**CBSE Class–12 economics**

**Important Questions**

**Macro Economics 01**

**Introduction**

## VERT SHORT ANSWER QUESTIONS (1 Mark)

**Q1. In Economics, a good is something which**

a) Is a service
b) Can be a service
c) Appears appealing
d) Satisfies wants and needs

**Ans. (d)**

**Q2. A resource is a**

a) Good only
b) Service only
c) Good or a service
d) Not a good or service

**Ans. (c)**

**Q3. Vinod Limited sold patents costing Rs.20, 000 in Rs.22, 000. Treatment will be ---**

a) Less 22000 operating activities and add 20,000 in investing activities
b) add 2000 operating activities and Less 22,000 in investing activities
c) Less 20000 operating activities and add 20,000 in investing activities
d) Less 2000 operating activities and add 20,000 in investing activities

**Ans. (d)**

**Q4. What is export?**

**Ans. An export is a function of international trade whereby goods produced in one**

country are shipped to another country for future sale or trade. The sale of such goods adds to the producing nation's gross output.

**Q5. What is import?**

Ans. An import is a good or service brought into one country from another. The word "import" is derived from the word "port" since goods are often shipped via boat to foreign countries. Along with exports, imports form the backbone of international trade.

**Q6. Cash paid against trade payable belongs to ------------**

a) No Effect
b) Operating activities
c) Financing Activities
d) Investing Activities

Ans. (b)

**Q7. Interest received on investment will be ----------**

a) Added (Financing Activities)
b) Deducted (Investing activities)
c) Added (Investing Activities)
d) Deducted (Financing Activities)

Ans. (c)

**Q8. Under which type of activity will you classify the sale of shares of another company while preparing cash flow statement?**

a) Financing Activity
b) Investing and Financing
c) Operating Activity
d) Investing Activity

Ans. (d)

**Q9. The term Macro is derived from**

**Ans. Latin word 'Macros'**

**Q10. Who is the called the 'father of modern economics'?**

**Ans. Adam Smith**

**Q11. What is the name of John Maynard Keynes celebrated book?**

**Ans. Name of the book is 'The General Theory of Employment, Interest and Money' which was published in the year 1936.**

**Q12. The basic factors of production are land, labour, capital and______**

a) Enterprise
b) Investment
c) Machinery
d) Resources

**Ans. (a)**

**Q13. One of the characteristics of economic resource is scarcity. Which is the other?**

a) They have alternate uses
b) They are not marketable
c) They are in abundance
d) They are available in limited quantity

**Ans. (a)**

**Q14. Positive economics states**

a) What is supposed to be
b) Central problems of an economy
c) What is
d) What will be

**Ans. (c)**

Q15. Normative economics states

a) Central problems of an economy
b) What is
c) What ought to be
d) What was

Ans. (c)

## SHORT ANSWER QUESTIONS (3/4 Marks)

Q16. Distinguish between micro economics and macroeconomics.

Ans.

| S. N | Micro Economics | Macro Economics |
|---|---|---|
| 1 | It studies individual economic unit | It studies aggregate economic unit |
| 2 | It deals with determination of price and output in individual markets | It deals with determination of general price level and output in the whole economy |
| 3 | Main central problems are price determination and resource allocation | Here central problem is determination of income level and tackling unemployment in the economy |
| 4 | Microeconomics takes a bottoms-up approach to analyzing the economy | Macroeconomics takes a top-down approach |

Q17. What is entrepreneurship?

Ans. The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses.

Q18. Define great depression

Ans. Economic historians usually attribute the start of the Great Depression to the sudden devastating collapse of U.S. stock market prices on October 29, 1929, known as Black Tuesday. However, some dispute this conclusion and see the stock crash as a symptom, rather than a cause, of the Great Depression.

**Q19. What are the features of capitalist economy?**

**Ans.** According to Karl Marx, in his 'Das Kapital', the capitalist on an average takes twelve hours work from the worker and pays him wages equal to six hours work. According to Ferguson, "Capitalism is a free-market form or capitalistic economy may be characterised as an automatic self-regulating system motivated by self-interest of individuals and regulated by competitions."

