

DETERMINATION OF INCOME AND EMPLOYMENT

STUDY-NOTES

- **Aggregate Demand:** It refers to total value of all final goods and services that are planned to buy by all the sectors of the economy at a given level of income during a period of time.

Components of Aggregate demand are:

- (i) Household consumption expenditure (C).
- (ii) Investment expenditure (I).
- (iii) Govt. consumption expenditure (G).
- (iv) Net export (X – M).

Thus, $AD = C + I + G + (X - M)$

- **Aggregate Supply:** It is the money value of all final goods and services available for purchase by an economy during a given period. It is the flow of goods and services in the economy.

Since, money value of final goods and services is equal to net value added, AS is nothing but the national income.

$$AS = C + S$$

- **Consumption Function:** $C = f(Y)$

Where, C = Consumption; Y = Income; f = Functional relationship.

Equation of Consumption Function $C = \alpha + (b) \times Y$

C = Consumption

α = Autonomous consumption (Consumption expenditure at zero level of income is called autonomous consumption)

b = Marginal Propensity to consume

Consumption function (propensity to consume) is of two types:

- **Average propensity to Consume (APC):** It refers to the ratio between total consumption(C) and total income(Y) at given level of income in the economy.

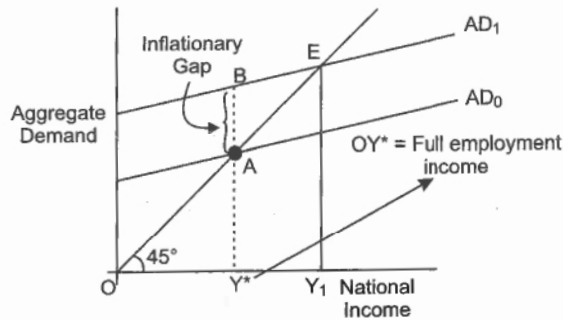
Important Points about APC

- (i) $APC > 1$: as long as consumption is more than national income before the break-even point, $APC > 1$.
 - (ii) $APC = 1$, at the break-even point, consumption is equal to national income.
 - (iii) APC is less than 1: beyond the break-even point. Consumption is less than national income.
 - (iv) APC falls with increase in income.
 - (v) APC can never be zero: because even at zero level of national income, there is autonomous consumption.
- **Marginal Propensity to Consume (MPC):** Marginal propensity to consume refers to the ratio of change in consumption expenditure to change in income.

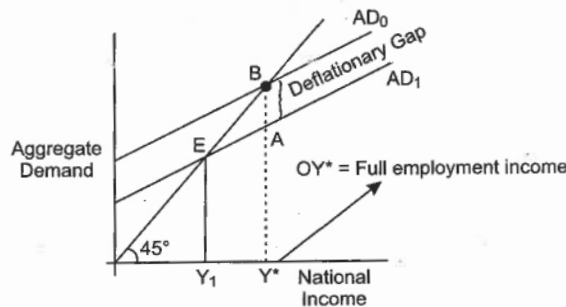
Important Points about MPC

- (i) Value of MPC varies between 0 and 1: If the entire additional income is consumed, then $\Delta C = \Delta Y$, making $MPC = 1$. However, if entire additional income is saved, then $\Delta C = 0$, making $MPC = 0$
- (ii) MPC is the slope of consumption curve and remains constant throughout in the short run.
- (iii) Value of $APC > MPC$

- **Saving function** refers to the functional relationship between saving and national income.
 $S = f(y)$
 Equation of Saving function $S = -\alpha + \text{MPS} \cdot Y$
 Where; S = saving; Y = National Income; f = Functional relationship.
 Saving function (Propensity to save) is of two types.
- **Average Propensity to Save (APS):** Average propensity to save refers to the ratio of savings to the corresponding level of income
 Important Point about APS
 - (i) APS can never be 1 or more than 1: As saving can never be equal to or more than income.
 - (ii) APS can be zero: At breakeven point $C = Y$, hence $S = 0$
 - (iii) APS can be negative: At income levels which are lower than the break-even point, APS can be negative when consumption exceeds income.
 - (iv) APS rises with increase in income.
- **Marginal Propensity to Save (MPS):** Marginal propensity to save refers to the ratio of change in savings to change in total income.
 MPS varies between 0 and 1
 - (i) $\text{MPS} = 1$ if the entire additional income is saved. In such a case, $\Delta S = \Delta Y$, then $\text{MPS} = 1$
 - (ii) $\text{MPS} = 0$ If the entire additional income is consumed. In such a case, $\Delta S = 0$, then $\text{MPS} = 0$
 - (iii) Mps is the slope of saving curve.
 - (iv) MPS remains constant throughout in short run.
- **Induced Investment:** Induced investment refers to the investment which depends on the profit expectations and is directly influenced by income level (only for reference).
- **Autonomous Investment:** Autonomous investment refers to the investment which is not affected by changes in the Level of income and is not induced solely by profit motive. It is income inelastic.
- **Ex-Ante Savings:** Ex-ante saving refers to amount of savings which all the household intended to save at different levels of income in the economy at the beginning of period. It is also known as planned savings.
- **Ex-Ante Investment:** Ex-ante investments refer to amount of investment which all the firms plan to invest at different level of income in the economy at the beginning of the period. It is also known as planned investment.
- **Ex-Post Saving:** Ex-post savings refer to the actual or realised savings in an economy during a financial year at end of the period.
- **Ex-Post Investment:** Ex-post investment refers to the actual or realised investment in an economy during a financial year at the end of the period.
- **Equilibrium level of income** is determined only at the point where $AD = AS$ or $S = I$, .i.e. the flow of goods and services in the economy is equal to the demand for goods and services But it cannot always be at full employment level also as it can be at less than full employment.
- **Full employment** is a situation when all those who are able and willing to work at prevailing wage rate, get the opportunity to work.
- **Voluntary unemployment** is a situation where person is able to work but not willing to work at prevailing wage rate.
- **Involuntary unemployment** is a situation where worker is able and willing to work at prevailing wage rate but does not get work.
- **Investment multiplier (K)** is the ratio of change in income (ΔY) due to change in investment ΔI .
 Value of investment multiplier lies b/w 1 to infinitive.
- **Excess demand** refers to a situation when aggregate demand exceeds aggregate supply corresponding to full employment.
- **Inflationary gap** is the gap by which actual aggregate demand exceeds the level of aggregate demand required to establish full employment. It measures the extent of excess demand.



