



Ready For Boards
10th & 12th Exam Prep

CHAPTER 1

Introduction to Macroeconomics

CBSE Class 12 · Macroeconomics · Chapter 1

CBSE · Economics (Macroeconomics) · Class 12

WHAT THIS CHAPTER DOES

A

Distinguish micro from macro on 4 dimensions.

B

Draw and explain circular flow in a 2-sector economy.

Boards prep that builds confidence, not anxiety.

TODAY'S MISSION

Today's mission

1

Distinguish micro from macro on 4 dimensions.

2

Draw and explain circular flow in a 2-sector economy.

3

Classify any variable as stock or flow correctly.

4

Score 5/6 marks on this chapter.

WHY THIS MATTERS

Why this chapter matters

1

4-6 marks every CBSE board paper.

2

Foundation for every later macro chapter (National Income, Money, Government Budget, BoP).

3

Real-world relevance: this is how news talks about 'GDP', 'inflation', 'unemployment'.

TOPIC

A

Micro vs Macro

THEOREM · LOAD-BEARING RESULT

Macroeconomics vs Microeconomics



Microeconomics studies individual units (a household, a firm, a market). Macroeconomics studies the economy as a whole (national income, general price level, total employment).

STATEMENT

Micro: equilibrium of one market via demand-supply. Macro: equilibrium of all markets together (aggregate demand = aggregate supply). Macro emerged as a separate discipline after the 1929 Great Depression and Keynes's

WHY THIS MATTERS

- The 1929 Depression saw 25% unemployment in the US, with no individual market explanation working
- Aggregate-level analysis was needed
- Macro was born.

WATCH OUT FOR

NOTE Macro is NOT 'sum of micro'. Aggregate behaviour can be qualitatively different (paradox of thrift). Treating macro as summed-micro loses marks on conceptual questions.

TOPIC

4 differences micro vs macro

SCOPE

Microeconomics studies the behaviour of individual units — a single household's consumption decisions, one firm's pricing strategy, the supply-and-demand for one good in one market. Macroeconomics studies the behaviour of the economy as a **WHOLE** — total national output, aggregate price level, total employment, balance-of-

VARIABLES

Micro and macro examine fundamentally different variable types. Micro studies relative prices (the price of onions relative to potatoes), the output of one firm, the wage of one occupation, the demand for one product. Macro studies the general price level (CPI inflation), aggregate national income (India's nominal GDP of ₹296 lakh

METHOD

Micro uses **MARGINAL ANALYSIS** (one more unit of good X) and **PARTIAL EQUILIBRIUM** (assuming all other markets constant) — pioneered by Alfred Marshall in his Principles of Economics (1890). Macro uses **AGGREGATE ANALYSIS** (national totals) and **GENERAL EQUILIBRIUM** (all markets interact simultaneously) —

EXAMPLES

A textbook micro question: 'Why did onion prices in Delhi rise from ₹20/kg to ₹80/kg in October 2024?' — answered by analysing supply shocks, cobweb cycles, and demand inelasticity for one good. A textbook macro question: 'Why is India's unemployment rate at 7%?' — answered by analysing aggregate demand, sectoral

TOPIC

B

Central economic problems

TOPIC

3 universal economic problems

WHAT TO PRODUCE

Every economy faces the WHAT problem because resources are finite while wants are unlimited — society must choose between competing uses: consumer goods (food, clothing, smartphones) versus capital goods (machinery, factories, infrastructure) versus public goods (defence, roads, judicial system) versus

HOW TO PRODUCE

The HOW problem asks society to choose the TECHNIQUE of production — labour-intensive (using many workers with simple tools, as in handloom weaving or hand-rolled bidis) versus capital-intensive (using few workers with sophisticated machinery, as in modern auto plants or oil refining). India historically favoured

