COMMERCE

GRADE XII – Mumbai Board

A.Y. 2020-21

ECONOMICS

SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J)

1 Introduction to Micro Economics and Macro Economics

Important points to learn:

1) Introduction of Micro Economics and Macro Economics
2) Historical review of Micro Economics and Macro Economics (Key contributions)
3) Meaning of Micro Economics with atleast one definition
4) Scope of Micro Economics
5) Features of Micro Economics (min 5 points)
6) Importance of Micro Economics (min 5 points)
7) Meaning of Macro Economics with atleast one definition
8) Scope of Macro Economics
9) Features of Macro Economics (min. 5 points)
10) Importance of Macro Economics (min. 5 points)
11) Micro Economics vs. Macro Economics (min. 5 points)

SRK/MBBI - Junior College of Commerce, Dahanu (P$_J$); SRK/MBBI - Junior College of Commerce, Dahanu (P$_J$); SRK/MBBI - Junior College of Commerce, Dahanu (P$_J$)

Please Note:
These notes are general guidelines only for reference, for the students of SRK/MBBI Junior College, Dahanu. ***For detailed notes, students should refer only the prescribed textbook of the Maharashtra State Bureau of Textbook Production and Curriculum Research.*** *This study material is for learning purpose during lockdown.*

1 Introduction to Micro Economics and Macro Economics

Introduction – ‘Economics’

The term ‘economics’ is derived from the Greek word, ‘Oikonomia’ which means management of the household. It is generally referred as the science of ‘household management’.

Economics is a social science, because it is related to the study of human behaviour. Human behaviour cannot be studied in the laboratory. Hence, laws of social sciences are not universal but are only statements of general human tendencies.

SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J)

Note:
Since Economics deals with human behaviour or human reaction to the prevailing situations and changes as per the situation, the study of economics follows certain Assumptions and Exceptions.

- ***Assumptions*** *refer to a thing that is accepted as true or as certain to happen, without proof.*
- ***Exceptions*** *refer to a person or thing that is excluded from a general statement or does not follow a rule.*

1 Introduction to Micro Economics and Macro Economics

Introduction – 'Micro Economics and Macro Economics'

Micro Economics and Macro Economics are the two main branches of modern economics. **These terms were coined by Economist Ragner Frisch in 1933.**

- The term 'micro' is derived from the Greek word, 'Mikros' which means small.

Micro economics deals with the behaviour of the **individual** variables such as Individual household, Individual worker, Individual firm, Individual industry, etc.

- The term 'macro' is derived from the Greek word, 'Makros' which means large.

Macro economics deals with the study of the entire economy (**aggregate**) such as Total investment, Total savings, Aggregate supply, Aggregate demand, etc.

MICRO = Individual variables

SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ)

MACRO = Aggregate economy

1 Introduction to Micro Economics and Macro Economics

Historical Review

Micro Economics:

- Micro Economics was developed first.
- It is a traditional approach.
- Its origin can be traced back to the era of Classical Economists like Adam Smith.
- It was popularized by Neo-Classical Economists, Prof. Alfred Marshall, *in his book, 'Principles of Economics', published in 1890.*
- Micro Economics ruled the world of economics until the **Great Depression** (1930s.)

Macro Economics:

- Post the period of Great Depression, Lord John Keynes published his book, *'General Theory of Employment, Interest and Money', in 1936.*
- Lord Keynes used macro economic approach to study economic problems.
- The credit for the development of Macro Economic approach goes to Keynes.

SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J)

*The **Great Depression** was a severe worldwide economic depression that took place mostly during the 1930s, beginning in the United States.*

Micro Economics – Meaning and Definition

Meaning:

- The term 'micro' is derived from the Greek word, 'Mikros' which means small.
- Micro economics deals with the actions and behaviour of the **individual** economic variables (or individual units) such as a particular household, a particular firm, a worker, an industry, etc.
- It studies a small part of the national economy.

In other words, **Microeconomics** is the study of individualistic economic behaviour at the time of making economic decisions.

SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ)

Definition:

According to Maurice Dobb, "Micro Economics is in fact a microscopic study of the economy".

