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Sarvada Sarva shreshth
HOLISTIC DEVELOPMENT

ONLINE TEACHING MATERIAL

Sub: Macroeconomics

Class XII

DAY-1

Study course material

Ch 1: Introduction

- Difference between micro and macro economics

	Micro economics	Macro economics
1	Problem of scarcity and choice at the level of an individual/household/firm/industry	Problem of scarcity and choice at the level of an economy
2.	Variables-consumer demand and producer supply	Variables-aggregate demand and agg. Supply
3.	Those who take economic decision are called economic agents e.g: consumer or producer	Economic Agents-Rbi, Sebi,Trai
4.	All macro variables are constant e.g.: output and employment	All micro variables are constant
5.	Central issues- allocation of resources	Central issues – level of output and employment

- Scope of macroeconomics:
    1. Estimation of nat. income and related aggregates like GDP,NDP
    2. It is a study of theories related to employment.
    3. Important component- money and credit by commercial bank and role of central bank and also supply of money.

4. Price level at macro level which leads to inflationary or deflationary gap.
5. The element of exchange rate and the way it is managed in international market.

- Partial and general equilibrium:

- **VIDEO-LINKS**

https://youtu.be/hjUd7oSmmfg

- **Day 2**

Chapter: 2 National Income Accounting

SOME BASIC CONCEPTS OF MACROECONOMICS

- The economic wealth, or well-being, of a country thus does not necessarily depend on the mere possession of resources; the point is how these resources are used in generating a flow of production and how, as a consequence, income and wealth are generated from that process.
- from the smallest items like pins or buttons to the largest ones like airplanes, automobiles, giant machinery or any saleable service like that of the doctor, the lawyer or the financial consultant – the goods and services produced are to be sold to the consumers.
- The consumer may, in turn, be an individual or an enterprise and the good or service purchased by that entity might be for final use or for use in further production. When it is used in further production it often loses its characteristic as that specific good and is transformed through a productive process into another good.
- An item that is meant for final use and will not pass through any more stages of production or transformations is called a final good.
- Two types in final goods: Consumption Goods and Capital Goods.

Consumption Goods:

- Goods like food and clothing, and services like recreation that are consumed when purchased by their ultimate consumers
- Are called consumer goods also.
- Includes services which are consumed but for convenience we may refer to them as consumer goods.

Capital Goods:

- Goods that are of durable character which are used in the production process.
- E.g. tools, implements and machines.

- they make production of other commodities feasible
- Don't get transformed in the production process.
- They are also final goods yet they are not final goods to be ultimately consumed.

Consumer durables:

- some commodities like television sets, automobiles or home computers,
- they are for ultimate consumption, have one characteristic in common with capital goods – also durable
- are not extinguished by immediate or even short period consumption;
- Have a relatively long life as compared to articles such as food or even clothing.
- Also undergo wear and tear with gradual use and often need repairs and replacements of parts, i.e., like machines they also need to be preserved, maintained and renewed.

Intermediate goods:

- Of the total production taking place in the economy a large number of products don't end up in final consumption and are not capital goods either. Such goods may be used by other producers as material inputs. Examples are steel sheets used for making automobiles and copper used for making utensils.
- Intermediate Goods are not Final Goods.
- The sum total of the monetary value of these diverse commodities gives us a measure of final output.

  Question: Why we measure only final goods not intermediate goods?
  Answer: since we are dealing with value of output, we should realize that the value of the final goods already includes the value of the intermediate goods that have entered into their production as inputs. Counting them separately will lead to the error of double counting. Whereas considering intermediate goods may give a fuller description of total economic activity, counting them will highly exaggerate the final value of our economic activity.

❖ VIDEO-LINKS

Ref. Link:
https://youtu.be/i6J2_A6JzpM

❖ Day 3

Concept of investment:

It refers to increase in the stock of capital or total production of capital goods in an accounting year. Either these goods will be replaced or it will be added to existing capital stock.

Components of investment:

Fixed investment:

When there is an increase in the stock of fixed assets (example plants and machinery) of the producer of an accounting year is called fixed investment.

Inventory investment:

The producer holds the stock of finished goods or raw material. This is called inventory investment. Inventory investment makes sure that stock of raw material and finished goods which are helpful for uninterrupted supply of inputs to the producers. And the stock of finished goods enables the producers to meet the future demand of the product.

Gross investment:

Gross investment refers to total production of capital goods during the year, it includes (1) capital goods used for replacement (2) captain goods used as a net addition to the existing capital stock.

Gross invest. = net invest. + Depreciation

Capital goods used for replacement of existing capital stock refers to depreciation

Net investment: is the capital goods used as a net addition to the existing capital stock is called net investment.

Net investment = gross investment - depreciation.

Net investment raises the stock of the capital which generates the opportunities of employment. It leads in the rise of production capacity which regenerates GDP growth.

Depreciation:

Depreciation is the loss of value of fixed assets in use because of

- Normal wear and tear

- Accidental damages
- Expected obsolescence

  It is also called consumption of fixed capital.

Because of depreciation of fixed capital it is required to be replaced from time to time for which fund is required and the provision for the funds is made on annual basis. The fund is called depreciation reserve fund.

