

Chapter 8: Introduction to Macro Economics

Question: 1

Fill in the blank

The credit of development of macroeconomic approach must go to _____.

Options

- Dr.Marshall
- Prof. Pigou
- Lord Keynes
- Mrs. Joan Robinson

Solution

The credit of development of macroeconomic approach must go to **Lord Keynes**.

Explanation:

The need for a separate branch of economics, i.e., macroeconomics was felt inevitable during the period of The Great Depression (1929). It was then when Lord John Maynard Keynes, for the first time, used the macro approach in his book "General Theory of Employment, Interest and Money".

Question: 2

Fill in the blank

_____ economics studies the problem of inflation in an economy.

Options

- Micro
- Macro
- Static
- Industrial

Solution

Macroeconomics studies the problem of inflation in an economy.

Explanation:

Macroeconomics studies how the prices of goods and services in an economy

are determined and what causes the change in the price level. Thus, problems concerning the price level constitute the subject matter of macroeconomics.

Question: 3

Fill in the blank

Macroeconomics does not study _____.

Options

- whole economy
- national income
- aggregate supply
- product pricing

Solution

Macroeconomics does not study **product pricing**.

Explanation:

Macroeconomics studies an economy as a whole. It focuses on aggregate measures such as aggregate demand, aggregate supply and aggregate price level. As product pricing is an individual variable, it is not studied under macroeconomics. It is studied under microeconomics.

Question: 4

Fill in the blank

_____ is the subject matter of Macroeconomics.

Options

- Growth theory
- Factory Pricing
- Market Structure
- Individual Incomes

Solution

Growth theory is the subject matter of Macroeconomics.

Explanation:

Accelerating growth and development constitute the subject matter of macroeconomics. Macroeconomics analyses the reason for underdevelopment

and poverty in a country. It also analyses how efficient utilisation of resources can be done. Thus, studying the problems related to growth and improving the per capita income and national income are major concerns of macroeconomics.

Question: 5

Fill in the blank

Micro and Macro approaches are _____.

Options

- competitive
- alternative
- substitutes
- complementary

Solution

Micro and Macro approaches are **complementary**.

Explanation:

Micro and macro approaches are complementary. To know well about the working of an economy, one must have the knowledge of both the branches of economics. It can be said that macroeconomics uses the principles of microeconomics as its foundation and the former is a magnified version of the latter.

Question: 6

Match the following

Group A		Group B	
1)	Microeconomics	a)	Harrod and Domar
2)	Macroeconomics	b)	Partial equilibrium
3)	Theory of growth	c)	Principles of economics
4)	Lord Keynes	d)	General equilibrium
		e)	General theory of employment, interest and money
		f)	Business economics

Solution

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Group A		Group B	
1)	Microeconomics	b)	Partial equilibrium
2)	Macroeconomics	d)	General equilibrium
3)	Theory of growth	a)	Harrod and Domar
4)	Lord Keynes	e)	General theory of employment, interest and money

Explanation:

1- Microeconomics uses the method of partial equilibrium. According to the method, equilibrium is achieved in one market assuming that there is no change in the other markets. For example, while analysing the equilibrium of an individual producer (optimising his/her cost of production), we assume that there exists no change in the other markets (labour and capital markets).

2- Macroeconomics uses the method of general equilibrium, as it studies the equilibrium in different markets simultaneously. It studies the inter-relationship of all units of the economy and assumes that all the macroeconomic variables are interdependent.

3- The theory of growth was jointly propounded by economists Harrod and Domar. This theory helps us in understanding the causes of underdevelopment and accordingly what strategies can be adopted to accelerate growth and development process.

4- Lord Keynes published the famous book 'General theory of employment, interest and money.' In this book, he used the macroeconomics approach in studying economic problems. After that, macroeconomics became an important approach in economic analysis.

Question: 7

State the following statement is true or false.

Macro-Economics is known as income analysis.

Options

- True
- False

Solution

True

Explanation:

The above statement is correct. Macroeconomics is also known as the 'Theory of Income and Employment', or income analysis, as it focuses on how income and employment levels are determined in an economy.

Question: 8

State the following statement is true or false.

Increase in national income is a Micro- Economic goal.

Options

- True
- False

Solution

False

Explanation:

The above statement is incorrect. An increase in the national income is a macroeconomic goal. Besides this, macroeconomics focuses on aggregate measures such as aggregate demand, aggregate supply and aggregate price level and confronts major problems such as poverty, unemployment, inflation and BOP disequilibrium.

