

CUET · ECONOMICS · CLASS XII · CODE 309

Introduction

CUET unit: Introductory Macroeconomics — Unit on National Income & Related Aggregates (foundational concepts, sectors of economy, capitalist framework)

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Snapshot

- Macroeconomics differs from microeconomics by focusing on aggregate variables — total output, general price level, aggregate employment — rather than individual buyers and sellers.
- Macroeconomics was born with J.M. Keynes' **General Theory** (1936), written in response to the Great Depression of 1929 that classical economics could not explain.
- A capitalist economy has four features: private ownership of means of production, production for the market, wage labour, and accumulation of capital.
- Macroeconomics studies four sectors — households, firms, government and the external sector — and the variables linking them.
- Frequently tested on CUET because it loads every key term (entrepreneur, profit, revenue, unemployment rate, investment expenditure, exports/imports) that later chapters use.

Detailed Notes

2.1 Core concepts

- Macroeconomics studies the economy as a whole, focusing on aggregate output, the general price level, and aggregate employment — variables that tend to move together across production units (NCERT Ch. 1 opening, p. 1).
- Because output, prices, and employment of different goods tend to rise and fall together, macroeconomics can usefully replace many real commodities with a single "representative" or imaginary commodity whose level mirrors the economy's average (NCERT §intro, p. 2).
- When variables change fast — as in inflation (general rise in prices) or depression (falling output and employment) — the direction of movement for individual commodities matches that of the aggregates (NCERT §intro, p. 2).
- For some purposes the economy is broken into sectors (agriculture vs industry; household, business, government) because interdependence and rivalry between sectors reveal more than the aggregate view alone (NCERT §intro, p. 2).

- A useful disaggregation uses three representative commodity groups — agricultural goods, industrial goods, and services — each with its own production technology and price (NCERT §intro, p. 2).
- In microeconomics the players are individual "economic agents" — consumers maximising satisfaction and producers maximising profit; macro variables like inflation and unemployment were taken as given (NCERT §intro, p. 3).
- Economic agents are individuals or institutions (consumers, producers, government, corporations, banks) who take economic decisions (NCERT box "Economic Agents", p. 3).
- Microeconomics' closest brush with macro was the idea of General Equilibrium — simultaneous equilibrium of demand and supply in every market (NCERT §intro, p. 3).
- Adam Smith argued that self-interested decisions in each market remove the need to study the country's welfare separately, but economists later found this insufficient: markets sometimes do not exist, sometimes fail to equilibrate, and society pursues social goals (employment, defence, education, health) that need correction of microeconomic outcomes (NCERT §intro, pp. 3–4).
- Macroeconomic decision-makers are the State and statutory bodies like the RBI and SEBI, whose goals are public (defined by law or the Constitution) rather than private profit (NCERT §intro, p. 4).

§ 1.1 Emergence of Macroeconomics

- Macroeconomics emerged as a separate branch after J.M. Keynes' **The General Theory of Employment, Interest and Money** (1936) (NCERT §1.1, p. 5).
- The pre-Keynesian "classical tradition" held that every willing labourer would find work and every factory would run at full capacity (NCERT §1.1, p. 5).
- The Great Depression (1929 onwards) contradicted this: in the USA, unemployment rose from 3% to 25% between 1929 and 1933, and aggregate output fell by about 33% over the same period (NCERT §1.1, p. 5).
- The unemployment rate is defined as the number of people not working and looking for jobs divided by the total number of people working or looking for jobs (NCERT §1.1, p. 5).
- Keynes' approach differed from his predecessors' by examining the working of the economy in its entirety and studying interdependence between sectors (NCERT §1.1, p. 5).

§ 1.2 Context of the Present Book

- The book studies a capitalist country: production is mainly carried out by capitalist enterprises run by entrepreneurs who control decisions and bear risk (NCERT §1.2, p. 6).
- Three factors of production are used — capital, land, and labour; the entrepreneur sells the output in the market and earns revenue (NCERT §1.2, p. 6).

