Economics Notes PDF

On

Introduction to Macroeconomics

(Class – 12)

Macroeconomics is the part of economic theory that studies the economy as a whole, such as national income, aggregate employment, general price level, aggregate consumption, aggregate investment, etc. Its main instruments are aggregate demand and aggregate supply. It is also called the 'Income Theory' or 'Employment Theory'.

Circular flow of income

It refers to flow of money, income or the flow of goods and services across different sectors of the economy in a circular form. There are two types of Circular flow:
(a) Real/Product/Physical Flow
(b) Money/Monetary/Nominal Flow

Structure of Macro Economy

As we know, Macroeconomics is concerned with economic problems at the level of an economy as a whole. Structure of Macroeconomics implies study of different sectors of the economy. An economy may be divided into different sectors depending on the nature of study.

- Producer sector engaged in the production of goods and services.
- Household sector is engaged in the consumption of goods and services. Note: Households are taken as the owners of factors of production.
- The government sector engaged in activities like taxation and subsidies.
- Rest of the world sector is engaged in exports and imports.
- Financial sector (or financial system) engaged in the activity of borrowing and lending.

Revenue: Revenue is the amount of money earned from normal business operations and is calculated by multiplying the average sales price by the number of units sold.
Investment Expenditure: Investment expenditure is defined as any expense incurred by an individual, a business, or the government for the development of new capital assets such as machinery, buildings, and so on.

Wage Rate: The wage rate is the price charged for the sale and purchase of labour services.
Wage Labour: Wage labour is defined as labour that is sold or purchased in exchange for a wage rate.
Entrepreneurs: An entrepreneur is an individual who takes the risk of starting their own business based on an idea or a product they developed, assuming most of the risks and earning most of the gains.

GREAT DEPRESSION

- The Great Depression is widely regarded as the worst and longest economic downturn or recession in modern history.
- It all started in the United States. It then had a cascading effect on the world's economies.
- The Great Depression is said to have begun with the October 1929 stock market crash in the United States. To be more specific, the stock market crashed on October 24, 1929, which became known as Black Thursday in American history.
- The stock market crash caused panic among Wall Street investors, causing the stock market to lose nearly billions of dollars. This resulted in the failure of major financial institutions, such as banks.
- The depression was caused by an overabundance of food grains in the market, which resulted in a drop in agricultural prices.
- During the war, Canada, Australia, and the United States emerged as new alternate wheat-producing centres. Stocks of finished goods began to pile up because of underconsumption and excessive investment, resulting in low prices and, as a result, low-profit margins.

- Money in the economy was converted into unsold finished goods, resulting in a sharp drop in employment and, as a result, income levels fell drastically.
- In the United States, the unemployment rate rose from 3% to 25%.
- The Great Depression has its own set of implications and significance in economics since it leads to the collapse of the classical economic approach.
- This flow chart summarizes the cause-and-effect relationship of the Great Depression:

Low demand → Overinvestment → Low level of employment → Low level of output → Low income → Low Demand

FOUR MAJOR SECTORS OF ECONOMY FROM MACRO ECONOMIC POINT OF VIEW

- The Household Sector, the Business Sector, the Government Sector, and the Foreign Sector are the four aggregate macroeconomic sectors that serve as the framework for macroeconomic analysis.
- The Household Sector, the Business Sector, the Government Sector, and the Foreign Sector are the four aggregate macroeconomic sectors that serve as the foundation for macroeconomic analysis.
- These four functions oversee four expenditures on Gross Domestic Product (GDP).
    - **Household Sector:** This sector covers everyone, consumers, individuals, and every member of society. The household sector purchases products and services for consumption while also supplying producing inputs such as land, labour, capital, and entrepreneurs. This sector oversees the consumption expenditures component of GDP. In a nutshell, a household is defined as a single or group of people who make independent decisions about their economic activities, such as consumption and production.
    - **Firms:** People in the household sector work as workers in firms and make a living. Firms are economic units that produce goods and services. They utilise and organise production factors and carry out production processes for the purpose of profit. This comprises sole proprietorships, partnerships, and corporations. This sector oversees the GDP's investment expenditure.
    - **Government Sector:** A government preserves law and order, promotes growth and stability, and administers government services. This sector is in charge of the government's purchase involvement in GDP.
    - **Foreign/ External Sector:** This sector deals with the export and import of products and services. Export occurs when domestically produced goods and services are sold to the rest of the world. When goods and services are purchased from the rest of the world, this is referred to as import.