- **Deficient Demand:** When AD falls short of AS at full employment it is called deficient demand. In other words, $AD < AS$ at the level of full employment. It is called deficient demand.
- **Deflationary gap** is the gap by which actual aggregate demand is less than the level of aggregate demand required to establish full employment. It measures the extent of deficient demand.



• **Methods to control excess demand or deficient demand:**

1. Fiscal Measures or Fiscal Policy
 - (a) Change in Tax
 - (b) Change in Public expenditure
 - (c) Change in Public borrowing
 - (d) Deficit financing (Printing new notes)
2. Monetary Measures or Monetary Policy
 - (a) Quantitative measures
 - (i) Bank rate
 - (ii) Cash Reserve Ratio
 - (iii) Statutory Liquidity Ratio
 - (iv) Open Market operation
 - (a) Qualitative/Selective measures
 - (i) Marginal requirement
 - (ii) Rationing of credit
 - (iii) Direct Action
 - (iv) Moral Suasion

QUESTION BANK

MULTIPLE CHOICE QUESTIONS

1. Full employment implies absence of
 - (a) unemployment
 - (b) Voluntary unemployment
 - (c) Involuntary unemployment
 - (d) none of these
2. Which of the following statement is true about excess demand at corresponding full employment level:-
 - (a) situation when $AS > AD$
 - (b) situation when $AS < AD$
 - (c) situation when $AS = AS$
 - (d) AD is less than or equal to AS
3. Deficient demand leads to:
 - (a) Inflationary gap
 - (b) Deflationary gap
 - (c) Both (a) and (b)
 - (d) None of the above
4. Excess demand leads to:
 - (a) Inflationary gap
 - (b) Deflationary gap
 - (c) Both (a) and (b)
 - (d) None of the above

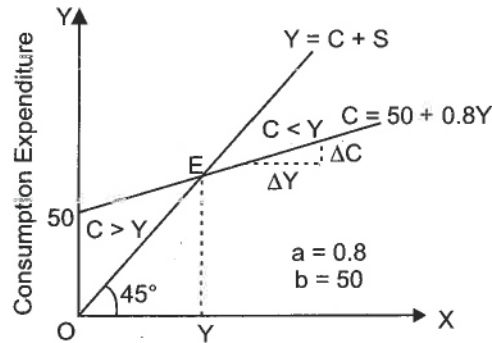
5. What can be the minimum value of an investment multiplier?
 (a) 0 (b) 1 (c) 2 (d) 5
6. What can be the maximum value of an investment multiplier?
 (a) 5 (b) infinity (c) 4 (d) 2
7. Which one of the following is the quantitative measures of monetary policy?
 (a) Repo rate (b) Open market operation
 (c) SLR (d) All of the above
8. Propensity to save means:
 (a) Additional income (b) Less income
 (c) Ratio of saving to income (d) Excess of income to saving
9. Which of the following statement about investment multiplier is correct?
 (a) Minimum value of investment multiplier is 0
 (b) Investment multiplier is the ratio of an individual's income and investment
 (c) There is direct relationship between investment multiplier and MPC
 (d) None of the above
10. Which of the following leads to an increase in aggregate demand?
 (a) Increase in govt. Expenditure (b) Increase in investment expenditure
 (c) Fall in imports (d) All of the above
11. _____ is called planned investment.
 (a) Ex-post investment (b) Ex-ante investment (c) Both (a) and (b) (d) None of the above
12. AD Schedule shows the relationship between:
 (a) AD and Y (b) C and I (c) C and S (d) None of the above
13. AD is:
 (a) Positively related to Y (b) Negatively related to Y
 (c) Not related to Y (d) Always equal to Y
14. Rest of the world sector leads to:
 (a) Export of goods and services (b) Import of goods and services
 (c) Both (a) and (b) (d) None of the above
15. AD curve:
 (a) is a diagrammatic presentation of AD schedule
 (b) shows desired expenditure corresponding to different levels of income in the country
 (c) indicates ex-post demand in the economy
 (d) both (a) and (b)
16. When C function shoots from Y-axis, it indicates that:
 (a) Consumption is zero when income is zero.
 (b) Saving is negative when income is zero.
 (c) Consumption is positive when income is zero.
 (d) Both (b) and (c)
17. Consumption depends on:
 (a) Income (b) Saving (c) Investment (d) None of the above
18. Propensity to consume is equal to:
 (a) Change in income to change in consumption (b) Ratio between consumption and saving
 (c) Ratio between consumption and income (d) None of the above
19. Which of the following can have a negative value?
 (a) APC (b) MPC (c) MPS (d) APS

