare:

Absence of exploitation, reduction in economic inequalities, avoidance of trade cycles and increase in productive efficiency help to promote social welfare.

## Demerits of Socialism

### 1. Red Tapism and Bureaucracy:

As decision are taken by government agencies, approval of many officials and movement of files from one table to other takes time and leads to red tapism.

### 2. Absence of Incentive:

The major limitation of socialism is that this system does not provide any incentive for efficiency. Therefore, productivity also suffers.

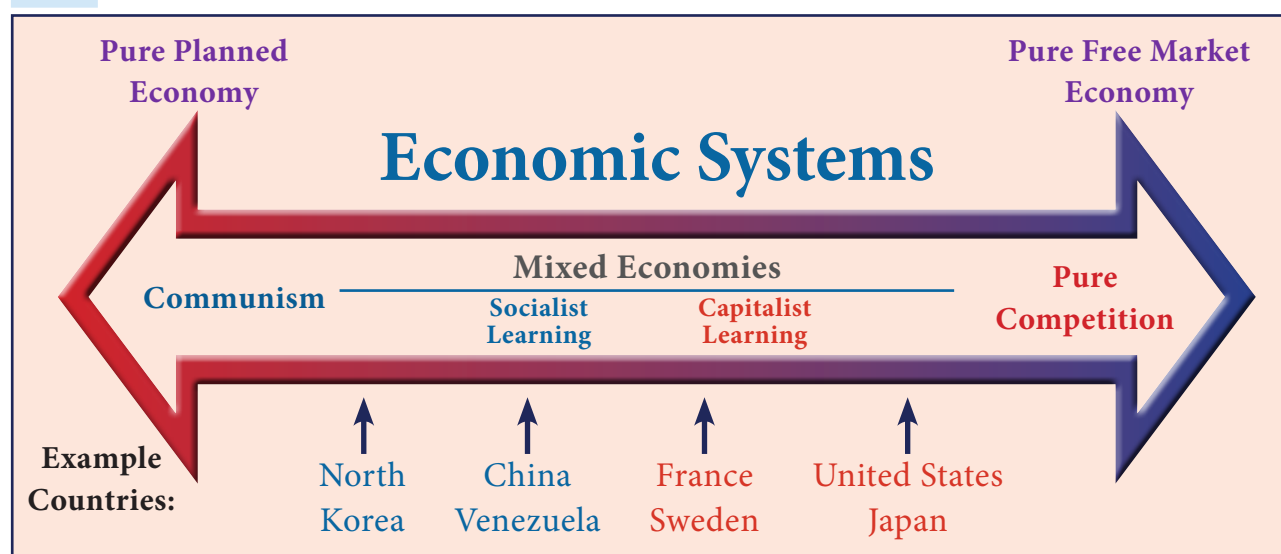
### 3. Limited Freedom of Choice:

Consumers do not enjoy freedom of choice over the consumption of goods and services.

### 4. Concentration of Power:

The State takes all major decisions. The private takes no initiative in making economic decisions. Hence, the State is more powerful and misuse of power can also take place.

### 1.7.3 Mixed Economy (Mixedism):



In a mixed economy system both private and public sectors co-exist and work together towards economic development.

It is a combination of both capitalism and socialism. It tends to eliminate the evils of both capitalism and socialism.





In these economies, resources are owned by individuals and the government. India, England, France and Brazil are the examples of mixed economy.

### Features of Mixed Economy

- 1. Ownership of Property and Means of Production:** The means of production and properties are owned by both private and public. Public and Private have the right to purchase, use or transfer their resources.
- 2. Coexistence of Public and Private Sectors:** In mixed economies, both private and public sectors coexist. Private industries undertake activities primarily for profit. Public sector firms are owned by the government with a view to maximize social welfare.
- 3. Economic Planning:** The central planning authority prepares the economic plans. National plans are drawn up by the Government and both private and public sectors abide. In general, all sectors of the economy function according to the objectives, priorities and targets laid down in the plan.
- 4. Solution to Economic Problems:** The basic problems of what to produce, how to produce, for whom to produce and how to distribute are solved through the price mechanism as well as state intervention.
- 6. Freedom and Control:** Though private has freedom to own resources, produce goods and services and distribute the same, the overall control on the economic activities rests with the government.

