



INDIAN SCHOOL AL WADI AL KABIR

Class: XII	Department: Commerce
Worksheet No: 1	Topic: Determination of Income and Employment

1. According to classical economists, there always exists _____ equilibrium in the economy.
(A) Full employment
(B) Underemployment
(C) Over full employment
(D) None of these
A: Full employment
2. What will be APC when $APS = 0$?
(A) One
(B) Zero
(C) Two
(D) Infinite
A: a
3. What is a fiscal measure of correcting deficient demand?
(A) Increase in public expenditure and decrease in taxes
(B) Decrease in public debt
(C) Deficit financing
(D) All of these
A:d
4. Which is the measure of correcting excess demand?
(A) Deficit financing
(B) Reduction in taxes
(C) Increase in public expenditure
(D) Increase in public debt
A: d
5. If $MPC = 1$, the value of the multiplier is:
(A) 0
(B) 1
(C) Between 0 and 1
(D) Infinity
A:d
6. Who is the author of the book 'General Theory of Employment, Interest, and Money'?
(a) A.C. Pigou
(b) Malthus
(c) J.M. Keynes
(d) Marshall

A: c

7. $APC + APS = ?$

- (a) ?
- (b) 2
- (c) 1
- (d) 0

A: 1

8. In Keynesian viewpoint, the equilibrium level of income and employment in the economy will be established where:

- (a) $AD > AS$
- (b) $AS > AD$
- (c) $AD = AS$
- (d) None of these

A: c

9. According to the saving-investment viewpoint, income employment equilibrium will be determined at a point where:

- (a) $S > I$
- (b) $I > S$
- (c) $S = I$
- (d) None of these

A: c

10. Deflationary Gap shows the measurement of:

- (a) Deficit Demand
- (b) Surplus Demand
- (c) Full Employment
- (d) None of these

A:a

11. Which fiscal measure should be adopted for correcting Deficient Demand?

- (a) Government should spend more on public works
- (b) Taxation should be reduced
- (c) Public debt should be reduced
- (d) All the above

A: d

12. When an economy they're to save all its extra income then investment calculation will be:

- (a) 1
- (b) Uncertain
- (c) 0
- (d) Infinite

A: a

13. . Aggregate supply is same as:

- a. National Output
- b. National Income
- c. **Both i and ii**
- d. National investment.

14. When AD is greater than AS, the inventories tend to:
- fall**
 - rise
 - 2020
 - 3014
15. If $MPC = MPS$, then value of the multiplier will be
- 0
 - 1
 - 2**
 - Infinity
16. To correct the situation of deflationary gap, the central bank
- increases margin requirement
 - decreases margin requirement**
 - Increases CRR.
 - Both b and c
17. Excess demand leads to:
- Inflationary gap
 - Rise in prices
 - Both a and b**
 - Rise in employment.
18. If entire additional income is converted into additional consumption, the value of multiplier will be:
- 1
 - Infinity**
 - 0
 - 10.
19. When $c = 100 + 0.5Y$ and $Y = 1200$, autonomous consumption will be:
- 100**
 - 1000
 - Zero
 - 500
20. Keynes discusses equilibrium level of output, using the concept of
- induced investment.
 - autonomous investment**
 - Both a and b
 - Zero investment.
21. Aggregate supply is same as:
- National Output
 - National Income

- c. National employment.
- d. **Both a and b**

22. When AD is greater than AS, the inventories tend to:

- a. **fall**
- b. rise
- c. rise initially and then fall
- d. remain unchanged

23. What will be APC when $APS = 0$?

- a. **One**
- b. Zero
- c. Two
- d. Infinite

24. Suppose in a hypothetical economy, the income rises from ₹ 5,000 crores to ₹ 6,000 crores. As a result, the consumption expenditure rises from ₹ 4,000 crores to ₹ 4,600 crores. Marginal propensity to consume in such a case would be _____

- a. 0.8
- b. 0.4
- c. 0.2
- d. **0.6**

True/False:

1. Consumption is the complement of saving.

True

2. Consumption by one person becomes the income of the other. True or False?

A: True.

3. Full employment means the absence of involuntary unemployment.

A: True.

4. The deflationary gap is the shortfall in AD from the level required to maintain full employment equilibrium in the economy. True or false?

A: True.

5. MPC of the rich class is higher.

A: False

6. What is autonomous investment?

A: It refers to the investment which is independent of the rate of interest and the GDP in the economy.

7. What is meant by ex-ante investment?

A: It refers to desired or planned investment corresponding to different levels of income in the country.