FOR WHOM TO PRODUCE

The FOR-WHOM problem concerns the DISTRIBUTION of national output across the population — who gets the goods produced? In a pure market economy, those with higher income (factor earnings, accumulated wealth) command more goods; in a planned economy the state distributes by need or

THREE ECONOMIC SYSTEMS

Three systems answer the what/how/for-whom problems differently. The CAPITALIST system (USA, UK) relies on the price mechanism — private property + free markets + minimal government — to allocate resources. The SOCIALIST system (former USSR, present-day North Korea, Cuba) uses central planning by the state to set

TOPIC

C

Stock vs Flow variables

THEOREM · LOAD-BEARING RESULT

Stock vs Flow



*A **STOCK** is a quantity measured at a **POINT IN TIME** — has no time dimension. A **FLOW** is a quantity measured **PER PERIOD OF TIME** — has a time unit (per year, per month, per quarter).*

STATEMENT

Examples — STOCK: wealth, capital, inventory, money supply (all 'as on Date X'). FLOW: income, investment, production, consumption expenditure (all 'per Year Y'). Relationship: Stock at end = Stock at start + Net Flow

WHY THIS MATTERS

- This is the key conceptual tool for measuring macroeconomic variables
- National income is a FLOW
- capital stock is a STOCK

WATCH OUT FOR

NOTE Watch the time qualifier. 'My income' alone is ambiguous; 'my income per year' is a flow; 'my wealth on Jan 1' is a stock.

WORKED EXAMPLE

Classify these variables

- 1 Wealth on 31 March 2025 ⇒ STOCK (point in time)
- 2 Annual salary ⇒ FLOW (per year)
- 3 Capital invested in plant ⇒ STOCK (accumulated, point-in-time)
- 4 Annual investment in new plant ⇒ FLOW (per year)
- 5 Money supply on 1 April ⇒ STOCK; GDP for FY 2024-25 ⇒ FLOW

TOPIC

D

Circular Flow of Income

THEOREM · LOAD-BEARING RESULT

Two-sector Circular Flow



In a closed economy with only two sectors — HOUSEHOLDS and FIRMS — there are TWO PARALLEL FLOWS in OPPOSITE directions: REAL FLOW (goods/services + factor services) and MONEY FLOW (payments). In equilibrium, the two flows balance.

STATEMENT

Households own factors of production (labour, land, capital, entrepreneurship). Firms hire these factors to produce goods/services. Households buy back the goods/services using the factor income earned. Money

WHY THIS MATTERS

- This is the FUNDAMENTAL conceptual model of macroeconomics
- Every aggregate variable (GDP, GNP, NDP, NNP) is derived from this flow framework.

WATCH OUT FOR

NOTE Real and money flows go in OPPOSITE directions. Don't draw them in the same direction. Diagram with arrows is mandatory in 5-mark questions.

WORKED EXAMPLE

Circular flow — labeled diagram

- 1 Draw 2 boxes: HOUSEHOLDS on the left, FIRMS on the right.
- 2 Top half: REAL flow. Arrow from HH → Firm labeled 'Factor services (labour, land, capital)'. Arrow from Firm → HH labeled 'Goods and services'.
- 3 Bottom half: MONEY flow (opposite direction to top). Arrow from Firm → HH labeled 'Factor payments (wages, rent, interest, profit)'. Arrow from HH → Firm labeled 'Consumption expenditure'.
- 4 In equilibrium: Total factor income flowing INTO HH = Total consumption expenditure flowing OUT of HH = National Income.