20. If investment falls to zero, national income does not fall to zero because of:
 (a) Autonomous consumption (b) Induced investment
 (c) Autonomous investment (d) Multiplier
21. _____ refers to the investment which is not affected by changes in the Level of income and is not induced solely by profit motive. It is income inelastic.
 (a) Induced investment (b) Investment (c) Autonomous investment (d) None of above
22. _____ is the amount of savings which all the households intended to save at different levels of income in the economy at the beginning of the period. It is also known as planned savings
 (a) Ex-ante saving (b) Ex-post saving (c) Actual saving (d) All of the above
23. This is the situation when all those who are able and willing to work at prevailing wage rate, get the opportunity to work:
 (a) Full employment (b) Involuntary unemployment
 (c) Unemployment (d) None of above
24. Investment multiplier (K) is the ratio of:
 (a) Change in investment (ΔI) due to change in income (ΔY).
 (b) Change in income (ΔY) due to change in investment (ΔI)
 (c) No change
 (d) None of above
25. A situation when aggregate demand exceeds aggregate supply corresponding to full employment is:
 (a) Deficient demand (b) Equal demand
 (c) Excess demand (d) zero demand
26. Bank rate, Cash Reserve Ratio, Statutory Liquidity Ratio and Open Market operation are Quantitative measures to control:
 (a) Excess demand (b) Deficient demand
 (c) Excess demand or deficient demand. (d) None of above
27. Marginal requirement, Rationing of credit, Direct Action and Moral Suasion are _____ measures to control excess demand or deficient demand.
 (a) Quantitative measures (b) Qualitative measures
 (c) Regulatory measures (d) None of the above
28. Change in Tax, Change in Public expenditure, Change in Public borrowing and Deficit financing (Printing new notes) are Fiscal Measures measures to control excess demand or deficient demand.
 (a) Fiscal Measures (b) Monetary Measures
 (c) Financial measures (d) Non-financial measures
29. At income levels which are lower than the break-even point, APS can be negative when:
 (a) Consumption is equal to income (b) consumption exceeds income.
 (c) Consumption is less than income (d) None of above
30. APC is equal to one, at the break even point, consumption is:
 (a) Less than national income. (b) More than national income
 (c) Equal to national income (d) None of above
31. APC falls with increase in _____
 (a) Consumption (b) income (c) Saving (d) None of above
32. _____ function describes the relation between consumption and income.
 (a) Consumption function (b) Saving function
 (c) Both of above (d) None of above

33. Which of the following is correct?
 (a) $MPC + MPS = 1$ (b) $MPC + MPS > 1$ (c) $MPC - MPS = 1$ (d) $MPC + MPS = 0$
34. When all the able bodied people who are willing to work at prevailing wage rate but not getting work then it is called:
 (a) Voluntary Unemployment (b) Involuntary unemployment
 (c) Under employment (d) None of the above
35. Which of the following can become negative:
 (a) APC (b) APS (c) MPC (d) MPS
36. Consumption function is the functional relation between.
 (a) Income and saving (b) Price level and consumption
 (c) Income and consumption (d) Income, saving and consumption.
37. Value of investment multiplier directly related to MPC but inversely related to:
 (a) APC (b) MPS (c) APS (d) None of the above.
38. Which of the following are consequences of Deficient demand?
 (a) Increase in Involuntary Unemployment (b) Decrease in employment and output level
 (c) Both (a) and (b) (d) None of the above.
39. If MPC and MPS are equal, the value of the multiplier is:
 (a) 2 (b) 1 (c) 5 (d) 3
40. What is the relationship between MPS and Multiplier?
 (a) Positive (b) Negative (c) Constant (d) None of them
41. When AD falls short of AS at full employment level of output then it is called:
 (a) Excess demand (b) Deficient demand (c) Inflationary gap (d) All of the above.
42. At the break event point:
 (a) $APC = 1$ (b) $C = Y$ (c) $Saving = 0$ (d) all of the above
43. The consumption expenditure which is affected by change in income is called:
 (a) Autonomous consumption (b) Minimum consumption
 (c) Induced consumption (d) None of the above
44. As $AD = C + I$ and $AS = C + S$ the equilibrium is at where $C + I = C + S$, or where:
 (a) $S > I$ (b) $S < I$ (c) $S = I$ (d) None of above
45. What will be the value of multiplier if $MPC = 0$
 (a) 0 (b) 1 (c) 2 (d) 3
46. Owing to injections, AD functions shifts:
 (a) Downwards (b) Upwards (c) Rightwards (d) All of these
47. According to Keynesian Theory, equilibrium level of income is determined at a level when:
 (a) Ex-ante savings = Ex-ante investments (b) Ex-post savings = Ex-post investments
 (c) Both (a) and (b) (d) None of these
48. In the determination of equilibrium level of output, investment is assumed to be:
 (a) Induced (b) Autonomous
 (c) Both (a) and (b) (d) Neither (a) and (b)
49. In the consumption function $200 + 0.6 Y$, the value of autonomous saving will be:
 (a) 200 (b) -200 (c) 0.6 (d) 0.4
50. At the equilibrium point when: $C = 100 + 0.5 Y$ and $I = 200$, saving will be:
 (a) 200 (b) 100 (c) 30 (d) none of the above

51. In a situation of $S < I$:
- fall in expenditure through 'S' < rise in expenditure through 'I'
 - fall in expenditure through 'S' < rise in expenditure through 'I'
 - $AD > AS$
 - Both (a) and (c)
52. In Keynesian theory, equilibrium GDP is discussed with reference to:
- Short period
 - Long period
 - Market period
 - all of the above
53. What happens in an economy, when credit availability is restricted and credit is made costlier?
- Aggregate demands Increases.
 - Aggregate demands remain the same.
 - Aggregate demands fall.
 - Aggregate supply falls.
54. Does an excess of AD over AS always imply a situation of inflationary gap?
- Yes. Inflationary gap occurs only when $AD > AS$ corresponds to full employment level of employment.
 - No. Inflationary gap occurs only when $AD > AS$ corresponds to full employment level of employment.
 - No. Inflationary gap occurs only when $AS > AD$ corresponds to full employment level of employment.
 - None of above
55. In which of the following situation $APC = 1$
- Consumption is equal to Income.
 - Consumption is more than Income.
 - Consumption is less than Income.
 - None of these
56. Why the value of APS can never be greater than 1
- because $MPC + MPS = 1$
 - because $APC - APS = 1$
 - because $APC + APS = 1$
 - because $APC + APS > 1$
57. Effect of Govt. Expenditure in correcting the deflationary gap in an economy:
- Govt. should raise its expenditure This will raise the level of employment. It will in turn increase the income and the purchasing power. Thus aggregate demand will rise.
 - Govt. should raise its expenditure This will raise the level of employment. It will in turn increase the income and the purchasing power. Thus aggregate demand will be stable.
 - Govt. should raise its expenditure This will raise the level of employment. It will in turn increase the income and the purchasing power. Thus aggregate demand will decrease.
 - None of the above
58. What will be the value of APC when APS is 0.
- 1
 - 2
 - 3
 - 4
59. When value of MPC is 0.75 then the value of the investment multiplier is:
- $K = 4$
 - $K = 5$
 - $K = 2$
 - $K = 3$
60. If marginal propensity to save is 0.1 and increase in national income is ₹ 500 crore, calculate increase in investment.
- 50 cr
 - 40 cr
 - 10 cr
 - 2 cr
61. When consumption function shoots from Y-axis, it indicates that :-
- consumption is zero when income is zero
 - saving is negative when income is positive
 - consumption is positive when income is zero
 - saving is positive when income is zero
62. Break Even point occurs when
- $Y = S$
 - $S = 0$
 - $C > Y$
 - $Y > C$
63. Multiplier is the ratio of increase in income to given increase in
- Supply
 - Demand
 - Investment
 - Capital structure
64. If change in investment is thousand and MPC is 0.8 then income will change by
- 1250
 - 2500
 - 5000
 - 10000

