



SYLLABUS

B.Com I YEAR (Hons.)

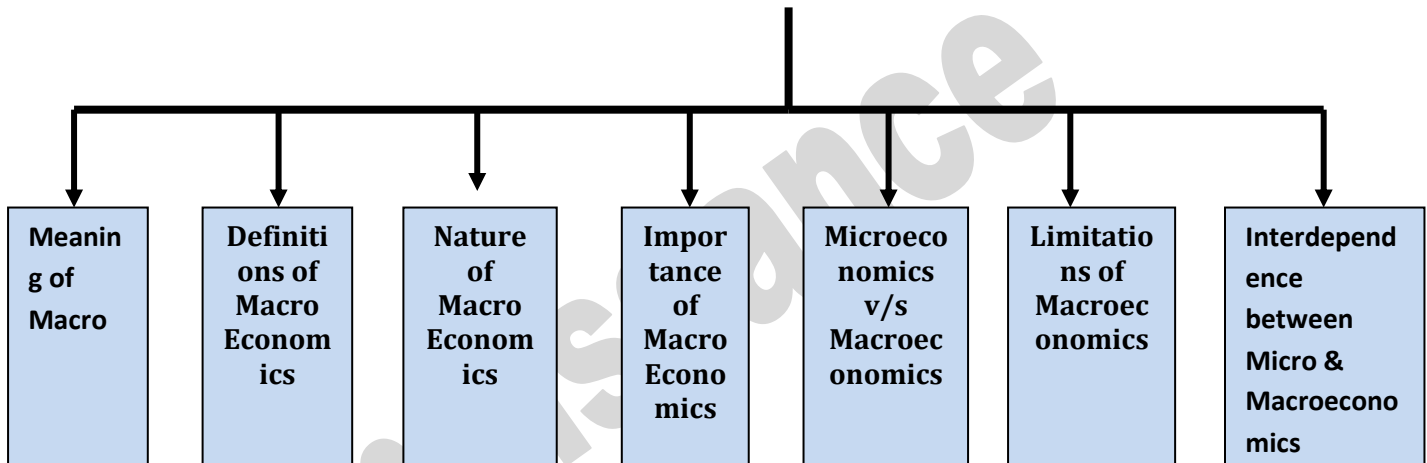
Subject - MACRO ECONOMICS

UNIT - I	Macro economics - concept, nature, importance, limitations, difference between micro and macro economics, significance.
UNIT - II	National Income - Meaning, definition, concept, Methods for measuring national income in India and its problem, GDP, GNP and factor cost.
UNIT - III	Theories of wages, Interest and employment.
UNIT - IV	Monetary Theories - Quantity theory of Money, Modern theory of Money, Keynes's Theory of Money and Price.
UNIT - V	Recent industrial Policy, Industrial Growth in Phase-II and III Disinvestments, Foreign Direct Investment, Regulating Bodies, Finance Commissions NITI Ayog, Roles and Responsibilities.



UNIT-I

OVERVIEW OF UNIT 1



Macro

The term macro in English has its origin in the Greek term “macros” which means large. In the context of ‘Macroeconomics’ means economics of the large like economy as a whole. Macro economics deals primarily with the analysis of the relationship between broad economic aggregates like national income, level of total employment, aggregate consumption, total investment, general price level, balance of payment, the quantity of money etc. Macroeconomics is also known as the theory of income & employment as it is concerned with the problems of on employment, economic fluctuation, inflation or deflation international trade and economic growth.

Definitions of Macro Economics

- 1) **According to culberton’s-**“Macro Economics is the theory of income, employment, price and money.”
- 2) **Accordingly to K.E. Boulding** –“Macro economics deals not with individuals quantities as such but with aggregate income, but with national income, not with individuals price but with price levels, not with individuals output but with national output.”
- 3) **According to Edward Shapiro** – “Macro economics attempts to answer the truly ‘big’ question of economic life – full employment or unemployment, capacity or under capacity production.”

Nature of Macro Economics

- 1) Macro economics studies the concept of national income and its different elements and the method of measurement.
- 2) It studies problems relating to employment and unemployment. It studies different factors determining the level of employment.
- 3) Determination of general price level is also studied under macro economics. Problems relating to inflation and deflation are an important component of macro economics.
- 4) Change in demand and supply of money have an important impact on the level of employment. Macroeconomics studies function of money & theories relating to it.



- 5) Problems relating to economic growth is another important component of macro economics like plans for overall increase in national income, output, employment are framed so the economic development of economy as a whole.
- 6) It also studies issues relating to international trade, export, import exchange rate and balance of payments are the principal issue in this context.