The main features are:

(i) Private Property
(ii) Price Mechanism
(iii) Freedom of Enterprise
(iv) Sovereignty of that consumer
(v) Profit Motive
(vi) No Government Interference
(vii) Democratic
(viii) Self-Interest

**Q20. What are economic agents?**

**Ans.** By economic units or economic agents, we mean those individuals or institutions which take economic decisions. They can be consumers who decide what and how much to consume. They may be producers of goods and services who decide what and how much to produce. They may be entities like the government, corporation, banks which also take different economic decisions like how much to spend, what interest rate to charge on the credits, how much to tax, etc.

## LONG ANSWER QUESTIONS (6 Marks)

**Q21. What is Macroeconomics and microeconomics and what is the connection between the two?**

**Ans.** Macroeconomics and microeconomics, and their wide array of underlying concepts, have been the subject of a great deal of writings. Microeconomics is the study of decisions that people and businesses make regarding the allocation of resources and prices of goods and services. It focuses on supply and demand and other forces that determine the price levels seen in the economy. Macroeconomics is the field of economics that studies the behaviour of the economy as a whole, not just companies, but the entire industries and economies.

While these two studies of economics appear to be different, they are actually interdependent and complement one another since there are many overlapping issues between the two fields. For example, increased inflation (macro effect) would cause the price of raw materials to increase for companies and in turn affect the end product's price charged to the public. Thus according to Professor Ackley, "The relationship between macroeconomics and theory of individual behaviour is a two-way street. Microeconomics theories should provide the building blocks for our aggregate theories whereas macroeconomics may also contribute to microeconomic understanding. For example, empirically stable macroeconomic generalisations which appear inconsistent with microeconomic theories, or which relate to aspects of behaviour which microeconomics has neglected, macroeconomics may permit us to improve our understanding of individual behaviour."

**Q22. Define and explain the importance of 'scarcity' and 'opportunity' in economics.**

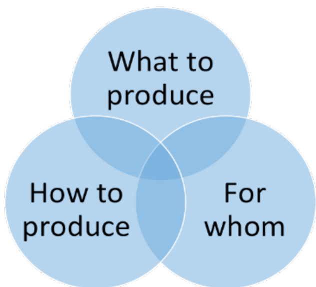
**Ans.** Scarcity is the condition that exists when there are not enough resources to satisfy all the wants of individuals or society. Any resource that has a non-zero cost to consume is scarce to some degree, but what matters in practice is relative scarcity. Scarcity is also referred to as "paucity”. Economics is the study of how people use scarce resources to satisfy unlimited wants. At the core of economics is the idea that our world is a place plagued with scarcity — that is, we do not have all the resources we want. As a result, we must make choices. When we make a choice, that choice necessarily means that we have to give up something. The something we give up is called opportunity cost. Economists define opportunity cost as the next best alternative or the highest valued alternative to the choice that was made. If we choose to produce a good using a resource, the opportunity cost of producing that good is the highest valued alternative use of that resource.

Opportunity Costs — the next highest valued alternative that is given up when a choice is made. There are limits to the quantity available of every resource that is utilized in the economy. This is what leads to all goods and services having a price. If there was no scarcity of resources, everything would be available for free. Opportunity cost is related to scarcity as neither the consumer nor the producer has an unlimited resource of anything.

Q23. What are the different ways in which resources can be allocated and what are their respective advantages and disadvantages?

Ans. There are several ways that resource can be allocated efficiently in an economic system. They are:

- What to produce
- How to produce
- For whom to produce




Other ways are to maximise the production for the end customers. When the resources are used with the available resources to the maximum limit, then we can say we have efficient production. Efficiency in consumption happens when the amount is supplied is equal to the amount demanded. In this scenario, there is no surplus or deficit. When market forces are freely allowed to play out in an economy, resources are more likely to be properly allocated. The goal of any economic system is to have an efficient allocation of the resources. How an economy decides, how to allocate its resources is its economic system.

There are mainly three kinds of economic systems in this world, they are Free Market Economy, Planned Economy and Mixed Economic System. India follow mixed economy system.

**Advantages of allocation of resources:-**

1. Any market system for that matter, automatically responds and adjusts to the public demands. If consumers want a particular good or a service, they simply demand for it and the prices go up, which gives signal for the producers to produce more of that good. If producers can produce the required amount of that particular good, the price automatically comes down to normal.
2. Availability of wider variety of goods and services. In a market system, producers compete with each other by offering wider variety of goods, therefore consumers have more choice, this may even lead to lower prices
3. Government does not have to take decisions on basic economic questions. Economic system relies on producers and consumers to decide on what, how and for whom to produce. Therefore it does not require the government to employ a group of people to take these decisions.
4. Resources are allocated according to the needs of consumers. The profit motive forces producers to reduce costs and use the resources more efficiently (avoids wastage). The profit motive also encourages producers to be more innovative, and resource allocation is directed towards better products and services.
5. Efficiency of the producer. Firms that produce goods using the cheapest method of production are said to be efficient. Firms in any economy try to be efficient in order to make high profits. New methods of production and better machinery can help firms to reduce costs.