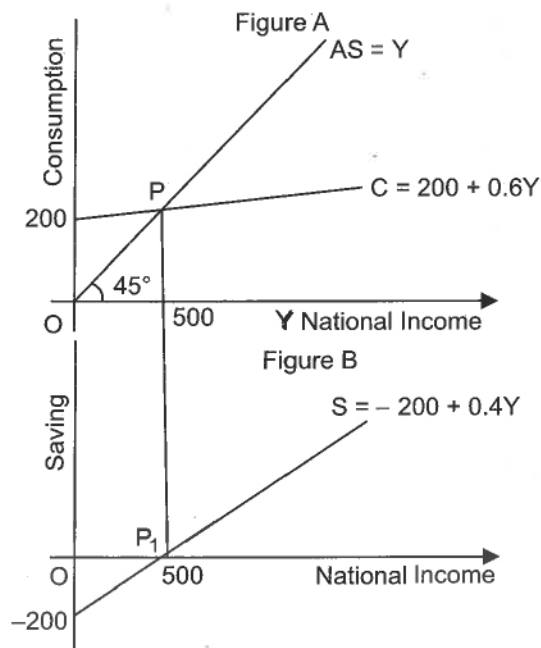
65. When AD is greater than AS, inventories
 (a) fall (b) rise (c) do not change (d) fall then rise
66. In the economy, when $C = 500 + (0.9) Y$, Investment expenditure = 3,000. The equilibrium level of income will be:
 (a) 3,500 (b) 35,000 (c) 3,50,000 (d) None of above
67. If GD_{PM} is ₹ 5000 crores, intermediate consumption is ₹ 2,500 and the ratio of sales to change in stock is 2:1, then sales will be:
 (a) ₹ 4,000 (b) ₹ 5,000 (c) ₹ 3,000 (d) ₹ 2,000
68. Observe the given below diagram, and check which one of the following is correct value of autonomous consumption:



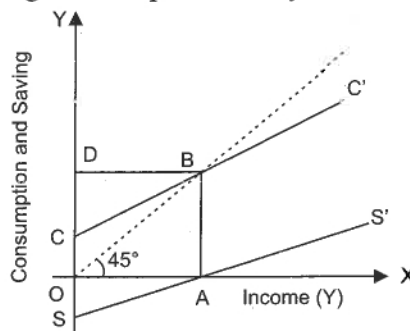
- (a) ₹40 crore (b) ₹30 crores (c) ₹20 crores (d) ₹50 crores
69. The supply-side measure to control inflation is
 (a) Higher taxation to mop up liquidity (b) Credit control
 (c) Price control through Public Distribution System (d) Reducing public expenditure
70. Autonomous investment curve is always
 (a) a vertical straight line. (b) negatively related to income
 (c) an upward rising straight line (d) always equal to income
71. In determination of equilibrium level of income by AD – AS approach, AD is represented by :
 (a) $C + S$ (b) $C + I$ (c) $S + I$ (d) $C + Y$
72. If the MPS is 1, how much will be MPC?
 (a) 1 (b) 0.5 (c) 0 (d) 0.4
73. At full employment level an economy decides to increase government spending. What might be the probable reasons for such a step?
 (a) Economy is going through situation of excess demand.
 (b) Economy is suffering from inflationary gap.
 (c) Economy wants to increase output and employment.
 (d) Economy wants to decrease output and employment.
74. How are both APC and APS associated with National Income?
 (a) both APC and APS fall with increase in National Income
 (b) both APC and APS rise with increase in National Income
 (c) APC falls APS rises with increase in national income
 (d) APC rises APS falls with increase in national income
75. What is the value of multiplier, when $S = -100 + 0.4Y$?
 (a) 1.5 (b) 1.05 (c) 2.5 (d) 2.05
76. MPC being equal to 0.5, what will be change in C, if income increases by 100?
 (a) 60 (b) 50 (c) 40 (d) 70
77. If $MPC = 0.4$ and change in income is 1000, what will be change in savings?
 (a) 400 (b) 500 (c) 600 (d) 250