### Merits of Mixed Economy

- 1. Rapid Economic Growth:** The best advantage of mixed economy is that it promotes rapid economic growth. Thus, both public requirements and private needs are taken care of.
- 2. Balanced Economic Growth:** Mixedism promotes balanced growth of the economy. It promotes balanced growth between agriculture and industry, consumer goods and capital goods, rural and urban etc.
- 3. Proper Utilization of Resources:** In a mixed economy, the government can ensure proper utilization of resources. The government controls most of the important activities directly and the private sector indirectly.
- 4. Economic Equality:** The government uses progressive rates of taxation for levying income tax to bring about economic equality.
- 5. Special Advantages to the Society:** The government safeguards the interest of the workers and weaker sections by legislating on minimum wages, and rationing, establishing fair price shops and formulating social welfare measures.

### Demerits of Mixed Economy

- 1. Lack of Coordination:** The greatest drawback of mixedism is lack of coordination between public sector and private sector. As both work with divergent motives, it creates many coordination related problems.

**2. Competitive Attitude:** It is expected that both government and private should work with a complementary spirit towards the welfare of the society, but in reality they are competitive in their activities.

**3. Inefficiency:** Most of the public sector enterprises remain inefficient due to lethargic bureaucracy, red tapism and lack of motivation.

**4. Fear of Nationalization:** In a mixed economy, the fear of nationalization

discourages the private entrepreneurs in their business operations and innovative initiatives.

**5. Widening Inequality:** Ownership of resources, laws of inheritance and profit motive of people widens the gap between rich and poor.

Ultimately the inequality of capitalism and inefficiency of socialism are found in mixed economies.

### Comparison of Different Economic Systems

S.No.	Features	Capitalism	Socialism	Mixedism
1	Ownership of Means of Production	Private Ownership	Public Ownership	Private Ownership and Public Ownership
2	Economic Motive	Profit	Social Welfare	Social Welfare and Profit Motive
3	Solution of Central Problems	Free Market System	Central Planning System	Central Planning System and Free Market System
4	Government Role	Interanal Regulation only	Complete Involvement	Limited Role
5	Income Distribution	Unequal	Equal	Less unequal
6	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private and State Enterprises
7	Economic Freedom	Complete Freedom	Lack of Freedom	Limited Freedom
8	Major Problem	Inequality	Inefficiency	Inequality and Inefficiency

## 1.8

### Concepts of Macro Economics

The important concepts used in macro economics are presented below:

#### 1.8.1. Stock and Flow Variables

Variables used in economic analysis are classified as stock and flow. Both stock and flow variables may increase or decrease with time.



- ◆ **Stock** refers to a quantity of a commodity measured at a point of time. In macro economics, money supply, unemployment level, foreign exchange reserves, capital etc are examples of stock variables.
- ◆ **Flow variables** are measured over a period of time. National Income, imports, exports, consumption, production, investment etc are examples of flow variables.
- ◆ **Economic Models** A model is a simplified representation of real situation. Economists use models to describe economic activities, their relationships and their behaviour. A model is an explanation of how the economy, or part of the economy, works. Most economic models are built with mathematics, graphs and equations, and attempt to explain relationships between economic variables. The commonly used economic models are the supply-demand models and circular flow models and Smith models.

## 1.9

### Circular Flow of Income



The circular flow of income is a model of an economy showing connections between different sectors of an economy. It shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations. The circular flow analysis is the basis of national accounts and macroeconomics.

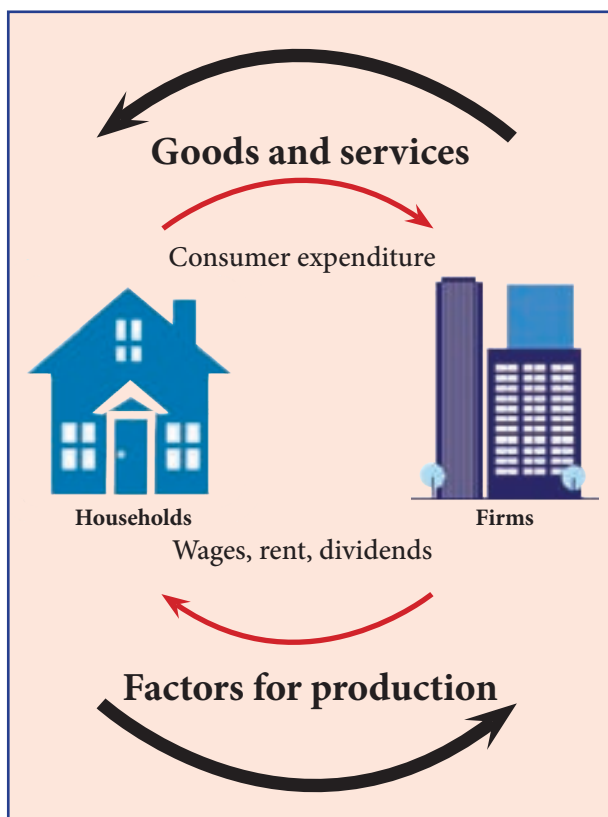
There are three models of circular flow of income, representing the major economic systems.