TOPIC

4 economic agents (four-sector model)

HOUSEHOLDS

Households are the consuming unit of the economy AND the suppliers of the four factors of production — labour (employees), land (rentiers), capital (savers), and entrepreneurship (business-owners). They consume goods and services from firms, supply factor services BACK to firms in exchange for factor

FIRMS

Firms are the producing units that combine the four factors of production hired from households to produce goods and services for sale. They pay factor incomes — WAGES for labour, RENT for land, INTEREST for capital, and PROFIT (residual) for entrepreneurship — back to households. They also pay corporate taxes (India's

GOVERNMENT

Government enters macro models as the third agent — it collects taxes (direct: income tax, corporate tax; indirect: GST, excise, customs) from households and firms, provides public goods (defence, judiciary, infrastructure like roads and rail) that markets under-supply, and makes transfer payments (subsidies, pensions, MGNREGA

REST OF THE WORLD

The Rest of the World becomes the fourth agent only in OPEN-economy macroeconomics (vs the closed two- or three-sector models). It captures exports of goods and services from domestic firms (₹46 lakh crore in India in FY 2024-25), imports of goods and services into domestic consumers and firms (₹52 lakh crore), foreign

TOPIC

Macro vs micro

TRAP → TRUTH

× **MISTAKE** Macroeconomics is just the sum of microeconomics.

✓ **CORRECT** Macroeconomics is NOT just summed micro. Aggregate behaviour can be QUALITATIVELY DIFFERENT from individual behaviour (e.g., 'paradox of thrift' — if each household saves more, total saving may FALL because economy contracts). Macro phenomena need their own framework.

TOPIC

Emergence of macro

TRAP → TRUTH

- × **MISTAKE** Macroeconomics has always existed as a separate field.
- ✓ **CORRECT** Macroeconomics EMERGED as a distinct discipline AFTER the Great Depression of 1929. Keynes's General Theory (1936) was the founding work. Before that, economics was largely micro-focused (Marshall, Walras).

TOPIC

Central problems

TRAP → TRUTH

× **MISTAKE** Central problems are only about consumers.

✓ **CORRECT** Central problems concern the **ECONOMY AS A WHOLE** — Production (what + how) + Distribution (for whom). They apply to capitalist, socialist, and mixed economies. Capitalist economies use the price mechanism; socialist use planning; mixed use both.

TOPIC

Stock vs flow

TRAP → TRUTH

× **MISTAKE** Stock and flow can be measured the same way.

✓ **CORRECT** STOCK = quantity at a POINT IN TIME (no time dimension). E.g., wealth on Jan 1, capital, inventory. FLOW = quantity per PERIOD OF TIME (always has a time unit). E.g., income (per year), investment (per quarter). Confusing them is a common -1 mark.

TOPIC

Circular flow direction

TRAP → TRUTH

× **MISTAKE** Real and money flows go in the same direction.

✓ **CORRECT** Real flow (goods/services and factor services) goes ONE WAY. Money flow (payments) goes the OPPOSITE WAY. E.g., households provide LABOUR (real, → firm); firms pay WAGES (money, → household). Both flows are needed for balance.

TOPIC

Economic agents

TRAP → TRUTH

× **MISTAKE** Macroeconomy has only households and firms.

✓ **CORRECT** FOUR economic agents in macro: HOUSEHOLDS (consume + supply factors), FIRMS (produce + employ), GOVERNMENT (collects taxes + spends), REST OF WORLD (imports + exports). Two-sector models simplify to households + firms; four-sector models include all.

TOPPER TEMPLATE · MARK-BY-MARK

5-mark: 'Explain the circular flow of income in a two-sector economy with diagram.'

- 1 INTRODUCTION + 2 AGENTS**
1 m
In a TWO-SECTOR economy, the only agents are HOUSEHOLDS and FIRMS. There is no government and no foreign trade. Households are owners of factors of production; firms are producers of goods and services.
- 2 REAL FLOW**
2 m
REAL FLOW: Households provide FACTOR SERVICES (labour, land, capital, entrepreneurship) to firms. Firms in turn produce GOODS AND SERVICES which are bought by households. This is the real (physical) flow.
- 3 MONEY FLOW**
1 m
MONEY FLOW (opposite direction to real flow): Firms pay FACTOR INCOMES (wages, rent, interest, profit) to households for factor services. Households pay CONSUMPTION EXPENDITURE to firms for goods and services.
- 4 BALANCE + DIAGRAM**
1 m
In equilibrium, the two flows balance: total factor income = total consumption expenditure = National Income. Draw a circular diagram with HHs on one side, Firms on the other, arrows for both flows in opposite directions. LABEL clearly.