78. An economy is at full employment and its AS is less than AD. Suggest the most suitable fiscal policy measure for such an economy.
- Raising volume of investment decreasing CRR
 - Raising commercial bank reserves through purchase of securities
 - Reducing taxes to increase household purchasing power
 - Reducing public expenditure to reduce demand.
79. An economy is at full employment and an excess demand situation. Suggest a suitable monetary policy measure to bring the economy at full employment equilibrium.
- Reducing excess cash reserves with commercial banks
 - Encouraging borrowings of commercial banks
 - Enhancing the credit creating power of commercial banks.
 - Increasing excess cash reserves with commercial banks
80. If the value of multiplier is 4, marginal propensity to consume is:
- MPC = 0
 - MPC = 1
 - MPC = 0.75
 - MPC = 0.25
81. The ratio of MPC to MPS is 4:1, the value of investment multiplier is:
- 2
 - 5
 - 0
 - None of above
82. Investment means addition to the stock of capital goods in the nature of structures, equipment or inventory. The equilibrium is determined at the level of income where:
- D Aggregate Demand is less than the Aggregate Supply.
 - Aggregate Demand is more than Aggregate Supply.
 - Aggregate Demand is equal to the Aggregate Supply.
 - Aggregate Demand is equal to the Aggregate Supply.
83. One man's expenditure is another man's income. Whenever there is an increment in investment expenditure, some individuals' income is increased by the amount of investment with which they buy goods and services. They spend a part of their increased income on consumption and keep some income for saving. The individuals' MPC determines the amount they spend or save.
- Based on the above facts, find which of the following statement/statements is true?
- If MPC is greater than MPS, individuals will spend more on consumption;
 - if MPC is less than MPS, the individuals' expenditure on consumption will be less.
 - The extent of the effect of multiplier depends upon the Marginal Propensity to consume.
 - All of above
84. An increase in investment worth ₹ 1,000 crores, increases the income by ₹ 10,000 crores. That is, a change in investment has caused a 10 times increase in income (output). Thus, the value of investment multiplier is:
- 01
 - 10
 - 1.0
 - 0.1
85. When $C = 200$, $MPC = 0.5$ and income $(Y) = 1,000$, The consumption expenditure is:
- 400
 - 500
 - 700
 - 200
86. Given consumption function $C = 100 + 0.75Y$ (where C = consumption expenditure and y = National Income and investment expenditure ₹ 1000, Equilibrium level of National Income is determined as:
- $Y = C$
 - $Y = C + I$
 - $Y = C - I$
 - None of above
87. In an economy, $C = 300 + 0.5Y$ and $I = ₹ 600$ (where C = consumption, Y = income or investment). Compute the following: the equilibrium level of income is:
- 1000
 - 1800
 - 1500
 - None of above
88. Ex-ante aggregate demand is equal to ex-ante aggregate supply only when:
- Economy is in equilibrium
 - Under employment equilibrium
 - Full employment
 - None of above

89. The saving curve of an economy makes a negative intercept of ₹ 50 crores and 20% of additional income is saved. The saving function is:
 (a) $S = -50 - 0.2(Y)$ (b) $S = 50 + 0.8(Y)$ (c) $S = -50 + 0.2(Y)$ (d) None of above
90. Using the equation of consumption function: $C = C + b(Y)$, Autonomous expenditure is ₹ 40 crores, marginal propensity to consume is 0.6 at the income level of ₹ 500 crore. Consumption expenditure in this economy is:
 (a) ₹ 140 crores (b) ₹ 240 crores (c) ₹ 340 crores (d) ₹ 440 crores
91. People are rendered unemployed against their wishes or under compulsion. Only this type of unemployment is considered while estimating the total unemployment in an economy:
 (a) Under employment (b) Involuntary unemployment
 (c) Voluntary unemployment (d) None of above
92. In an economy saving at a certain income level is ₹ 400 crores. Average propensity to consume this economy is 0.8. Required income level is:
 (a) ₹ 1000 (b) ₹ 2000 (c) ₹ 3000 (d) ₹ 4000
93. Three-fourth of additional income is spent on consumption and current income is 60% more than the initial income of ₹6000, which one of the following is 0.75:
 (a) MPS (b) MPC (c) APS (d) APC
94. Average propensity to consume is _____ at point P and Average propensity to save is _____ at point P₁.



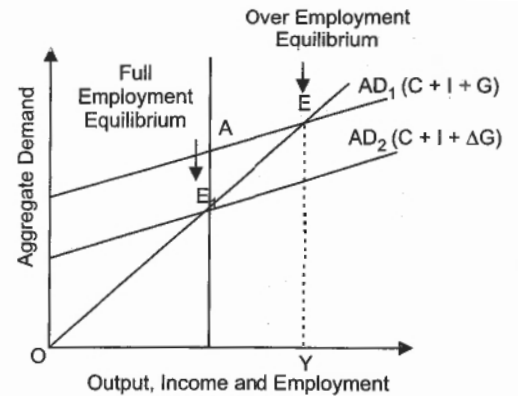
- (a) 0, 1 (b) 1, 0 (c) 1, 1 (d) 0, 0
95. Break-even point in the following diagram is represented by:



- (a) Point A (b) Point B
 (c) Both (a) and (b) (d) Neither (a) and (b)

96. Observe the given diagram and check which of the following statement is related to this diagram:

- (a) A situation when AD is equal to AS beyond the full employment level. It occurs after the full employment level.
- (b) Over full employment equilibrium signifies that planned expenditure (AD) is equal to planned output (AS) at a level higher than full employment level.
- (c) Any increase in AD beyond the full employment output, will lead to increase in general price level and there will be no real increase in output.
- (d) All of above



97. Keynesian Theory of Employment is based on the assumption of:
 (a) Short run (b) Long run (c) Both (a) and (b) (d) None of these
98. In case of underemployment equilibrium, which of the following alternatives is not true?
 (a) Aggregate demand is equal to aggregate supply.
 (b) There exist excess production capacity in the economy.
 (c) Resources are not fully and efficiently utilized.
 (d) Resources are fully and efficiently utilized.
99. Manish is working in a data collection center, he observed a situation when AD is more than the AS, corresponding to full employment level of output in the economy. Manish asked his junior if this is the excess demand or deficient demand. What should be the correct answer given by the junior?
 (a) Excess demand (b) Deficient demand (c) Zero demand (d) Full demand
100. If a consumption function of a hypothetical economy is given as: $C = 100 + 0.6Y$, then the corresponding saving function is:
 (a) $S = -50 + 0.4Y$ (b) $S = -100 + 0.4 Y$ (c) $S = -100 + 0.6 Y$ (d) $S = -100 - 0.4 Y$
101. The “planned” value of the variables like consumption, investment, output, etc, is known as:
 (a) ex post measures (b) ex ante measures (c) ex pre measures (d) none of the above
102. What is “MPS” or the ‘marginal propensity to save’?
 (a) the proportion of total additional planned savings to total additional income
 (b) the proportion of total additional income to total additional planned savings
 (c) the fraction of total additional income that is used for consumption
 (d) none of the above
103. The average propensity to consume is measured by:
 (a) C/Y (b) $C \times Y$ (c) Y/C (d) $C+Y$
104. An increase in the marginal propensity to consume will:
 (a) Lead to the consumption function becoming steeper
 (b) Shift the consumption function upwards
 (c) Shift the consumption function downwards
 (d) Shift the savings function upwards
105. If the Keynesian consumption function is $C = 10 + 0.8 Y_d$ then, if disposable income is £1000, what is amount of total consumption?
 (a) £0.8 (b) £800 (c) £810 (d) £0.81
106. As national income increases:
 (a) The average propensity to consume falls and gets nearer in value to the marginal propensity to consume
 (b) The average propensity to consume increases and diverges in value from the marginal propensity to consume
 (c) The average propensity to consume stays constant

