**Macro Economics**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for June 2025 Examination**

**Q1. The research team of the Finance secretariat is debating economic policies to address rising inflation and unemployment. A senior economist argues for policies based on Classical Macroeconomic Theory, emphasizing market self-regulation, flexible wages, and full employment in the long run. However, some policymakers are skeptical, citing real-world frictions like sticky wages and government intervention.**

**To support the discussion, the Ministry requests a note on the assumptions of Classical Macroeconomic Theory, helping decision-makers assess its relevance in shaping economic policies.**

**Answer:**

**Introduction:**

Classical Macroeconomic Theory, developed during the 18th and 19th centuries by economists like Adam Smith and David Ricardo, is grounded in the belief that economies are self-regulating systems that naturally tend towards equilibrium. This theory assumes that in the long run, markets, including labor and goods markets, adjust to ensure full employment and optimal output. In times of economic disturbance, such as inflation or unemployment, Classical economics posits that the economy will automatically return to its natural state of balance without the need for extensive government intervention. This perspective emphasizes the role of flexible wages and prices in adjusting to changes in supply and demand, and stresses the importance of supply-side factors like productivity and savings in driving economic growth.

However, while this theory holds theoretical appeal, it has faced criticism in the face of real-world economic challenges. Critics argue that factors like sticky wages, imperfect information, and government intervention complicate the smooth operation of markets, making Classical theory less applicable in practice, especially in the short term. Understanding the assumptions of Classical Macroeconomic Theory is essential to assess its potential relevance in shaping modern economic policies, particularly in the context of rising inflation and unemployment.

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**Q2. A country is experiencing rising inflation, slowing consumer demand, and declining investments. You as a member of the research team, have to write a note discussing the impact of inflation on economic growth and how macroeconomic policies can be used to control inflation?**

**Answer:**

**Introduction:**

Inflation is the rate at which the general level of prices for goods and services rises, eroding the purchasing power of money. It is a critical economic factor that influences not only consumer behavior but also the overall economic environment. In many economies, rising inflation is seen as a sign of demand outpacing supply, but it can also be caused by other factors like supply chain disruptions or increased production costs. In a situation where inflation is rising alongside slowing consumer demand and declining investments, it creates a complex economic scenario. On the one hand, inflation erodes the real value of income, discouraging consumption. On the other hand, high inflation can also deter investment, as it creates uncertainty about future returns. This scenario poses a serious challenge to economic growth, as both consumption and investment are key drivers of economic activity. Policymakers face the delicate task of managing inflation while also ensuring that the economy remains on a stable growth path. The role of macroeconomic policies, including monetary and fiscal measures, becomes crucial in controlling inflation and stabilizing economic growth.

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**Q3A. In a rapidly globalizing economy, countries face challenges like automation, outsourcing, and shifting labor demands. While globalization boosts innovation and market expansion, it also disrupts local job markets and widens skill gaps. Assess the challenges of achieving full employment in a globalized economy?**

**Answer:**

**Introduction:**

In today's interconnected world, globalization has significantly transformed economies, creating both opportunities and challenges. As businesses expand beyond borders, new markets open up, and technological innovations emerge, leading to growth. However, these benefits are coupled with difficulties like automation, outsourcing, and shifting labor demands. These changes can affect local job markets, especially in sectors that once provided stable employment. Achieving full employment in such an environment requires addressing the growing skill gaps, ensuring workforce adaptability, and balancing the advantages of globalization with its disruptive effects on traditional jobs.

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**Q3B. During an economic downturn, a country’s GDP falls significantly, and many businesses close, leading to job losses. As the economy recovers, production rises, and employment improves. Based on the above scenario, explain the relationship between GDP and the unemployment rate within the context of business cycles.**

**Answer:**

**Introduction:**

Economic fluctuations are a natural part of any country's economic landscape, often referred to as business cycles. These cycles include periods of expansion (growth) and contraction (recession). One of the most significant indicators of economic health is Gross Domestic Product (GDP), which measures the total value of goods and services produced within a country. The relationship between GDP and unemployment is crucial to understanding how economies respond to changes in demand, production, and employment. During a downturn, as GDP falls, unemployment typically rises, while in times of growth, higher GDP usually leads to lower unemployment.

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