If there is lack in depreciation reserve fund then it implies the lack of replacement investment. Overall investment tends to fall which leads to a fall in the level of output. The level of income and employment will also fall and the economy will slip into the state of economic slowdown

❖ Day 4

Stock and flow:

- **Flows** are defined over a period of time. Income, or output, or profits are concepts that make sense only when a time period is specified. These are called flows because they occur in a period of time. Therefore we need to delineate a time period to get a quantitative measure of these.
- Stocks are defined at a particular point of time. The buildings or machines in a factory are there irrespective of the specific time period. There can be addition to, or deduction from, these if a new machine is added or a machine falls in disuse and is not replaced. These are called stocks.
- **Wear and tear of capital is called depreciation**.
- New addition to capital stock in an economy is measured by net investment or new capital formation, which is expressed as

Net Investment = Gross investment – Depreciation.

- Depreciation is it is the cost of the good divided by number of years of its useful life.

Four sector of the economy:

- Household sector-consumer and goods and services and owner offactor of production
- Producer sector- producing goods and services and buy factor of production.
- Government sector- govt. as welfare and producer.
- External sector- Activities related to export and import of goods and flow of capital.

❖ Day 5

CIRCULAR FLOW OF INCOME AND METHODS OF CALCULATING NATIONAL INCOME

- four kinds of contributions that can be during the production of goods and services (a) contribution made by human labor, remuneration for which is called wage (b) contribution made by capital, remuneration for which is called interest (c) contribution made by entrepreneurship, remuneration of which is profit (d) contribution made by fixed natural resources (called „land‟), remuneration for which is called rent. **Simplified economy**,
- There is only one way in which the households may dispose of their earnings – by spending their entire income on the goods and services produced by the domestic firms.
- Other channels of disposing their income are closed: we have assumed that the households do not save, they do not pay taxes to the government – since there is no government, and neither do they buy imported goods since there is no external trade in this simple economy.
- The aggregate consumption by the households of the economy is equal to the aggregate expenditure on goods and services produced by the firms in the economy. The entire income of the economy, therefore, comes back to the producers in the form of sales revenue.
- When the income is being spent on the goods and services produced by the firms, it takes the form of aggregate expenditure received by the firms.
- Since the value of expenditure must be equal to the value of goods and services, we can equivalently measure the aggregate income by "calculating the aggregate value of goods and services produced by the firms".
- When the aggregate revenue received by the firms is paid out to the factors of production it takes the form of aggregate income.

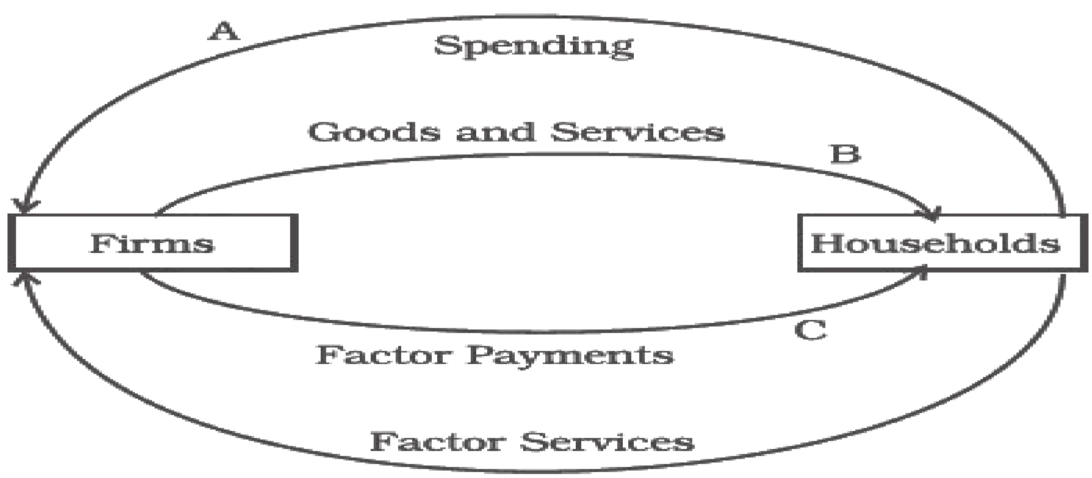

Fig. 2.1: Circular Flow of Income in a Simple Economy

- The uppermost arrow, going from the households to the firms, represents the spending the households undertake to buy goods and services produced by the firms.
- The second arrow going from the firms to the households is the counterpart of the arrow above. It stands for the goods and services which are flowing from the firms to the households. In other words, this flow is what the households are getting from the Fig. 2.1:
- Circular Flow of Income in Simple Economy firms, for which they are making the expenditures.
- In short, the two arrows on the top represent the goods and services market – the arrow above represents the flow of payments for the goods and services, the arrow below represents the flow of goods and services.
- The two arrows at the bottom of the diagram similarly represent the factors of production market.
- The lower most arrows going from the households to the firms symbolize the services that the households are rendering to the firms.
- Using these services the firms are manufacturing the output.
- The arrow above this, going from the firms to the households, represents the payments made by the firms to the households for the services provided by the latter.
- Since the same amount of money, representing the aggregate value of goods and services is moving in a circular way, if we want to estimate the aggregate value of goods and services produced during a year we can measure the annual value of the flows at any of the dotted lines indicated in the diagram. We can measure the uppermost flow (at point A) by measuring the aggregate value of spending that the firms receive for the final goods and services which they produce. This method will be called the expenditure method. If we measure the flow at B by measuring the aggregate value of final goods and services produced by all the firms, it will be called product method. At C, measuring the sum total of all factor payments will be called income method.

References:

1) Macroeconomics by V Kohri

2) NCERT book