- (d) The average propensity to consume always approaches infinity
107. Lower interest rates are likely to:
- | | |
|--------------------------|-------------------------------------|
| (a) Decrease consumption | (b) Increase cost of borrowing |
| (c) Encourage saving | (d) Increase borrowing and spending |
108. The marginal propensity to consume is equal to:
- | | |
|--|---|
| (a) Total spending / total consumption | (b) Total consumption / total income |
| (c) Change in consumption / change in income | (d) Change in consumption / change in savings |
109. When planned saving is less than planned investment then
- | | |
|---------------------------------------|---|
| (a) Increase in unplanned inventories | (b) Decrease in unplanned inventories |
| (c) No change in inventories | (d) Decrease in production, employment & income |
110. Excess demands in an economy occurs then
- Aggregate demand is greater than aggregate supply.
 - Aggregate demand is less than aggregate supply.
 - Aggregate demand is equal to agg. Supply at full employment.
 - Aggregate demand is greater than aggregate supply at level of full employment.
111. Marginal propensity to consumer is
- Ratio of change in income to a charge in consumption over a period of time.
 - Ratio of change in consumption to a change in income over a period of time.
 - Never greater than one
 - Both (b) & (c)
112. At break even point.
- | | |
|---------------------------------|--------------------------|
| (a) Savings is equal to income. | (b) Income is zero. |
| (c) All of income is consumed. | (d) Savings is negative. |
113. Multiplier is directly related to
- | | |
|------------------------------------|-------------------------------|
| (a) MPC | (b) MPS |
| (c) Level of aggregate consumption | (d) Level of aggregate saving |
114. In the consumption function denoted by $C = a + bY$, b refers to
- | | |
|---|--|
| (a) MPS & slope of consumption function | (b) MPC & slope of consumption of function |
| (c) MPS & slope of savings function | (d) none of the above |
115. Suppose in a hypothetical economy, the income rises from if 5,000 crores to if 6,000 crores. As a result, the consumption expenditure rises from if 4,000 crores to if 4,600 crores. Marginal propensity to consume in such a case would be _____
- | | | | |
|---------|---------|---------|---------|
| (a) 0.8 | (b) 0.4 | (c) 0.6 | (d) 0.2 |
|---------|---------|---------|---------|
116. Which ONE of the following would lead to a fall in the value of the multiplier?
- A decrease in the marginal propensity to consume.
 - A fall in the level of public expenditure.
 - Consumers saving a lower proportion of their income.
 - A decrease in the marginal propensity to import.
117. Indicate the impact of economic package on AD:
- | | |
|---------------------------------|-----------------------------------|
| (a) Fall in Aggregate Demand | (b) Rise in Aggregate Demand |
| (c) Rise in general Price level | (d) No change in Aggregate Demand |
118. To induce liquidity RBI must have:
- | | |
|----------------------------------|---|
| (a) Increased Cash Reserve Ratio | (b) Reduced Repo Rate |
| (c) Increased Reverse Repo Rate | (d) Kept statutory liquidity Ratio constant |

119. The likely impact of "Deficit Demand" under income and employment theory, in an economy are:
- Increase in income, output, employment and general price level
 - Decrease in nominal income, but no change in real output
 - Decrease in income, output, employment and general price level
 - No change in output/employment but increase in general price level
120. The nature of fiscal policy undertaken by the government is _____ and Monetary Policy is _____ in its nature.
- Expansionary, Expansionary
 - Expansionary, Contractionary
 - Contractionary, Expansionary
 - Contractionary, Contractionary
121. From the set of facts given in column I and corresponding relevant fact given in column II, Which of the following option is showing correct pairing:
- | Column I | Column II |
|--|---|
| 1. household income | (i) Autonomous Consumption |
| 2. when consumption takes place even when the income is zero. | (ii) $C = C + cY$ |
| 3. Consumption Function | (iii) The most important determinant of consumer demand |
| 4. relation between the increase in investment, leading to an increase in national income. | (iv) Investment multiplier |
| (a) 1 – (iii) 2 - (i) 3- (ii) 4 – (iv) | (b) 1 – (iv) 2 - (iii) 3 - (ii) 4 – (i) |
| (c) 1 – (i) 2 - (iii) 3 - (ii) 4 – (iv) | (d) 1 – (ii) 2- (iii) 3 - (iv) 4 – (i) |

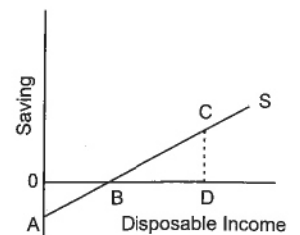
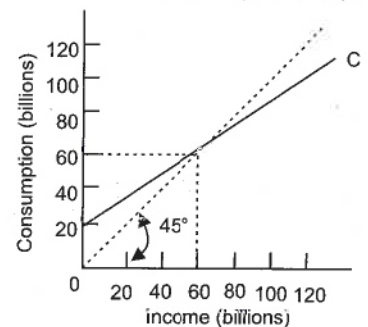
122. From the set of facts given in column I and corresponding relevant fact given in column II, Which of the following option is showing correct pairing:
- | Column I | Column II |
|--|---|
| 1. Saving | (i) rate of change in savings as the income increases |
| 2. Average Propensity to Consume changes in the inventory of a producer. | (ii) An addition to the stock of physical capital and |
| 3. Investment | (iii) consumption per unit of income |
| 4. Marginal Propensity to save | (iv) income that is not consumed |
| (a) 1 – (iii) 2 - (iv) 3 - (ii) 4 – (i) | (b) 1 – (iv) 2 - (iii) 3 - (ii) 4 – (i) |
| (c) 1 – (i) 2 - (iii) 3 - (ii) 4 – iv | (d) 1 – (ii) 2 - (iii) 3 - (iv) 4 – (i) |

INPUT TEXT BASED MCQs

Read the following passage and write answers of Q123–Q124

Questions are based on the following diagram.