Importance of Macro Economics

- 1) Macro economics is helpful for getting us an idea of the functioning of an economic system. It is very essential for a proper and adequate knowledge of behavior pattern of the aggregative variable, as the description of a large and complex economic system.
- 2) It says about the study of national income and social accounts. It is the study of national income which enables us to know that three fourth of the world is living in object poverty without proper national difficult to formulate proper economic policies.
- 3) Macroeconomic approaches are of almost importance to analyze and understand the effect of inflation and deflation different sections of society are affected differently as a result of charges in the value of money.
- 4) Economic fluctuation is a characteristics features of the capitalist form of economy. The economic booms and depression in the level of income and employment follow one another in cyclical fashion.
- 5) The study of macro economics is essential for the proper understanding of Micro economics. No micro economics law could be framed without a prior study of the aggregate.

Limitations of Macroeconomics

Following are the main limitations of macro economics:-

1. **Excessive Thinking**:-Macro economics suffers from the limitations that it always excessively thinks in the terms of aggregates and presumes circumstances to be normal and homogeneous but aggregates may result into heterogeneous character. As Prof. Boulding points:

(a) Six apples+Seven apples=Thirteen apples which constitutes a meaningful aggregate.

(b) Six apples+Seven oranges=Thirteen fruits, which constitutes a fairly meaningful aggregates.

(c) Six apples+Seven shoes constitutes a meaningless aggregates.

2. **Difference in individual items**:-Sometimes while aggregating the variables, the basic characteristics of the data or the variables is left untouched because there are important differences in the items. Sometimes, the features of individual components may not be true to the aggregate so macro suffers from the danger of excessive generalization.

3. **Unable to influence society equally**:-An aggregative tendency may not influence the entire sectors of the economy in the same way. For example, a general rise in price as inflation may not similar effects on different sectors of the economy.

4. **Contradictory**:-In aggregates, sometime the contradictory individual aspects are neutralized as in case of the estimation, prices in agriculture fall, of industrial products rise which have different affects on individual factors but as an aggregate, there may not be any effect at all. Thus, macro aggregate results may be misleading.

5. **Role of less aggregative analysis**:-Aggregates itself suffer from certain serious problems due to



statistical techniques. The recently introduced computational procedures and programming techniques have reduced the role of aggregative analysis.

Microeconomics V/s Macroeconomics

S.No.	Points	Microeconomics	Macroeconomics
1	Study	It studies individual unit	It studies aggregate or group of individual units.
2	Assumption	At micro level full employment is assumed which is never found in an economy. Hence this is an unreal assumption	At macro level, full employment is not assumed. Instead equilibrium employment is assumed which is a real assumption.
3	Subject Matter	We study demand supply, consumer behavior production, types of market, theory of cost & revenue etc.	We study national income, theory of wage, interest & employment, Theory of money, theory of international trade etc.
4	Applicability	It is useful in analysis of an individual unit like cost of an individual good, demand of a single good, price of a single good.	It is useful in analysis of aggregate units such as aggregate demand, aggregate prices or inflation-deflation, aggregate or national income etc.
5	Usefulness to Govt.	It is less useful to Govt. in formulating economic policies.	It is more useful to Govt. in formulating economic policies.

INTERDEPENDENCE BETWEEN MICRO AND MACRO ECONOMICS

Micro and macro economics are the two sides of the same coin. There is close interdependence between the two. We cannot analyse the individual behaviour without the assuming to aggregate and likewise aggregate cannot be effective unless individual variables are kept under consideration.

Micro economics contributes towards macro economics in a number of ways as:-

1. Study of economic fluctuations:-Business cycles which are universal in every sector, are influenced by both individuals and aggregate factors. Unless we review both micro and aggregate variables, we cannot provide an appropriate solution to business cycles. Therefore to study trade cycles micro and macro economics contribute significantly.

2. Basis of economic laws:-Micro economics acts as a basis macro economics because macro is an aggregate of individual units. The success and accuracy of aggregates depends on the individual units. Similarly, macro theories are used by micro economists.



3. **Role in international trade**:-In international trade both the approaches are used. Economists have developed their theories on the basis of micro economics presuming full employment of resources and mobility of factors of production. However, modern economists looked on the economy as a whole and recognized the role of aggregates. So general equilibrium is nothing but an extension of equilibrium of micro economics.

4. **Balance of payments and interdependence**:-Balance of payments problem is also a burning problem for economy. An individual sector may have favorable balance of payments whereas other sectors, unfavourable balance of payments. On the other hand, the overall position of an economy is to be assessed from aggregate position of all sectors.

5. **Theory of tariffs**:-Many economists have propounded that modern macro approaches of imposing tariffs with the intention of correcting balance of payments position is virtually based on the theory of monopoly. So micro economics has influenced the modern macro economics theory.



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