- Revenue is distributed as rent (to land), interest (to capital), wages (to labour), and the residual is profit (the entrepreneur's earning) (NCERT §1.2, p. 6).
- Profits used to buy new machinery or build new factories are examples of investment expenditure (NCERT §1.2, p. 6).
- A capitalist economy has four characteristics: (a) private ownership of means of production, (b) production for the market, (c) wage labour bought and sold at a wage rate, (d) significant accumulation of capital stock over time (NCERT §1.2, pp. 6–7).
- In tribal societies and many underdeveloped peasant economies these criteria do not hold — land is communally owned, family labour is unpaid, and output is largely self-consumed (NCERT §1.2, p. 7).
- The State (called "Government" in the book) frames laws, delivers justice, taxes, spends on infrastructure, schools, colleges, and health, and may itself undertake production (NCERT §1.2, p. 7).
- A household is a single individual or a group taking joint consumption decisions; households save, pay taxes, supply labour, earn wages/salaries/profits/rent/interest, and provide the demand on which firms depend (NCERT §1.2, p. 7).
- The fourth sector — the external sector — links the domestic economy to the rest of the world through (1) exports, (2) imports, and (3) inflows or outflows of capital (NCERT §1.2, p. 8).
- **Why aggregate analysis is needed:** an economy with millions of consumers, producers and commodities cannot be fully tracked at the individual level — aggregation reduces this complexity to a few measurable variables (output, prices, employment) that policymakers can target through fiscal and monetary instruments (NCERT §intro, p. 1).
- **Co-movement justification (deeper):** NCERT's representative-commodity device works because business-cycle expansions and contractions affect virtually every industry simultaneously — even if to differing degrees — making the "average" variable a faithful indicator of macro condition (NCERT §intro, p. 2).
- **Sectoral interdependence:** agriculture supplies raw materials to industry; industry supplies machinery to agriculture; services intermediate both. NCERT therefore allows a three-sector split when single-good simplification hides important inter-sector flows (NCERT §intro, p. 2).
- **Macroeconomics vs Microeconomics — three differences:** (i) **subject** — aggregates vs individuals; (ii) **method** — partial vs general equilibrium; (iii) **policy lever** — State + RBI + SEBI vs individual firm/consumer choices (NCERT §intro, pp. 2–4).
- **Pre-Keynesian classical view in full:** Say's Law — "supply creates its own demand" — implied that overproduction and mass unemployment were impossible; the Great Depression's massive output collapse refuted this in real time (NCERT §1.1, p. 5).

- **Keynes' core insight:** aggregate demand can fall short of full-employment output for prolonged periods; government must therefore step in with **fiscal stimulus** (deficit spending, public works) to lift demand — the intellectual foundation of post-1936 macro policy (NCERT §1.1, p. 5, contextual).
- **Indian capitalist evolution:** at independence India was largely a peasant economy with limited capitalism; the 1991 LPG reforms (covered in keec103) accelerated capitalist transformation by removing licences, privatising PSUs and opening the economy. This is why NCERT's chapter is relevant even for India's mixed economy (NCERT §1.2, pp. 6–7, contextual).
- **Capital accumulation example:** a textile factory's owner reinvesting ₹1 crore of profit in three new looms each year illustrates how surplus profit raises capital stock; over a decade the factory's productive capacity may triple — explaining how capitalist economies grow (NCERT §1.2, p. 6).
- **Wage labour vs family labour distinction:** in a peasant farm, the cultivator and family work without contract wages; in a capitalist enterprise, the worker signs an employment contract and receives a wage rate — the difference being the **commodification of labour** (NCERT §1.2, p. 7, contextual).

2.2 Definitions to memorise

Term	Definition	Page
Macroeconomics	Branch of economics that deals with aggregate economic variables and the interlinkages between sectors of an economy	8 (Summary)
Microeconomics	Study of individual markets and individual economic agents (buyers, sellers) maximising profit or welfare; rest of economy assumed unchanged	3, 8
Economic agents	Individuals or institutions (consumers, producers, government, corporations, banks) that take economic decisions	3 (box)
Inflation	A situation in which prices are going up (general rise in prices)	2
Depression	A situation in which employment and production levels are going down	2
General Equilibrium	Simultaneous equilibrium of demand and supply in each market in the economy	3
Unemployment rate	Number of people not working and looking for jobs divided by the total number of people working or looking for jobs	5
Great Depression	Period beginning 1929 in which output and employment in Europe and North America fell heavily; USA unemployment rose 3% to 25% and output fell ~33% (1929–33)	5

Term	Definition	Page
Capitalist economy	Economy where (a) means of production are privately owned, (b) production is for the market, (c) labour is sold/bought at a wage rate, (d) capital stock grows over time	6–7
Entrepreneur	Person who controls major decisions of a capitalist enterprise and bears a large part of its risk	6
Revenue	Money earned by selling output in the market	6
Profit	Residual earning of the entrepreneur after paying rent, interest, and wages	6
Investment expenditure	Expenses (e.g. on new machinery or new factories) that raise productive capacity	6
Wage labour	Labour that is sold and purchased against wages	6–7
Firm	Production unit organised on capitalist principles, run by an entrepreneur using hired wage labour, capital, and land	7
Government	Term used in the book to denote the State and its economic functions	7
Household	A single individual, or a group whose consumption decisions are jointly determined, that also saves and pays taxes	7
External sector	Fourth sector of the economy that interacts with the rest of the world through exports, imports, and capital flows	8
Exports	Goods the domestic country sells to the rest of the world	8
Imports	Goods the domestic country buys from the rest of the world	8