1. **Two Sector Model:** It is for a simple economy with households and firms.
2. **Three Sector Model:** It is for a mixed and closed economy with households, firms and government.
3. **Four Sector Model:** It is for an open economy with households, firms, government and rest of the world (External sector).

#### 1.9.1 Circular Flow of Income in a Two-Sector Economy:

There are only two sectors namely, household sector and firm sector.

- (i) **Household Sector:** The household sector is the sole buyer of goods and services, and the sole supplier of factors of production, i.e., land, labour, capital and organisation. It spends its entire income on the purchase of goods and services produced by the business sector. The household sector receives income from firm sector by providing the factors of production owned by it.
- (ii) **Firms:** The firm sector generates its revenue by selling goods and services to the household sector. It hires the factors of production, i.e., land, labour, capital and organisation, owned by the household sector. The firm sector sells the entire output to households.



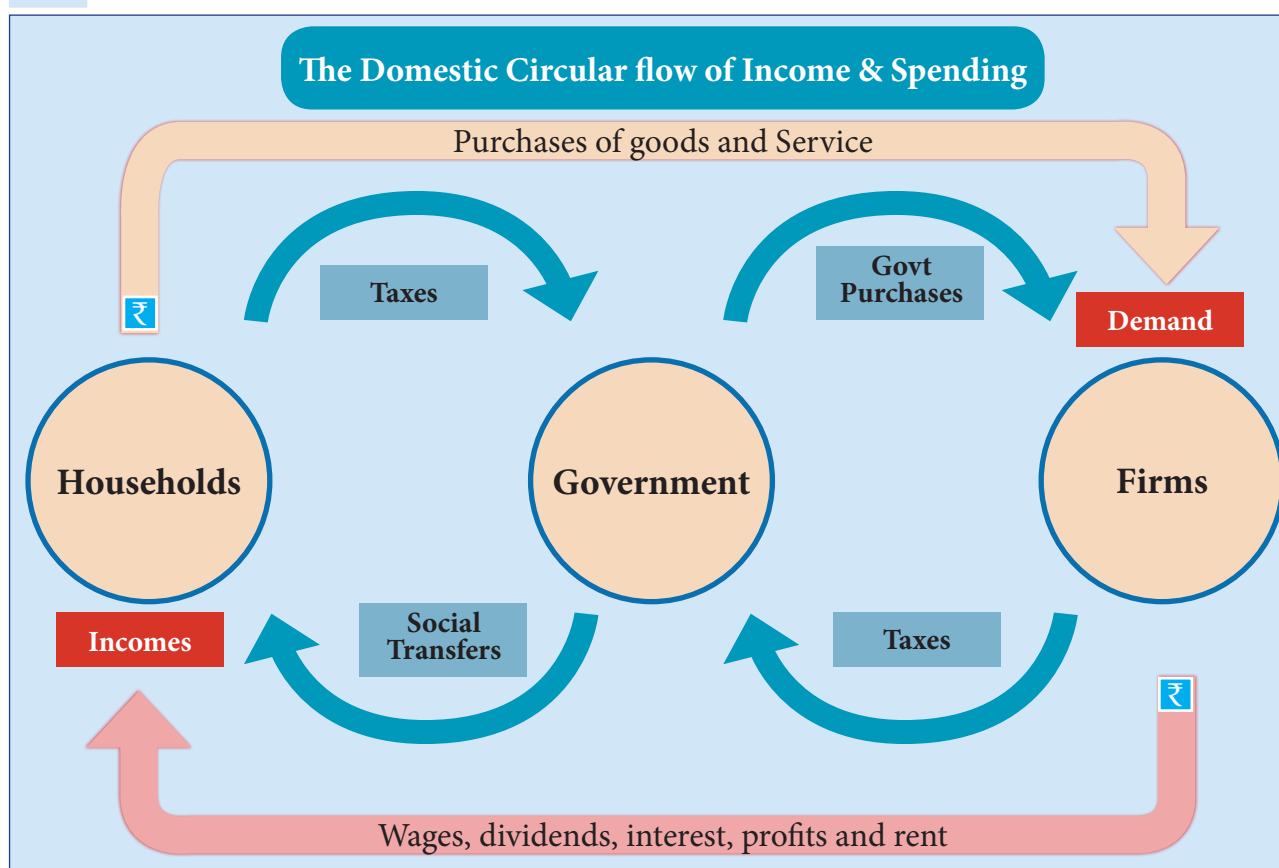
In a two-sector economy, production and sales are equal and there will be a circular flow of income and goods. The outer circle represents real flow (factors and goods) and the inner circle represents the monetary flow (factor prices and commodity prices). Real flow indicates the factor services flow from household sector to the business sector, and goods and services flow from business sector to the household. The basic identities of the two-sector economy are as under:

$$Y = C + I$$

Where

Y is Income; C is Consumption; I is investment

### 1.9.2. Circular Flow of Income in a Three-Sector Economy:



In addition to household and firms, inclusion of the government sector makes this model a three-sector model. The government levies taxes on households and firms,

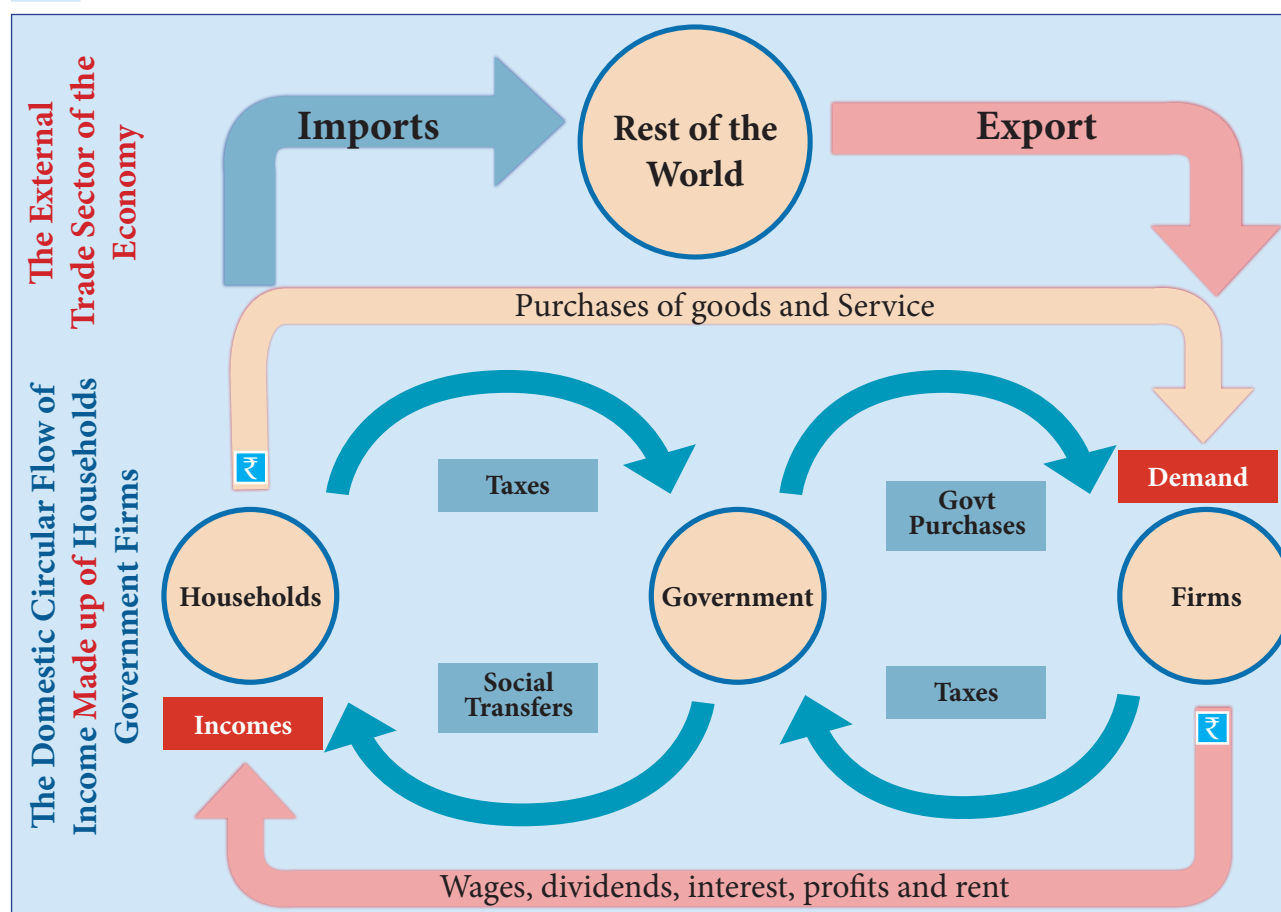
purchases goods and services from firms, and receive factors of production from household sector. On the other hand, the government also makes social transfers such as pension, relief, subsidies to the households. Similarly, Government pays the firms for the purchases of goods and services. The Flow Chart illustrates three-sector economy model:

Under three sector model, national income (Y) is obtained by adding Consumption expenditure (C), Investment expenditure (I) and Government expenditure (G).

Therefore:

$$Y = C + I + G$$

### 1.9.3 Circular Flow of Income in a Four-Sector Economy:



In a Four-sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included. In real life, only four-sector economy exists. This model is composed of four sectors namely,

- (i) Households, (ii) Firms,
- (iii) Government, (iv) External sector

The external sector comprises exports and imports. It is illustrated in the Flow Chart.

In four-sector economy, expenditure for the entire economy include domestic expenditure (C+I+G) and net exports (X- M). Therefore,

$$Y = C + I + G + (X - M)$$



## Summary

Macroeconomics studies the behavior and performance of an economy as a whole. It covers the functioning, performance and growth of an economy. It examines the macro aspects such as employment, national income, inflation, business cycle, poverty, inequality, disparity, investment and saving, capital formation, infrastructure development, banking, public finance, international trade, balance of trade and balance of payments, exchange rate and economic growth. Economic models based on economic variables are useful in understanding an economy. Circular Flow Models provide a base to understand the functioning of a macro economy.

An economy could be classified on the basis of economic systems such as capitalistic economy, socialistic economy and mixed economy. However, nowadays it is difficult to find 100 percent capitalist system, socialistic system or perfectly mixed economy.

## Glossary

- **Socialism** : A way of organizing a society in which major economic activities are owned and controlled by the government rather than by individual people and companies
  - **Mixedism** : An ideology that mixes or combines the principles of Capitalism (Private Role) and Socialism (Nation Role) in an economy.
  - **Globalism** : An economic system where the economic activities of a nation are inter connected and inter dependent on each other nation.
  - **Stock** : A quantity of a commodity that is constant at a point of time(Static)
  - **Flow** : Variables measured over a period of time.(Dynamic)
  - **Economic Model** : It is an explanation of how the economy, or part of the economy, works.
  - **Circular Flow** : It shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations.
- 
- **Macroeconomics** : The branch of economics that studies the behavior and performance of an economy as a whole
  - **Economic System** : The manner in which individuals and institutions are connected together to carry out economic activities in a particular area
  - **Capitalism** : The system where the means of production are privately owned and market determines the economic activities.