TOPPER TEMPLATE · MARK-BY-MARK

4-mark: 'Distinguish microeconomics from macroeconomics (any 4 points).'

- 1 SCOPE**
1 m
Micro studies INDIVIDUAL units (households, firms, single markets). Macro studies the ECONOMY AS A WHOLE (national income, employment, inflation).
- 2 VARIABLES ANALYSED**
1 m
Micro variables: price of one good, wage of one worker, output of one firm. Macro variables: general price level (inflation), total employment, national income.
- 3 METHODS**
1 m
Micro uses MARGINAL analysis + supply-demand equilibrium of single markets. Macro uses AGGREGATE analysis + national income accounting + general equilibrium.
- 4 EXAMPLES + THINKERS**
1 m
Micro example: 'Why did the price of onions rise?' Marshall, Walras. Macro example: 'Why is national unemployment 7%?' Keynes (1936 General Theory). Different questions, different frameworks.

TOPPER TEMPLATE · MARK-BY-MARK

3-mark: 'Distinguish stock from flow variables with examples.'

- | | | |
|----------|--|---|
| 1 | DEFINITIONS + TIME DIMENSION
1 m | STOCK = quantity measured at a POINT IN TIME (no time unit). FLOW = quantity measured PER PERIOD OF TIME (has a time unit like per year, per month). |
| 2 | STOCK EXAMPLES
1 m | Wealth (e.g., ₹50 lakh on 1 April 2025). Capital stock (machines owned). Inventory of goods. Money supply at a date. |
| 3 | FLOW EXAMPLES
1 m | Income (e.g., ₹6 lakh per year). Investment (per quarter). Production (per month). Consumption expenditure (per year). Relationship: net flow over a period CHANGES the stock at the end of period. |

PYQ PATTERNS







Top PYQ patterns to drill

#1	Distinguish between microeconomics and macroeconomics (any 4 points). (4 marks)	Annual
#2	Explain the circular flow of income in a two-sector economy with a diagram. (4-5 marks)	2018, 2020, 2022
#3	State the central problems of an economy. (3 marks)	Most years
#4	Distinguish stock from flow variables with examples. (3 marks)	2019, 2021, 2023
#5	Define macroeconomics. Why did it emerge? (3 marks)	2017, 2019, 2022

MARKS DISTRIBUTION

10-year marks distribution

10-YEAR PYQ MARKS DISTRIBUTION

Distinguish microeconomics from macroeconomics		22%
Circular flow of income (two-sector with diagram)		26%
Central problems of economy (what, how, for whom)		14%
Definition + scope of macroeconomics		12%
Economic agents and their roles		16%
Stock vs flow variables		18%

RECAP · MEMORISE THESE

Recap

1 Macro vs Micro — Macro = whole economy aggregates. Micro = individual units. Macro emerged post-1929; Keynes founded it (1936).

2 Stock vs Flow — Stock = point in time (wealth, capital, money supply). Flow = per period (income, investment, GDP).

3 Circular Flow — 2-sector: HH ↔ Firms. Real flow one way, money flow opposite. Total factor income = total consumption = National Income.

WHAT'S NEXT

What's next



- Chapter 2 — National Income Accounting (apply circular flow to measure GDP, GNP, NNP).
- Sit the 15-MCQ Quick Drill.
- Then the full Board-Pattern Paper — 25 marks.



You've mastered the foundation of macroeconomics.

Micro vs macro, stock/flow, circular flow — now prove it.

[readyforboards.com](https://www.readyforboards.com)

Helpline: +91 70330 05444

Boards prep that builds confidence, not anxiety.