Question: 9

State the following statement is true or false.

Macro-Economic adopts lumping method.

Options

- True
- False

Solution

True

Explanation:

Yes. Macroeconomics adopts the lumping method. It splits the entire economy into big lumps; that is, it divides the economy into aggregates for study. It studies how an economy operates as a whole. It focuses on aggregate measures such as aggregate demand, aggregate supply and aggregate price level and studies how these variables are determined and how they change over time.

Question: 10

State the following statement is true or false.

Study of price determination is a subject matter of Macro-Economics.

Options

- True
- False

Solution

False

Explanation:

The statement is incorrect, as price determination is the subject matter of microeconomics. Microeconomics studies how prices are determined in both the commodity and factor markets based on the demand and supply analysis.

Question: 11

State the following statement is true or false.

Micro-Economics deals with the study of aggregates.

Options

- True
- False

Solution

False

Explanation:

The above statement is not true. Macroeconomics is the study of aggregates. It studies how an economy operates as a whole. It focuses on aggregate measures such as aggregate demand, aggregate supply and aggregate price level. It also studies how these variables are determined and how they change over time.

Question: 12

State the following statement is true or false.

National output is an example of macro variable.

Options

- True
- False

Solution

True

Explanation:

The above statement is correct. This is because national output is an aggregate of all outputs produced within an economy during a year. Hence, it is a macroeconomic variable.

Question: 13

Define or Explain the following concept

Macro-Economics

Solution

Macroeconomics is concerned with large sections of the economy or the economy as a whole. It is a branch of economics that deals with various economic activities, economic situations and economic problems of the economy as a whole.

Question: 14

Define or Explain the following concept

Macro variables

Solution

Macro variables are the aggregate quantities that change from time to time. The major macroeconomic variables are aggregate price, aggregate demand, aggregate supply, inflation and unemployment.

Question: 15

Define or Explain the following concept

General equilibrium

Solution

General equilibrium is a method to study equilibrium in different markets simultaneously. It is the method of studying macroeconomics. According to Stigler, the theory of general equilibrium is the theory of inter-relationship of all units of the economy. Hence, this method assumes that all macroeconomic variables are interdependent.

Question: 16

Give reason or explain the following statement

Macro-Economics is the study of aggregates.

Solution

Macroeconomics is the study of aggregates; as it studies the economy as a whole, rather than the individual economic units as a consumer or a producer. It studies the aggregates such that they cover the entire economy. For instance, it studies national income rather than individual income. Similarly, it studies aggregate price levels rather than price level of a particular commodity.

Question: 17

Give reason or explain the following statement

Macro-Economics is also known as income and employment theory.

Solution

Macroeconomics is also known as the 'Theory of Income and Employment', or income analysis, as it focuses on how income and employment levels are determined in an economy and what causes fluctuations in them. In addition macroeconomics also explains the factors that lead to increase in the output, income and employment in the long run.

Question: 18

Give reason or explain the following statement

The scope of Macro-Economics is wide.

Solution

Macroeconomics is said to have a wide scope as it deals with aggregates for the economy as a whole. Some of the aggregates that are studied in macroeconomics are national income, general price level, employment, investment, etc. Macroeconomics aims at studying the interrelationship between such aggregates and accordingly determine the cause and effect of variations in them. Thus, it can be said that it studies the various economic units in aggregate terms.

Question: 19

Give reason or explain the following statement

Macro-Economics deals with whole economy.

Solution

Macroeconomics is a branch of economics that studies aggregates covering the entire economy. It studies total employment, national income, national output, aggregate demand, aggregate supply, aggregate consumption and savings and total investment. It studies the entire economy in the context of equilibrium. It studies the behaviour of a number of economic variables at a time and takes into consideration their functional relationship and

interdependence. Thus, it can be concluded that macroeconomics deals with the economy as a whole.

Question: 20

Give reason or explain the following statement

Macro-Economics is different from Micro-Economics.

Solution

Macroeconomics is concerned with large sections of the economy or the economy as a whole. It is a branch of economics that studies economics activities of various economic spheres and analyses economic situations and economic problems of the economy as a whole. Microeconomics, on the other hand, studies only one consumer or one producer. In other words, while microeconomics studies individual economic units, on the other hand, macroeconomics studies aggregates. Accordingly, microeconomics is based on partial equilibrium analysis, on the other hand, macroeconomics is based on general equilibrium analysis. In this regard, it can be said that macroeconomics has a wider scope than microeconomics.