## MODEL QUESTIONS

### Part-A

#### Multiple Choice Questions

1. The branches of the subject Economics is
  - a) Wealth and welfare
  - b) production and consumption
  - c) Demand and supply
  - d) micro and macro
2. Who coined the word 'Macro'?
  - a) Adam Smith
  - b) J M Keynes
  - c) Ragnar Frisch
  - d) Karl Marx
3. Who is regarded as Father of Modern Macro Economics?
  - a) Adam Smith
  - b) J M Keynes
  - c) Ragnar Frisch
  - d) Karl Marx
4. Identify the other name for Macro Economics.
  - a) Price Theory
  - b) Income Theory
  - c) Market Theory
  - d) Micro Theory
5. Macro economics is a study of \_\_\_\_\_.
  - a) individuals
  - b) firms
  - c) a nation
  - d) aggregates
6. Indicate the contribution of J M Keynes to economics.
  - a) Wealth of Nations
  - b) General Theory
  - c) Capital
  - d) Public Finance
7. A steady increase in general price level is termed as \_\_\_\_\_.
  - a) wholesale price index
  - b) Business Cycle
  - c) Inflation
  - d) National Income
8. Identify the necessity of Economic policies.
  - a) to solve the basic problems
  - b) to overcome the obstacles
  - c) to achieve growth
  - d) all the above
9. Indicate the fundamental economic activities of an economy.
  - a) Production and Distribution
  - b) Production and Exchange
  - c) Production and Consumption
  - d) Production and Marketing
10. An economy consists of
  - a) consumption sector
  - b) Production sector
  - c) Government sector
  - d) All the above





11. Identify the economic system where only private ownership of production exists.

- a) Capitalistic Economy
- b) Socialistic Economy
- c) Globalistic Economy
- d) Mixed Economy

12. Economic system representing equality in distribution is \_\_\_\_\_.

- a) Capitalism
- b) Globalism
- c) Mixedism
- d) Socialism

13. Who is referred as 'Father of Capitalism'?

- a) Adam Smith
- b) Karl Marx
- c) Thackeray
- d) J M Keynes

14. The country following Capitalism is \_\_\_\_\_.

- a) Russia
- b) America
- c) India
- d) China

15. Identify The Father of Socialism.

- a) J M Keynes
- b) Karl Marx
- c) Adam Smith
- d) Samuelson

16. An economic system where the economic activities of a nation are done both by the private and public together is termed as \_\_\_\_\_.

- a) Capitalistic Economy
- b) Socialistic Economy
- c) Globalistic Economy
- d) Mixed Economy

17. Quantity of a commodity accumulated at a point of time is termed as \_\_\_\_\_.

- a) production
- b) stock
- c) variable
- d) flow

18. Identify the flow variable.

- a) money supply
- b) assets
- c) income
- d) foreign exchange reserves

19. Identify the sectors of a Two Sector Model.

- a) Households and Firms
- b) Private and Public
- c) Internal and External
- d) Firms and Government

20. The Circular Flow Model that represents an open Economy.

- a) Two Sector Model
- b) Three Sector Model
- c) Four Sector Model
- d) All the above

## Answers

1	2	3	4	5	6	7	8	9	10
d	c	b	b	d	b	c	d	c	d
11	12	13	14	15	16	17	18	19	20
a	d	a	b	b	d	b	c	a	c



### Part - B

**Answer the following questions in one or two sentences**

21. Define Macro Economics.
22. Define the term 'Inflation'.
23. What is meant by an 'Economy'?
24. Classify the economies based on status of development.
25. What do you mean by Capitalism?
26. Define 'Economic Model'.
27. 'Circular Flow of Income' - Define.

### Part - C

**Answer the following questions in about a paragraph**

28. State the importance of Macro Economics.
29. Describe the different types of economic systems.
30. Outline the major merits of capitalism.
31. Indicate the demerits of socialism.
32. Enumerate the features of mixed economy.
33. Distinguish between Capitalism and Globalism.
34. Briefly explain the two sector circular flow model.

### Part - D

**Answer the following questions in one page**

35. Discuss the scope of Macro Economics.
36. Illustrate the functioning of an economy based on its activities.
37. Compare the features of capitalism and socialism.
38. Compare the feature among Capitalism, Secularism and Mixedism.

## ACTIVITY

### 1. Internet Based Activity:

Each student may be asked allotted FOUR countries. The students may be given the responsibility of collecting basic information about each country and present them in chart papers. The list of geo, politic, socio-economic and other information to be compiled may be listed by the course teacher. Students may be asked to point out the economic system adopted in those countries. Internet sources may be used for doing this activity.

### 2. Role Play Activity:

Students may be grouped in to Four groups, each one representing a sector of the FOUR Sector Model. In specific, Household sector, Business Sector, Government Sector and Externals sector. Each sector may decide on their activities and understand how the flow of income and goods and services takes place between sectors. The class teacher may initiate the activities and do the moderator role.

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