**Disadvantages of allocation of resources:-**

1. Factors of Production is not employed if it is not profitable. In any economic system, producers do not produce a good or a service if it is not profitable. But sometimes it may be necessary to produce some goods even if it is not profitable. Therefore Market system will fail in this aspect.
2. Free market always encourage dangerous goods. If there are people in the market who wish to buy harmful goods like narcotic drugs, the market will be ready to buy it since private firms will be willing to provide anything that is profitable.
3. Production may lead to negative externalities. When firms are always trying to maximize their profits, they may ignore external costs like damages to the environment.
4. Inefficiency of the producers. Planners are not only costly, but they also decide which production method to choose. This production method may not be the cheapest as profits play no part in the allocation of resources.
5. Planning of wrong goods. Since planners decide what to produce, the goods that consumers want may not be produced thus there is no consumer sovereignty. Planning failure might lead to resources wasted and consumer demands cannot be fulfilled. This leads to improper planning.

Q24. Explain the scope of Macroeconomics.

Ans. Following are the scope of Macroeconomics:-

(1) To Understand the Working of the Economy:

The study of macroeconomic variables is indispensable for understanding the working of the economy. Our main economic problems are related to the behaviour of total income, output, employment and the general price level in the economy.

(2) In Economic Policies:

Macroeconomics is extremely useful from the point of view of economic policy. Modern governments, especially of the underdeveloped economies, are confronted with innumerable national problems. They are the problems of overpopulation, inflation, balance of payments, general underproduction, etc.

**(3) In General Unemployment:**

Unemployment is thus caused by deficiency of effective demand. In order to eliminate it, effective demand should be raised by increasing total investment, total output, total income and total consumption. Thus, macroeconomics has special significance in studying the causes, effects and remedies of general unemployment.

**(4) In National Income:**

The study of macroeconomics is very important for evaluating the overall performance of the economy in terms of national income. With the advent of the Great Depression of the 1930s, it became necessary to analyse the causes of general overproduction and general unemployment.

**(5) In Economic Growth:**

The economics of growth is also a study in macroeconomics. It is on the basis of macroeconomics that the resources and capabilities of an economy are evaluated. Plans for the overall increase in national income, output, and employment are framed and implemented so as to raise the level of economic development of the economy as a whole.

**Q25. What are the different types of goods produced in an economy?**

Ans. Here is the following list of different types of goods:-

1. Normal goods - the quantity demanded of such commodities increases as the consumer's income increases and decreases as the consumer's income decreases. Such goods are called normal goods.

2. Free Goods and Economic goods - the goods which have unlimited supply and are provided as free gift of nature. These goods are known as ‘Free Goods’. For example, air, sea, water, sunlight, sand in the desert etc. On the other hand, goods like vegetables, grains, minerals, fruits, fishes etc. which are neither man-made nor unlimited supply of nature are known as ‘Economic Goods’ All these goods are sold and purchased in the market only.

3. Substitute goods- goods that can be consumed or used in place of one another is called substitute goods. Also increase in price for one kind of good will result in an increase in demand for its substitute goods, and a decrease in price will result in a decrease in demand for its substitutes.

4. Private Goods and Public Goods - all the goods which are owned by private bodies are called private goods. For example, a car, a house, a motorbike, a mobile phone, books, a television set etc. are the private goods. There are large number of goods which are collectively owned by the society, the public or the government. These are called public or government goods. For example, roads, bridges, hospitals, government schools etc. are the public goods or the social goods or the government goods.

5. Consumer Goods and Capital Goods - the goods which are directly used by the consumer for the purposes of consumption are known as ‘Consumer Goods’ The example of consumer goods are bread, biscuit, butter, jam, rice, fish, egg, shoes, shirts, fan, book, pen, cooking gas etc. On the other hand, all the goods which are not directly used to satisfy consumption but which are used in further production are called ‘Producer Goods’ or ‘Capital Goods’. The examples are seeds, fertilizers, tools, machines, raw materials etc.