8. What are the desired stocks with the producers?
A: It is the level of stock where $AD = AS$ and the producers are in a state of equilibrium.
9. What are the actual stocks with the producers?
A: Actual stock includes both desired and undesired stock. It can be calculated as Closing stock – Opening stock.
10. When are actual stocks greater than desired stock?
A: When AD falls short of the AS and the producers suffer a loss due to unfulfilled demand.
11. When are actual stocks less than desired stock?
A: When AS falls short of the expectations of the producers, and some output remains unsold.
12. Define natural rate of unemployment.
A: It is the minimum rate of unemployment that must exist in the economy even when the labour market is in equilibrium.
13. Does full employment mean zero unemployment?
A: No. Natural rate of unemployment (minimum rate of unemployment) always exists in the economy.
14. What is fiscal policy?
A: It refers to the revenue and expenditure policy of the Government to correct the situation of ED and DD in the economy.
15. What is monetary policy?
A: It is the policy relating to the regulation of rate of interest and availability of credit to control the situation of ED and DD .
16. Outline the steps taken in deriving saving curve from the consumption curve. Use diagram.
17. Explain consumption function, with the help of a schedule and diagram.
18. Distinguish between APC and MPC by giving a numerical example.
19. Distinguish between voluntary and involuntary unemployment.
20. Distinguish between *ex ante* and *ex post* demand.
21. Give the meaning of deflationary gap and inflationary gap.
22. Explain the determination of national income using, aggregate demand, and aggregate supply approach. (Use diagram)
23. Explain the determination of national income using saving and investment approach ($S+I$) with the help of diagram.
24. Explain the determination of national income using consumption and investment ($C+I$) approach. Use diagram.
25. Explain the concept of inflationary gap. Use diagram. Also explain the role of legal reserve ratio in removing the gap. NOTE; (for legal reserve ratio you have to explain CRR and SLR)
26. Explain the concept of deflationary gap. Use diagram. Also explain the role of margin requirement in reducing it.

(REFER TO NOTES OF THE CHAPTER FOR ANSWERING THE QUESTIONS)

27. In an economy, S is greater than I . Explain the changes that will take place in this economy.

A: * It implies a situation when a fall in expenditure through S is more than rise in expenditure through I.

* Accordingly, Agg Exp wd be less than what is needed to buy the planned output.

* Some output wd remain unsold and producers wl hv unsold stocks.

* To clear the stocks the producers wd plan lesser output.

* Lesser output wd mean lesser income.

* Lesser income wd mean lesser saving.

* This process wd continue $S = I$.

* Thus, equality between S and I is restored through change in the level of Y.

28. In an economy, I is greater than S. Explain the changes that will take place in this economy.

A: Follow Qn 22 to frame the answer.

29. In an economy, AD is less than AS. Explain the changes that will take place in this economy.

A: * When AS is more than AD, AS exceeds AD.

* As a result, some of the goods wd remain unsold.

* Some output wd remain unsold and producers will have unsold stocks.

* To clear the stocks the producers wd plan lesser output.

* Accordingly, AS wd reduce to become equal to AD.

30. A: Value of MPC cannot be greater than one.

R: Change in consumption cannot be more than change in income.

Choose the correct option:

a. Both assertion and reason are TRUE and reason is the correct explanation of the assertion.

b. Both assertion and reason are TRUE and reason is NOT the correct explanation of the assertion.

c. Assertion is TRUE but reason is FALSE.

d. Reason is TRUE but assertion is false. is FALSE.

A: a

31. Read the passage and answer the following questions:

The most important determinant of consumption demand is household income. A consumption function describes the relation between consumption and income. The simplest consumption function assumes that consumption changes at a constant rate as income changes. Of course, even if income is zero, some consumption still takes place. Since this level of consumption is independent of income, it is called autonomous consumption. We can describe this function as: $C = \bar{C} + bY$

The above equation is called the consumption function. Here C is the consumption expenditure by households.

1. If income is zero, some amount of consumption still takes place. This is called:

a. Constant consumption

b. Definite consumption

c. Permanent consumption.

d. **Autonomous consumption**

2. b in the above equation is called:

- a. **MPC**
- b. MPS
- c. APC
- d. APS

3. If consumption changes at a constant rate as income changes, then the consumption curve will be a _____.

- a. Circle
- b. Rectangular hyperbola
- c. **Straight-line**
- d. Ellipse

MATCH THE FOLLOWING:

1. Meaning of market demand	(a) Directly related to each other
2. Income and Savings both	(b) J. B. Say
3. Independent jurisdiction	(c) Income is inelastic
4. Induced investment	(d) By the demand of one good
5. Supply creates its own demand	(e) Is ruled by
6. Effective demand = Total demand and Total supply	(f) Income is elastic.

ANSWER:

Meaning of market demand	(d) By the demand of one good
2. Income and Savings both	(a) Directly related to each other
3. Independent jurisdiction	(c) Income is inelastic
4. Induced investment	(f) Income is elastic.
5. Supply creates its own demand	(b) J. B. Say
6. Effective demand = Total demand and Total supply	(e) Is ruled by