123. The above figure suggests that:
- Consumption would be \$60 billion at break-even point
 - Saving is zero at the \$120 billion income level.
 - As income increases, savings decreases as a percentage of income.
 - As income increases, consumption decreases absolutely
124. Refer to the above figure. If the relevant saving schedule were constructed:
- Saving would be minus \$20 billion at the zero level of income.
 - Aggregate saving would be \$60 at the \$60 billion level of income.
 - Its slope would be 1/2.
 - It would slope downward and to the right



Read the following passage and write answers of Q125–Q127

Questions based on the following diagram

125. Dissaving refer to :

- CD.
- OA.
- OD/OB
- CD/BD.

126. Refer to the above diagram. At disposable income level D, the average propensity to save is equal to:
 (a) CD/BD. (b) CD/OD. (c) OD/CD. (d) OA/OB
127. At disposable income level D, consumption is:
 (a) Equal to CD. (b) Equal to OD minus CD
 (c) Equal to CD/OD. (d) Equal to CD + BD.

Read the following passage and write answers of Q128–Q131

Amidst indications of an economic slowdown in the beginning of year 2020 came the challenge of Corona pandemic in Feb-Mar 2020, forcing the Government to impose a strict lockdown leading to near cessation of major economic activities across all sectors. The Finance Minister on 13th, 14th, 15th May'20 announced an economic package of ₹20 Lakh Crores for revival of Indian economy.

Government of India's ₹20 lakh crore 'Aatmanirbhar Bharat' packages which aimed at reviving the economy includes major fiscal measures like free food for the poor, direct cash transfer, money for rural job guarantee scheme, MGNREGA and credit guarantees to MSMEs. RBI has also taken steps to slash lending rates and add more liquidity into the markets.

128. Indicate the impact of economic package on AD.
 (a) Fall in Aggregate Demand (b) Rise in Aggregate Demand
 (c) Rise in general Price level (d) No change in Aggregate Demand
129. To induce liquidity RBI must have:
 (a) Increased Cash Reserve Ratio (b) Reduced Repo Rate
 (c) Increased Reverse Repo Rate (d) Kept statutory liquidity Ratio constant
130. The likely impact of "Deficit Demand" under income and employment theory, in an economy is:
 (a) Decrease in income, output, employment and general price level
 (b) Decrease in nominal income, but no change in real output
 (c) Increase in income, output, employment and general price level
 (d) No change in output/employment but increasing general price level
131. The nature of fiscal policy under taken by the government is _____ and Monetary Policy is _____ in its nature.
 (a) Expansionary, Expansionary (b) Expansionary, Contractionary
 (c) Contractionary, Expansionary (d) Contractionary, Contractionary

Read the following passage and write answers of Q132–Q134

During a recession a rash of business failures occurs. Why these business failures happen is explained by various economic Theories a result of negative economic shocks, real resource or credit crunches brought about by previously over – expansionary monetary policy, the collapse of debt – based asset price bubbles, or a negative shift in consumer or business mood. Regard less of the cause, as the recession spreads, more and more businesses curtail their activities or fail altogether and as a result lay – off their workers. During a recession many businesses lay – off employees at the same time, and available jobs are scarce.

When businesses fail, under the normal operation of markets the assets of the business are sold off to other businesses and the former employees are rehired by other competing businesses. In a recession, because many businesses across many different industries and markets are failing all at once, the number of unemployed workers looking for new jobs goes up rapidly. The available supply of labor available for immediate hire goes up, but the demand to hire new workers by businesses goes down. In a perfect, friction lessly functioning market, economists would expect such an increase in supply and decrease in demand to result in a lower price (in this case the average wage) but not necessarily a lower total number of jobs once the price adjusts.

Corona virus impact: RBI to infuse liquidity via OMO.

With the heightening of Covid – 19 pandemic risks, certain financial market segments have been experiencing a tightening of financial conditions.

After reviewing the current liquidity and financial conditions, the central bank has decided to conduct open market operations on March 20, 2020 in the form of purchase of an aggregate amount of ₹10,000 crores of the Government securities through a multi – security auction.

132. Which of the following is not the reason for business failure?
- (a) Economic shock (b) Sudden fall in consumer demand
(c) Loans granted on low interest rates (d) High default rate on credit facilities
133. Purchase of securities by RBI will lead to _____
- (a) Fall in aggregate demand (b) Rise in aggregate demand
(c) No change in aggregate demand (d) Fall in general price level
134. The impact of “Deficient Demands under Keynesian theory of income and employment, in an economy are
- (a) Decrease in income, output, employment and general price level.
(b) Decrease in nominal income, but no change in real output.
(c) Increase in income, output, employment and general price level
(d) No change in output, employment but increase in general price level.

Read the following passage and write answers of Q135–Q138

State Bank of India’s latest edition of Eco wrap has noted that many households may have marginal propensity to consume less because several types of spending are not easily available amid social distancing constraints. Analysing the trends in deposits since the lockdown was first imposed, on May 25, the bank noted that the data revealed that deposits (savings, current and term) increased significantly during Lockdown – 1 as people were apprehensive in the beginning about spending, and turned frugal. During Lockdown – 2, there was a 25% decline in bank deposits, but term deposit accrual was very healthy.

