<u>Answer to Question Number 1.</u>

Macro economics Definition:

Macro economics is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on the aggregate changes in the economy such as unemployment, growth rate, gross domestic product and inflation. Macro economics analyzes all aggregate indicators and the microeconomic factors that influence the economy. Government and corporations use macroeconomic models to help in formulating of economic policies and strategies.

The term Macro is derived from the Greek word "MAKROS" which means large. It deals with the aggregates such as national income, output, employment and the general price level etc. therefore it is called the **Aggregative Economics.**

According to Shapiro, "Macro economics deals with the functioning of the economy as a whole".

According to Boulding, "Macro economics deals not with individual quantities as such, but with aggregates of these quantities, not with individual income but with national income, not with individual output but with national output".

Prof. Ackley defines Macro Economics as "Macro Economics deals with economic affairs 'in the large, it concerns the overall dimensions of economic life. It looks at the total size and shape and functioning of the elephant of economic experience, rather than working of articulation or dimensions of the individual parts. It studies the character of the forest, independently of the tress which compose it."

Scope of Macro economics

The scope of macro economics has been explained as under:-

1. Theory of National Income:-Macro economics studies the concept of national income, its different elements, methods of its measurement and social accounting.

2. Theory of Employment:-It studies the problems of employment and unemployment. There are different factors which determine employment. They are like effective demand, aggregate demand, aggregate supply, total consumption, total savings and total investment etc.

3. Marco Theory of distribution:-There are macro-economic theories of distribution. These theories try to explain how the national output is distributed among the factors of production.

4. Economic development:-.Economic development is a long run process. In it, we analyze the problems and theories of development.

5. Theory of International Trade:-It also studies principles determining trade among different countries. Tariff's protection and free-trade polices fall under foreign trade.

6. Theory of Money: - Changes in demand and supply of money effect level of employment. Therefore, under macro economics functions of money and theories relating to money are studied.

7. Theory of Business Fluctuations:-It also deals with the fluctuations in the level of employment, total expenditure, and general price level.

8. Theory of General Price Level:-A continuous rise in the price level is called inflation. It distorts production. It increases inequalities in the distribution of income and wealth. The common man is injured by inflation. Deflation is the opposite of inflation. The general price level falls continuously. Output and employment levels fall. Macro economics provides explanation provides explanation for the occurrence of inflation and deflation.

Answer to the Question Number 2.

Difference between Micro economics and Macro economics

S.No	Micro economics	Macro economics
1.	Micro economics studies individual economic units	Macro economics studies a nation’s economy, as well as its various aggregates.
2.	Micro economics primarily deals with individual income, output, price of goods, etc.	Macro economics is the study of aggregates such as national output, income, as well as general price levels.
3.	Micro economics focuses on overcoming issues concerning the allocation of resources and price discrimination.	Macro economics focuses on upholding issues like employment and national household income.
4.	Micro economics accounts for factors like the demand and supply of a particular commodity.	Macro economics account for the aggregate demand and supply of a nation’s economy.
5.	Micro economics offers a picture of the goods and services that are required for an efficient economy. It also shows the goods and services that might grow in demand in the future.	Macro economics helps ensure optimum utilization of the resources available to a country.
6.	Micro economics helps to point out how equilibrium can be achieved at a small scale.	Macro economics help determine the equilibrium levels of employment and income of the nation.
7.	Micro economics also focuses on issues arising due to price variation and income levels.	The primary component of macro-economic problems is income.

Answer to Question Number 4.

Saving-Investment Equality:

There is a serious omission in Say's Law. If the recipients of income in this simple model save a portion of their income, consumption expenditure will fall short of total output and supply would no longer create its own demand. Consequently there would be unsold goods, falling prices, reduction of production, unemployment and falling incomes. However, the classical economists ruled out this possibility because they believed that whatever is saved by households will be invested by firms. That is, investment would occur to fill any consumption gap caused by savings leakage. Thus, Say's Law will hold and the level of national income and employment will remain unaffected.

Wage Flexibility:

The classical economists also believed that a decline in product demand would lead to a fall in the demand for labor resulting in unemployment. However, the wage rate would also fall and competition among unemployed workers would force them to accept lower wages rather than remain unemployed. The process will continue until the wage rate falls enough to clear the labor market. So a new lower equilibrium wage rate will be established. Thus, involuntary unemployment was logical impossibility in the classical model.

<u>Answer to the Question Number 5.</u>

Theory of Effective Demand:

According to Keynes, the level of employment in the short run depends on aggregate effective demand for goods in the country. Greater the aggregate effective demand, the greater will be the volume of employment and vice versa. According to Keynes, the unemployment is the result of deficiency of effective demand. Effective demand represents the total money spent on consumption and investment.