Question: 21

Distinguish between the following
Marco-Economics and Macro-Economics

Solution

Basis of Difference	Microeconomics	Macroeconomics
1. Definition	It is a branch of economics that studies economic variables at an individual level like a household, firm and consumer.	It is a branch of economics that studies economic variables of an economy as a whole.
2. Deals with	It deals with how consumers or producers make decisions depending on the budget given to them and other variables.	It deals with how different economic sectors (household, industrial, government and foreign) make their decisions.
3. Approach used	It is based on partial equilibrium approach (i.e., equilibrium in one market)	It is based on general equilibrium approach (i.e., equilibrium in all markets simultaneously)
4. Variables involved	The major variables involved are price, consumer's demand, wages, rent, profit and firm's revenue and cost.	The major variables involved are aggregate demand, aggregate supply, inflation, unemployment and poverty.

Question: 22

Distinguish between the following
Slicing method and Lumping method

Solution

Basis of Difference	Slicing Method	Lumping Method
1. Process	It splits up the entire economy into small individual units.	It splits up the entire economy into big lumps (sectors).
2. Used in	It is used in microeconomics for intensive study.	It is used in macroeconomics for intensive study.
3. Variables used in the method	It uses micro variables, for example, individual income and individual output.	It uses macro variables, for example, aggregate output and national income.

Question: 23

Distinguish between the following
Partial equilibrium and general equilibrium

Solution

Basis of Difference	Partial Equilibrium	General Equilibrium
1. Definition	Partial equilibrium refers to equilibrium in one market, assuming that there is no change in other markets	General equilibrium is the method of studying equilibrium in different markets simultaneously.
2. Uses	It is used in microeconomics.	It is used in macroeconomics.
3. Assumption	It assumes that other things remain constant.	It assumes that the variables are dependent on each other.
4. Process	It isolates an individual unit from other forces.	It explains the inter relationship and interdependence between aggregate economic variables.

Question: 24

Write short note on
Features of Macro-Economics

Solution

Features of Macroeconomics:

a) Study of aggregates - It is a branch of economics that studies the

economic variables of an economy as a whole. It focuses on aggregate measures such as aggregate demand, aggregate supply and aggregate price level.

b) Lumping method - Macroeconomics uses the lumping method. That is, it splits up the entire economy into big lumps (sectors) and then studies aggregate measures such as aggregate demand, aggregate supply and aggregate price level.

c) General equilibrium analysis - Macroeconomic analysis is based on general equilibrium analysis; that is, it studies equilibrium in different markets simultaneously. This approach assumes "everything depends on everything else".

d) Income analysis - Macroeconomics is also known as income analysis because it studies how income and employment levels are determined. It also studies the causes behind fluctuations in these levels.

e) Policy-oriented - Macroeconomic analysis helps in formulating policies. These policies help in creating new employment opportunities. Also, they pull the economy out of the low level of income and demand.

f) Interdependence among variables- Macroeconomics takes into consideration the interdependence among the various economic variables. In other words, it explains how changes in one variable influence the change in other.

Question: 25

Write short note on
Subject matter of Macro-Economics

Solution

Macroeconomics studies how an economy operates as a whole. It focuses on aggregate measures such as aggregate demand, aggregate supply and aggregate price level. It studies how these variables are determined and how they change over time. It helps us in understanding various economic relationships and economic problems at the economic or aggregate level. It is also known as the 'Theory of Income and Employment', as it studies how income and employment levels are determined. It also deals with major problems such as poverty, unemployment, inflation, balance of payments and BOP disequilibrium.

The following are the important macroeconomic theories:

i. Theory of income and employment: Macroeconomics explains the determination of national income and employment. In addition it also helps in analysing the cause and effect of fluctuations in them. For this, various concepts such as consumption function, investment function, business cycles

are studied.

ii. Theory of general price level and inflation: Macroeconomics studies how the general level prices in an economy are determined and the effects of fluctuations on them. Such study is specifically important to understand and combat the effect of such problems as depression and recession.

iii. Theory of economic growth and development: Macroeconomic study helps in understanding the causes of underdevelopment and other socio-economic problems such as poverty and inequality in an economy. Accordingly, it helps in determining suitable policies to combat the same. Similarly, it helps to deal with such problems as underutilisation of resources, thereby, help in working towards increasing the productive efficiency in the economy.

iv. Macro theory of distribution: The study of macroeconomics helps in determining how the national income would be distributed among the various sections in the economy in the form of rent, wages, income and profit. Some of the important theories in this regard are given by Ricardo, Karl Marx, Kalecki, Kaldor.