1 Introduction to Micro Economics and Macro Economics

Micro Economics – Scope

The scope or the subject matter of microeconomics is concerned with **three** theories:

- **Theory of Product Pricing**

This theory states that the price for an individual commodity is based on the market forces of demand and supply. Micro Economics is concerned with demand analysis i.e. individual consumer behaviour and supply analysis i.e. individual producer behaviour.

SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J)

- **Theory of Factor Pricing**

In economics, Land, Labour, Capital and Entrepreneur are the factors that contribute to the production process. Micro Economics helps in determining the factor rewards in the form of Rent, Wages/salaries, Interest and Profit respectively.

- **Theory of Economic Welfare**

This theory deals with efficiency in the allocation of resources, that is achieved when it results in maximization of satisfaction of the people. It involves: efficiency in production, efficiency in consumption and overall economic efficiency.

1 Introduction to Micro Economics and Macro Economics

Micro Economics – Features and Importance

Features:

1) Study of Individual Units
2) Price Theory
3) Partial Equilibrium
4) Based on Assumptions
5) Slicing Method
6) Limited Scope

SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ)

Importance:

1) Helps in **Price Determination** of different products and factors of production.
2) Understanding the working of a **Free Market Economy**.
3) Explains various aspects of **Foreign Trade**.
4) Helps in understanding complex economic situations with the help of **Economic Models**.
5) Helpful to Businessmen for taking crucial **Business Decisions**.
6) Useful to the **Government** for framing various Economic Policies.
7) Basis of **Welfare Economics** i.e. explains how Best Results can be obtained through Optimum Utilization of Resources and their Best Allocation.

1 Introduction to Micro Economics and Macro Economics

<u>Macro Economics – Meaning and Definition</u>

Meaning:

- The term 'macro' is derived from the Greek word, 'Makros' which means large.
- Macro economics deals with the <u>study of the entire economy (**aggregate**)</u> such as total employment, total investment, total savings, aggregate supply, aggregate demand, etc.
- It studies the entire economy of a country.

In other words, **Macroeconomics** studies the behaviour and performance of the economy as a whole. It focuses on the aggregate changes in the economy such as unemployment, growth rate, gross domestic product and inflation.

SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ)

Definition:

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

Macro Economics – Scope

The scope or the subject matter of macroeconomics is concerned with **four** theories:

- **Theory of Income and Employment**

This theory explains which factors determine the level of national income and employment and causes of fluctuations in income, output and employment.

- **Theory of General Price Level and Inflation**

This theory shows how the general price level is determined and further explains the causes of fluctuations in it.

- **Theory of Growth and Development**

This theory explains the causes of underdevelopment and poverty. It also suggests strategies for accelerating growth and development.

SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J)

- **Macro Theory of Distribution**

It studies the relative share of rent, wages, interest and profit in total national income.

1 Introduction to Micro Economics and Macro Economics

Macro Economics – Features and Importance

Features:

1) Study of Aggregates
2) Income Theory
3) General Equilibrium Analysis
4) Interdependence
5) Lumping Method
6) Policy Oriented

SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ); SRK/MBBI - Junior College of Commerce, Dahanu (PJ)

Importance:

1) Helps in understanding the **Functioning of an Economic System**.
2) Helps to analyse the causes of **Economic Fluctuations** in income, output and employment.
3) Brought forward the importance of the study of **National Income**.
4) It suggests important steps to achieve **Economic Development**.
5) Helps to analyse the **Performance of an Economy** over a period of time.
6) Helps to understand the working of an economy by **Study of Macro Economic Variables**.
7) Helps to analyse the general **Level of Employment** and output in the economy.

1 Introduction to Micro Economics and Macro Economics

Micro Economics vs. Macro Economics

MICRO ECONOMICS	MACRO ECONOMICS
• **Meaning** Micro economics deals with the actions and behaviour of the individual economic variables	Macro economics deals with the study of the entire economy of a country
• **Origin** The term ‘micro’ is derived from the Greek word, ‘Mikros’ which means small	The term ‘macro’ is derived from the Greek word, ‘Makros’ which means large
• **Theory** It uses Price theory	It uses Income and Employment theory
• **Method** It uses Slicing method	It uses Lumping method
• **Examples** Individual income, Individual Output, etc.	National income, National Output, etc.

 SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J)

1 Introduction to Micro Economics and Macro Economics

Short Note: <u>MICRO ECONOMICS</u> (Specimen Answer) **(08 Marks)**

Economics is a social science, because it is related to the study of human behaviour. Micro Economics is one of the branches of modern economics.

The term 'micro' is derived from the Greek word, 'Mikros' which means small. Micro economics deals with the <u>behaviour of the **individual** variables</u> such as Individual household, Individual worker, Individual firm, Individual industry, etc. It studies a small part of the national economy.

The concept of Micro Economics was coined by Ragner Frisch. Micro Economics uses traditional approach. It was popularized by Prof. Alfred Marshall, *in his book, 'Principles of Economics'.*

Some of the features of Micro Economics are:

1) It is a study of the behaviour of the Individual Economic Units
2) It is also known as Price Theory
3) It deals with Partial Equilibrium
4) It is based on Assumptions
5) It uses Slicing Method
6) Its Scope is limited to only individual units, etc.

...continued on next page...

...continued from previous page...

The subject matter of microeconomics is concerned with three theories:

1) **Theory of Product Pricing**
   This theory states that the price for an individual commodity is based on the market forces of demand and supply.
2) **Theory of Factor Pricing**
   Micro Economics helps in determining the factor rewards in the form of Rent (for Land), Wages/Salaries (for Labour), Interest (for Capital) and Profit (for Entrepreneurial Risk).
3) **Theory of Economic Welfare**
   This theory deals with efficiency in the allocation of resources, that is achieved when it results in maximization of satisfaction of the people.

Importance of Micro Economics:

1) Helps in Price Determination of different products and factors of production.
2) Explains various aspects of Foreign Trade.
3) Helps in understanding complex economic situations with the help of Economic Models.
4) Helpful to Businessmen for taking crucial Business Decisions.
5) Useful to the Government for framing various Economic Policies, etc.

SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J)

1 Introduction to Micro Economics and Macro Economics

Short Note: <u>MACRO ECONOMICS</u> (Specimen Answer) (08 Marks)

Economics is a social science, because it is related to the study of human behaviour. Macro Economics is one of the branches of modern economics.

Macro economics deals with the <u>study of the entire economy (**aggregate**)</u> such as Total employment, Total investment, Total savings, Aggregate supply, Aggregate demand, etc. It studies the entire economy of a country.

The concept of Macro Economics was coined by Ragner Frisch. The credit for the development of Macro Economic approach goes to Keynes.

Some of the features of Macro Economics are:

1) It deals with the study of the economy as a whole
2) It is also known as Income Theory
3) It deals with General Equilibrium
4) It takes into account the Interdependence between aggregate economic variables
5) It uses Lumping Method
6) It is a Policy Oriented science, etc.

...continued on next page...

...continued from previous page...

The subject matter of macroeconomics is concerned with four theories:

1) **Theory of Income and Employment**
   This theory explains which factors determine the level of national income and employment and causes of fluctuations in income, output and employment.
2) **Theory of General Price Level and Inflation**
   This theory shows how the general price level is determined and further explains the causes of fluctuations in it.
3) **Theory of Growth and Development**
   This theory explains the causes of underdevelopment and poverty. It also suggests strategies for accelerating growth and development.
4) **Macro Theory of Distribution**
   It studies the relative share of rent, wages, interest and profit in total national income..

Importance of Macro Economics:

1) Helps in understanding the Functioning of an Economic System
2) It suggests important steps to achieve Economic Development
3) Helps to analyse the Performance of an Economy over a period of time
4) Helps to analyse the General Level of Employment and output in the economy.

SRK/MBBI - Junior College of Commerce, Dahanu (P$_J$); SRK/MBBI - Junior College of Commerce, Dahanu (P$_J$); SRK/MBBI - Junior College of Commerce, Dahanu (P$_J$)

********* End of Chapter 1 *********

This Page Has Been Intentionally Left Blank

SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J); SRK/MBBI - Junior College of Commerce, Dahanu (P_J)