The equation is: Effective demand = National Income (Y) = National Output (O)

The deficiency of effective demand is due to the gap between income and consumption. The gap can be filled up by increasing investment and hence effective demand, in order to maintain employment at a high level. According to Keynes, the level of employment in effective demand depends on two factors:

(a) Aggregate supply function, and

(b) Aggregate demand function.

<u>(a) Aggregate supply function:</u>

According to Dillard, the minimum price or proceeds which will induce employment on a given scale, is called the 'aggregate supply price' of that amount of employment. If the output does not fetch sufficient price so as to cover the cost, the entrepreneurs will employ less number of workers. Therefore, different numbers of workers will be employed at different supply prices. Thus, the aggregate supply price is a schedule of the minimum amount of proceeds required to induce varying quantities of employment. We can have a corresponding aggregate supply price curve or aggregate supply function, which slopes upward to right.

<u>(b) Aggregate demand function:</u>

The essence of aggregate demand function is that the greater the number of workers employed, the larger the output. That is, the aggregate demand price increases as the amount of employment increases, and vice versa. The aggregate demand is different from the demand for a product. The aggregate demand price represents the expected receipts when a given volume of employment is offered to workers. The aggregate demand curve or aggregate demand function represents a schedule of the proceeds of the output produced by different methods of employment.

Answer to the Question Number 6.

Income Method

This method is also known as factor cost method. Under this method, national income is obtained by adding the incomes such as rent, wages, interest and profit received by all persons in the country during a year. In practice, the income figures are obtainable mostly from income tax returns, books of accounts and published accounts. To this, net income from foreign trade and net investment from abroad should be added.

The income method of calculating national income takes into account the income generated from the basic factors of production. These include the land, labor, capital, and organization. And in addition to income accrued from these factors of production, another important component of income is mixed income. Now let’s discuss all these components in detail.

According to income method, the net income payments received by all citizens of a country in a particular year are added up. The net incomes earned by the factors of production in the form of rent, wage, interest and profit aggregated but incomes in the form of transfer payments are not included in the national income.

NDPFC= Compensation of Employees + Operating Surplus + Mixed Income

Components of Income Method

Compensation of Employees:

Compensation includes salaries and wages that you earn in exchange for the services and skills that you provide for producing goods and services. It also includes travel allowances, bonuses, accommodation allowances, and medical reimbursements.

In addition to wages and salaries, another important component of compensation is remuneration in the form of social security schemes such as insurance, pensions, provident funds.

Operating Surplus: It includes rent and royalty, interest, profit (dividend +corporation tax+ undistributed profits).

Interest refers to the charges you pay for using borrowed capital. Now, this includes the interest paid when a company takes a loan for an investment. Similarly, when a family invests in a property or a house, they take a loan from a bank and pay an interest for the same while repaying the loan over a period of time. However, while calculating national income, economists consider only the interest paid by production units.

Profits by Organizations

Profits refer to the money that organizations make while producing goods and services. Now companies distribute the profits they make by paying income tax to the government and dividends to shareholders. And the amount that is left over after paying tax and dividends is called undistributed profit.

Mixed Income: It is the income of the self employed persons such as farmers, shopkeepers, doctors etc. They generate goods and services with the help of their own land, capital and labour and thus earn mixed income in the form of interest, profit rent and wages. This income is included in national income.

In India, this method is used for adding up the net income arising from trade, transport, public administration, professional and domestic services. Due to lack of popularity of personal accounting practices, this method cannot be fully used or practiced. This method is used only for some minor sectors. None of these methods alone will give a more correct figure.

Mixed income refers to the income of the self-employed individuals, farming units, and sole proprietorships. Now, if you consider all these components of income, national income can be represented as follows:

National Income = Rent + Compensation + Interest + Profit + Mixed income

Following are the main steps involved in estimating national income by income method:

- Identify enterprises which employ factors of production (land, labour, capital and enterprise).

- Classify factor payments into various categories like rent, wages, interest, profit and mixed income (or classify factor payments into compensation of employees, mixed income and operating surplus).

- Estimate amount of factor payments made by each enterprise.

- Sum up all factor payments made within domestic territory to get Domestic Income (NDP at FC).

- Estimate net factor income from abroad which is added to Domestic Income to derive National Income.

- Only factor incomes which are earned by rendering productive services are included. All types of transfer income like old-age pension, unemployment allowance, etc. are excluded.

- Sale and purchase of second-hand goods are excluded since they are not part of production of current year but commission paid on sale of second-hand goods is included as it is reward for rendering productive services. Likewise, sale proceeds of shares and bonds are not included.

- Imputed rent of owner occupied dwellings and value of production for self-consumption is included but value of self-consumed services like those of housewife is not Included.

- Income from illegal activities like smuggling, black-marketing, etc. as well as windfall gains (e.g., from lotteries) are excluded.