Introduction to Macro Economics-Class 12 Notes

Macro Economics is one of the two main branches of Economics, the other being the Micro Economics. In Class 12 for CBSE Board, Macro Economics is one of the books along with Indian Economic Development. Here we are providing students high quality notes on Chapter-1 regarding introduction to Macro Economics. Hope you all will like it. Thank You.

Origin of Macro and Micro Economics

The word Macro originated from the Greek word 'Makros' which means Large. Micro word is also derived from Greek word 'Mikros' which means small. So, Macro Economics deals with economic problems/issue at larger level (at the level of whole economy) in comparison to Micro Economics' small level (at the level of an individual).

Adam Smith-Father of Modern Economics

The Modern Economics was greatly developed after the publication of Adam Smith's book 'An enquiry into the wealth of nations', popularly called just 'Wealth of Nations' in 1776. Due to his immense contribution in initial development of modern economics, Adam Smith is called '**Father of Modern Economics**'.

J M Keynes- Father of Macro Economics

Macro Economics developed as a separate branch of economics after British Economist John Maynard Keynes published his famous book 'The General Theory of Employment, Interest and Money' in 1936. However, need for studying macroeconomics had already been felt due to market failure during the Great Depression of 1929. Norwegian Economics Ragnar Frisch is credited divide the study of economics into Micro Economics and Macro Economics.

Definition

Macro Economics can be defined as a branch of economics which studies economic issues or problems at the level of an economy as a whole.

Difference between Micro Economics and Macro Economics

Both are the two branches of study of economics. They are quite interrelated with each other. However, there are some differences because of which we

cbsestudent.com

need to study them as separate branches of economics. The main differences are explained as below:

Scope and Focus

Micro Economics studies the human behaviour in relation use of scarce resources of alternate uses at individual level like that of an individual person, a good, a firm or an industry. In contrast to this, Macro Economics studies the human behaviour in relation use of scarce resources of alternate uses at the level of an economy as a whole like aggregate demand, aggregate supply etc.

Economic Variables

Main economic variables for study of Micro Economics are-consumer's demand and producer's supply etc. In comparison to this, Macro demand has variables like aggregate demand and aggregate supply.

Degree of Aggregation

Micro Economics, though studies economies has individual level, it also has some degree of aggregation like market demand of a good, study of economic activity of an industry (aggregation of firms producing same good & services). Macro Economics studies all the variable at aggregate level. So, it has more degree of aggregation than micro economics.

Decision-Making Agents

In Micro Economics, economic decisions are taken by individual economic agents like a firm, a producer, a consumer etc. while in Macro Economics, decision are taken by institutional economic agents like the government, central bank etc.

Analytical Methods

Micro economics follows the method of 'Partial Equilibrium Analysis' whereas Macro Economics follows the method of 'General Equilibrium Analysis' for study.

Variables Considered Constant

In study of Micro Economics, some of the variables of Macro Economics are considered constant. While in study of Macro Economics, some of the variables of Micro Economics are considered constant.

cbsestudent.com

Central Problems

Central problem of Micro Economics is ‘Allocation of Resources’ whereas for Macro Economics, it is ‘Determination of Production and Employment’ at the level of an economy.

Paradox of Thrift

Paradox of thrift is a theory in economics according to which personal savings are bad for overall economic growth. This theory was popularized by J M Keynes. This theory states that personal savings can be both boon and bane. At the individual level, it is a boon for a person as it can financially secure his future. However, at the level of whole economy, personal savings are considered as a bane as they work as leakages in the circular flow of economy and reduce overall spending in the economy. Reduction in spending can be detrimental to growth of economy as it may discourage producers to produce more due to less aggregate demand in the economy.

However, it may be noted that economies may also be benefited from savings if they are used for creation of capital goods. Capital goods

Great Depression of 1929

Developed economies of Europe and America faced economic depression in 1929, called The Great Depression. The situation of this acute economic recession was result of over production by producers. They believed in classic theory of ‘Supply creates its own Demand’ and produced in huge quantity. However, this theory was proved wrong in 1929 when producers accumulated huge unsold stock and the prices crashed. Crashing of prices discouraged production and soon economy was trapped in low equilibrium trap. The situation became worsened and economies of developed countries, starting from United States of America to European countries, faced the Great Depression. During this period, output plunged to lowest. GDP of USA fell by 33% during 1929-33 while unemployment rose to 25%.

****

cbsestudent.com