Question: 26

Write short note on
Historical review of Macro-Economics

Solution

The macroeconomic approach to economics has been in existence since the earlier time, though its use in economic analysis is modern and recent. In the past, macroeconomics did not exist as a separate branch of economic analysis but this approach prevailed even before the evolution of microeconomics.

Evidence is available that, even in the 16th and the 17th century, policies of the government were based on the macro approach. In the 18th century, physiocrats tried to analyse the concept of national income and wealth. Several classical economists, such as Adam Smith, Prof. Ricardo, J.S. Mill etc. also discussed the determination of national income and wealth.

In 1936, John M. Keynes published his famous book "General theory of employment, interest and money". He used the macroeconomic approach to solve economic problems. After the publication of this book, macroeconomics became important and popular to economic analysis.

Question: 27

Answer the following question
What is the scope and subject matter of Macro-Economics?

Solution

In macroeconomics, we study how an economy operates as a whole. It focuses on the aggregate measures such as aggregate demand, aggregate supply, aggregate price level etc. It studies how these variables are determined and how they change over time. It helps us in understanding various economic relationships and economic problems at the economy or aggregate level. It is also known as the 'Theory of Income and Employment' as its main focus is on how income and employment levels are determined. In macroeconomics, we confront major problems such as poverty, unemployment, inflation, BOP disequilibrium etc.

The following are the important macroeconomic theories.

i. Theory of national income: Macroeconomics helps in the national income analysis. It provides various methods to calculate the national income.

ii. Theory of employment: Macroeconomics also helps in determining the level of employment and unemployment in an economy.

iii. Theory of Money: Macroeconomics studies the functions and theories of money. It is useful in analysing the effect of a change in demand and supply of money on the employment levels.

iv. Theory of general price level: Macroeconomics studies how the general level prices in an economy are determined and the effects of fluctuations on them.

v. Theory of international trade: It helps in understanding trade between two different countries, the rules and regulations followed, policies etc.

vi. Theory of economic growth: Macroeconomics emphasises on how to increase the per capita income or national income. It aims at accelerating the economic growth.

Question: 28

Answer the following question
What are the features of Macro-Economics?

Solution

Features of Macroeconomics:

a) Study of aggregates: It is a branch of economics that studies the economic variables of an economy as a whole. It focuses on the aggregate measures such as aggregate demand, aggregate supply, aggregate price level etc.

b) Lumping method: Macroeconomics uses the lumping method. That is, it splits up the entire economy into big lumps (sectors) and then studies the aggregate measures such as aggregate demand, aggregate supply, aggregate price level etc.

c) General equilibrium analysis: Macroeconomic analysis is based on general equilibrium analysis i.e. it studies equilibrium in different markets simultaneously. This approach assumes "everything depends on everything else".

d) Income analysis: Macroeconomics is also known as income analysis, because its main focus is on how income and employment levels are determined. Also, it studies the causes behind fluctuations in these levels.

e) Policy-oriented: Macroeconomic analysis helps in formulating policies. These policies help in creating new employment opportunities. Also, they pull the economy out of the low level of income and demand.

f) Interdependence among variables: Macroeconomics takes into consideration the interdependence among the various economic variables. In other words, it explains how changes in one variable influence the change in other.

Question: 29

Do you agree with the following statement? Give reason.
The scope of Macro-Economics is wide.

Solution

The above statement is correct. Macroeconomics is all about the complete utilization of resources, full employment level, price stability, and growth of the economy. No economy is capable enough in utilizing all of its resources effectively and efficiently. In some economies, resources are underutilized, while in some economies resources are over utilized. To achieve an ever increasing growth rate and efficient utilization of resources, it is necessary to use macroeconomic models and policies. Since all the economies follow and frame macroeconomic policies for their economic growth, it can be said that it has a wide scope.

Question: 30

Do you agree with the following statement? Give reason.
Macro-Economics deals with the study of individual behavior.