Business Standard; June 2nd, 2020

135. According to given article, many households may have marginal propensity to consume because several types of spending are not easily available amid social distancing constraints.
- (a) No change (b) More (c) Less (d) None of these
136. There was a 25% _____ in bank deposits, but term deposit accrual was very healthy during lockdown 2.
- (a) increase (b) Both (a) and (c) (c) decline (d) None of these
137. The sum of APC and MPC is _____.
- (a) 1 (b) 0 (c) Both (a) and (b) (d) None of these
138. A fiscal policy measure to combat deflationary gap is _____.
- (a) Increase in tax rates (b) Increase in government expenditure
(c) Increase in price level (d) Decrease in government expenditure

Read the following passage and write answers of Q139–Q142

India suffers first recession in decades: India has plunged into recession for the first time in nearly a quarter of a century as the pandemic continues to weigh heavily on Asia’s third biggest economy, which economists warn will struggle to recover from the slump.

Official data published on Friday showed gross domestic product for the July – September quarter fell by 7.5% compared to the same period last year, when the economy was growing by more than 4%.

That follows a record drop of nearly 24% in GDP in the April – June period, the first quarter of India’s fiscal year.

“With a view to contain the spread of the Covid – 19 pandemic, restrictions were imposed on the economic activities not deemed essential during the first quarter, “the Indian Ministry of Statistics said in a statement on Friday.” Though the restrictions have been gradually lifted, there has been an impact on the economic activities.”

While manufacturing returned to growth, the services sector suffered a second consecutive double – digit decline. Government consumption also fell sharply in part because of an “inadequate fiscal response to the crisis, “said senior India economist at Capital Economics, Shilan Shah.

Source: CNN India, November 27

139. Refer to the given case, it would be appropriate fiscal policy for government to:
- (a) Decrease spending and Increase taxes.
 - (b) Increase spending and Increase taxes.
 - (c) Decrease spending and decrease taxes.
 - (d) Increase spending and decrease taxes.
140. Deflationary gap is said to exist when:
- (a) Aggregate demand is less than the aggregate supply.
 - (b) Aggregate demand is less than the aggregate supply.
 - (c) Aggregate demand is less than the aggregate supply at full employment level.
 - (d) Aggregate demand is more than the aggregate supply at full employment level.
141. "While manufacturing returned to growth, the services sector suffered a second consecutive double digit decline. Government consumption also fell sharply in part because of an "inadequate fiscal response to the crisis,"
- According to the given statement what will be the impact of increasing in manufacturing activities in the economy.
- (a) The C + I curve will increase due to increase in consumption expenditure in the economy.
 - (b) The C + I curve will increase due to increase in investment expenditure in the economy.
 - (c) The C + I curve will decrease due to increase in consumption expenditure in the economy.
 - (d) The C + I curve will decrease due to increase in investment expenditure in the economy.
142. A decline in GDP suggests that in the economy:
- (a) Ex-post aggregate demand is more than the ex-post aggregate supply.
 - (b) Ex-post aggregate demand is less than the ex-post aggregate supply.
 - (c) Ex-ante aggregate demand is more than the ex-ante aggregate supply.
 - (d) Ex-ante aggregate demand is less than the ex-ante aggregate supply.

ANSWERS

Multiple Choice Questions

- | | | | | | | | | | |
|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1. (c) | 2. (b) | 3. (b) | 4. (a) | 5. (b) | 6. (b) | 7. (d) | 8. (c) | 9. (c) | 10. (d) |
| 11. (d) | 12. (a) | 13. (c) | 14. (c) | 15. (d) | 16. (d) | 17. (a) | 18. (c) | 19. (d) | 20. (a) |
| 21. (c) | 22. (a) | 23. (a) | 24. (b) | 25. (c) | 26. (c) | 27. (b) | 28. (a) | 29. (b) | 30. (a) |
| 31. (b) | 32. (a) | 33. (a) | 34. (b) | 35. (b) | 36. (c) | 37. (b) | 38. (c) | 39. (a) | 40. (b) |
| 41. (b) | 42. (d) | 43. (c) | 44. (c) | 45. (b) | 46. (b) | 47. (a) | 48. (b) | 49. (b) | 50. (a) |
| 51. (d) | 52. (a) | 53. (c) | 54. (a) | 55. (a) | 56. (c) | 57. (a) | 58. (a) | 59. (a) | 60. (a) |
| 61. (c) | 62. (b) | 63. (c) | 64. (a) | 65. (a) | 66. (b) | 67. (b) | 68. (d) | 69. (c) | 70. (c) |
| 71. (b) | 72. (c) | 73. (c) | 74. (c) | 75. (c) | 76. (b) | 77. (c) | 78. (a) | 79. (a) | 80. (c) |
| 81. (b) | 82. (c) | 83. (d) | 84. (b) | 85. (c) | 86. (b) | 87. (b) | 88. (a) | 89. (c) | 90. (c) |
| 91. (b) | 92. (b) | 93. (b) | 94. (b) | 95. (b) | 96. (c) | 97. (a) | 98. (c) | 99. (a) | 100. (b) |
| 101. (b) | 102. (a) | 103. (a) | 104. (a) | 105. (c) | 106. (a) | 107. (d) | 108. (c) | 109. (b) | 110. (d) |
| 111. (d) | 112. (d) | 113. (c) | 114. (b) | 115. (c) | 116. (a) | 117. (b) | 118. (b) | 119. (c) | 120. (a) |
| 121. (a) | 122. (b) | | | | | | | | |

Input Text Based MCQs

- | | | | | | | | | | |
|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 123. (a) | 124. (a) | 125. (b) | 126. (b) | 127. (b) | 128. (b) | 129. (b) | 130. (a) | 131. (a) | 132. (c) |
| 133. (b) | 134. (a) | 135. (c) | 136. (c) | 137. (d) | 138. (b) | 139. (d) | 140. (c) | 141. (b) | 142. (d) |