2.3 Diagrams / processes to remember

- **The "representative commodity" idea** (p. 2): macroeconomics replaces many real commodities with one imaginary good whose output, price, and employment level mirror economy-wide averages — students should be able to explain **why** this simplification works (co-movement of variables).
- **Three-good disaggregation** (p. 2): agricultural goods, industrial goods, and services — used when a single representative good hides important sectoral differences.
- **Revenue distribution flow** (p. 6): Revenue = Rent (land) + Interest (capital) + Wages (labour) + Profit (entrepreneur). Profit then funds investment expenditure.
- **Four-sector economy diagram** (pp. 7–8): Households ↔ Firms ↔ Government ↔ External Sector — be able to list each sector's role and the flows between them.
- **Great Depression statistics box** (p. 5): USA unemployment 3% → 25% (1929–33); aggregate output fell ~33%.

- **Adam Smith box** (p. 4) and **Keynes box** (p. 5): be able to name the books — *An Enquiry into the Nature and Cause of the Wealth of Nations* (1776) and *The General Theory of Employment, Interest and Money* (1936) — and their authors.

2.5 Key formulas / structural ratios

Formula / Indicator	Meaning	NCERT page
Unemployment rate = $(\text{Persons not working but seeking} \div \text{Labour force}) \times 100$	Share of labour force without jobs	5
Labour force = Workers + Persons actively seeking work	Denominator for unemployment rate	5
Revenue = Rent + Interest + Wages + Profit	Distribution of producer revenue	6
Profit = Revenue – (Rent + Interest + Wages)	Residual earning of the entrepreneur	6
Investment expenditure = Profits used for new capacity (machinery, factories)	Driver of capital accumulation	6
Four sectors of macroeconomy = Households + Firms + Government + External sector	Standard partitioning of an open economy	7–8
Three external flows = Exports + Imports + Capital inflow/outflow	Components of the external sector	8
Great Depression unemployment swing: 3% → 25% (USA, 1929–33)	Aggregate-output context for Keynes	5
Great Depression output fall \approx 33% (USA, 1929–33)	Output collapse triggering macroeconomics	5

2.4 Common confusions / NTA trap points

- **Microeconomics vs Macroeconomics scale of agents.** Even a large company is "micro" because it acts in the interest of its shareholders, not the country (p. 3). Don't equate "macro" with "big firm".
- **Adam Smith \neq founder of macroeconomics.** Smith is the founding father of modern economics/political economy (p. 4); Keynes is the founder of macroeconomics as a separate branch (p. 5).
- **Unemployment rate formula.** Denominator is people working **plus** those looking for jobs (the labour force), NOT the total population (p. 5). NTA loves to swap "total population" or "working-age population" as distractors.
- **Capitalism criteria are cumulative.** All four — private ownership, production for market, wage labour, and capital accumulation — must hold (pp. 6–7). A peasant farm fails on multiple criteria, not just one.

- **External sector has three flows, not two.** Exports, imports, AND capital inflows/ outflows (p. 8). A common trap is to list only exports and imports.
- **Inflation and depression** are macro phenomena that microeconomics took as given, not as variables (p. 3).
- **The State vs Firms as decision-makers.** Macro policy is made by the State and statutory bodies like RBI and SEBI (p. 4) — not by private firms.

Practice MCQs

PYQ Alignment

This introductory chapter is high-yield for CUET Economics: definitional MCQs on inflation, depression, unemployment rate, the four sectors of an economy, and the four features of a capitalist economy appear almost every year. CUET 2023–25 papers have repeatedly tested the Keynes–Great Depression link, the distinction between micro and macro decision-makers, and the components of revenue (rent, interest, wages, profit), making this chapter a near-guaranteed source of 8–12 marks.

CUET 2024 — Actual PYQs from this chapter

Q.6 (CUET 2024) Choose the correct statements: (A) Adam Smith is called Father of Modern Economics. (B) J.M. Keynes gave the Theory of Income, Output and Employment. (C) Four-sector model = $C + I + G + (X - M)$. (D) Store of value is primary function of money. Options:

- A) (A), (B) and (D) B) (A), (B) and (C) C) (A), (B), (C) and (D) D) (B), (C) and (D) **Tests:** History of economic thought - Smith, Keynes, four-sector model, functions of money
Answer: Not in extracted key

Q.7 (CUET 2024) Arrange the following chronologically (earliest → latest): (A) General Theory of Employment, Interest and Money (B) Mahalanobis became Fellow of Royal Society (C) Wealth of Nations by Adam Smith (D) Economic Consequences of the Peace
Options:

- A) C, D, A, B B) A, B, C, D C) A, C, B, D D) D, A, C, B **Tests:** Chronology of economic ideas - Smith, Keynes, Mahalanobis **Answer:** Not in extracted key