Solution

The above statement is not correct as macroeconomics is that branch of economics which deals with the study of aggregates covering the entire economy. It is concerned with total employment, national income, national

output, aggregate demand, aggregate supply, aggregate consumption and savings, total investment etc. On the other hand, microeconomics deals with the study of individual behaviour.

Question: 31

Do you agree with the following statement? Give reason.
Macro-Economics is individualistic

Solution

The above statement is not correct. Macroeconomics is not individualistic as it does not study only one individual consumer or one individual producer. In fact, macroeconomics studies the behaviour, problems and the economic situation of all the consumers at a time. In other words, it can be said that macroeconomics involves aggregation of all the consuming units.

Question: 32

Do you agree with the following statement? Give reason.
Macro-Economics is different from Micro-Economics.

Solution

The above statement is correct. Macroeconomics is quite different from microeconomics. Macroeconomics is concerned with large sections of the economy or the economy as a whole. It is that branch of economics which deals with the economics activities by all the economic spheres, varying economic situations and economic problems of the economy as a whole. Microeconomics, on the other hand, studies only one individual consumer or one individual producer like the households, firms, consumers etc.

Question: 33

Do you agree with the following statement? Give reason.
Macro-Economics is a partial equilibrium analysis.

Solution

The above statement is not correct. Macroeconomics is a general equilibrium analysis. It studies all the economic variables simultaneously and also takes into account the functional relationship of these variables. This approach assumes "everything depends on everything else". On the other hand, partial equilibrium is the method of study in microeconomics.

Question: 34

Answer in detail
State the features of Macro-Economics.

Solution

Features of Macroeconomics:

a) Study of aggregates: - It is a branch of economics that studies the economic variables of an economy as a whole. It focuses on the aggregate measures such as aggregate demand, aggregate supply, aggregate price level etc.

b) Lumping method: - Macroeconomics uses the lumping method. That is, it splits up the entire economy into big lumps (sectors) and then studies the aggregate measures such as aggregate demand, aggregate supply, aggregate price level etc.

c) General equilibrium analysis: - Macroeconomic analysis is based on general equilibrium analysis i.e. it studies equilibrium in different markets simultaneously. This approach assumes "everything depends on everything else".

d) Income analysis: - Macroeconomics is also known as income analysis, because its main focus is on how income and employment levels are determined. Also, it studies the causes behind fluctuations in these levels.

e) Policy-oriented: - Macroeconomic analysis helps in formulating policies. These policies help in creating new employment opportunities. Also, they pull the economy out of the low level of income and demand.

f) Dynamic: - Macroeconomics basically deals with the changes in the economy. It studies how macroeconomic variables such as aggregate demand, aggregate supply, aggregate price level etc. are determined and how they change over time.

Question: 35

Answer in detail

Explain the scope and subject matter of Macro-Economics.

Solution

In macroeconomics, we study how an economy operates as a whole. It focuses on the aggregate measures such as aggregate demand, aggregate supply, aggregate price level etc. It studies how these variables are determined and how they change over time. It helps us in understanding various economic relationships and economic problems at the economy or aggregate level. It is also known as the 'Theory of Income and Employment' as its main focus is on how income and employment levels are determined. In macroeconomics, we confront major problems such as poverty, unemployment, inflation, BOP disequilibrium etc.

The following are the subject matter of macroeconomics:

i. Theory of income and employment: Macroeconomics explains the

determination of national income and employment. In addition it also helps in analysing the cause and effect of fluctuations in them. For this, various concepts such as consumption function, investment function, business cycles are studied.

ii. Theory of general price level and inflation: Macroeconomics studies how the general level prices in an economy are determined and the effects of fluctuations on them. Such study is specifically important to understand and combat the effect of such problems as depression and recession.

iii. Theory of economic growth and development: Macroeconomic study helps in understanding the causes of underdevelopment and other socio-economic problems such as poverty and inequality in an economy. Accordingly, it helps in determining suitable policies to combat the same. Similarly, it helps to deal with such problems as underutilisation of resources, thereby, help in working towards increasing the productive efficiency in the economy.

iv. Macro theory of distribution: The study of macroeconomics helps in determining how the national income would be distributed among the various sections in the economy in the form of rent, wages, income and profit. Some of the important theories in this regard are given by Ricardo, Karl Marx, Kalecki, Kaldor.