



INDIAN SCHOOL AL WADI AL KABIR

Class: XII	Department: Commerce
WORKSHEET: 1	Topic: Determination of Income and Employment

- Which of the following statements is not true about average demand in a two-sector economy?
 - The average demand is the total of consumption and savings
 - The average demand curve commences from some point that is above the origin
 - The average demand is the total of consumption and investment
 - The average demand curve has a positive slope
- Which of the statements is true about the relationship between planned savings and planned investment?
 - When planned investment is more than planned savings, the national income may increase
 - When planned investment is more than planned savings, the national income may decrease
 - When planned investment is more than planned savings, there is no effect on the national income
 - None of the above
- What measures can be used to correct the inflationary gap under the monetary policy?
 - Reducing the availability of credit
 - Cutting the government expenditure
 - Increasing taxation
 - None of the above
- According to classical economists, there always exists _____ equilibrium in the economy.
 - Full employment
 - Underemployment
 - Over full employment
 - None of these
- What will be APC when $APS = 0$?
 - One
 - Zero
 - Two
 - Infinite
- What is a fiscal measure of correcting deficient demand?
 - Increase in public expenditure and decrease in taxes
 - Decrease in public debt
 - Deficit financing
 - All of these

7. 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
8. If $MPC = 1$, the value of the multiplier is:
(A) 0
(B) 1
(C) Between 0 and 1
(D) Infinity
9. 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
10. $APC + APS = ?$
(a) 1.5
(b) 2
(c) 1
(d) 0
11. 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
12. 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
13. Deflationary Gap shows the measurement of:
(a) Deficit Demand
(b) Surplus Demand
(c) Full Employment
(d) None of these
14. 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
15. When an economy tries to save all its extra income then investment calculation will

be:

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

16. Aggregate supply is same as:

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

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

- a. fall
- b. rise
- c. 2020
- d. 3014

18. If $MPC = MPS$, then value of the multiplier will be

- a. 0
- b. 1
- c. 2
- d. Infinity

19. To correct the situation of deflationary gap, the central bank

- a. increases margin requirement
- b. decreases margin requirement
- c. Increases CRR.
- d. Both b and c

20. Excess demand leads to:

- a. Inflationary gap
- b. Rise in prices
- c. Both a and b
- d. Rise in employment.

21. If entire additional income is converted into additional consumption, the value of multiplier will be:

- a. 1
- b. Infinity
- c. 0
- d. 10.

22. When $c = 100 + 0.5Y$ and $Y = 1200$, autonomous consumption will be:

- a. 100
- b. 1000
- c. Zero
- d. 500

True/False:

1. Consumption is the complement of saving.
2. Consumption by one person becomes the income of the other. True or False?
3. Full employment means the absence of involuntary unemployment.
4. The deflationary gap is the shortfall in AD from the level required to maintain full employment equilibrium in the economy. True or false?
5. MPC of the rich class is higher. True or False?
6. Outline the steps taken in deriving saving curve from the consumption curve. Use diagram.
7. Explain consumption function, with the help of a schedule and diagram.
8. Distinguish between APC and MPC by giving a numerical example.
9. Distinguish between voluntary and involuntary unemployment.
10. Distinguish between ex ante and ex post demand.
11. Give the meaning of deflationary gap and inflationary gap.
12. Explain the determination of national income using, aggregate demand, and aggregate supply approach. (Use diagram)
13. Explain the determination of national income using saving and investment approach(S+I) with the help of diagram.
14. Explain the determination of national income using consumption and investment (C+I) approach .Use diagram.
15. 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)
16. Explain the concept of deflationary gap. Use diagram. Also explain the role of margin requirement in reducing it.
17. In an economy, S is greater than I. Explain the changes that will take place in this economy.

Assertion Reasoning Questions:

Read the following statements: Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Alternatives:

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
- b) Both Assertion and Reason are true and Reason (R) is not the correct explanation of Assertion(A)
- c) Assertion (A) is True but Reason (R) is False
- d) Assertion (A) is False but Reason (R) is True

1. **Assertion (A):** At the Break-Even point, consumption is equal to National Income.
Reason (R): APC falls continuously with an increase in income as the proportion of income spent on consumption keeps on decreasing.
2. **Assertion (A):** There is a positive relationship between saving and income.
Reason (R): Savings are positive even at zero level of National Income.
3. **Assertion (A):** The sum of APC and APS is equal to one.
Reason (R): Income is either used for consumption or for saving.
4. **Assertion (A):** At the time of full employment, there is an absence of involuntary unemployment.
Reason (R): Voluntary unemployment is not included while estimating the size of unemployment.

CASE STUDY QUESTIONS:

"The denial of the crucial role of the interest rate as equilibrator of savings and investment led directly to the Keynesian theory of employment determinants. Given the 'propensity to consume' and hence the proportion of any given income that will be spent by individual consumers (on which the size of R F Kahn's 'multiplier' depends), the level of output and employment will be a function of investment. According to the level at which investment (also consumption) stands, the level of output and employment may be almost anything between zero and full capacity output. There is at any rate, no longer any unique level to which the system is necessarily tending. So far as investment consists of private investment, it will remain governed by the 'marginal efficiency of capital' (anticipated profitability), modified, on one hand, by 'expectations' (powerfully swayed by business mood and the like) and on other hand, by the cost of borrowing, namely prevailing rate of interest.

Thus, was the casual emphasis of theory reversed:

instead of any change in saving being translated into an equivalent shift of investment and (via income changes) the volume of savings the dependent variable.

Interest was converted virtually into a money rate—something influenced on the one hand by monetary policy (affecting the supply of money available) and on the other hand by the current attitude towards it as something worth holding (e.g., a bank deposit) in preference to other assets (e.g., bonds). This later constituted the famous liquidity preference—a preference powerfully influenced by expectations (or uncertainty) about future movements of interest rates (and hence of bond prices)."

Question: The 'multiplier' referred to here relates to

- (a) the propensity to consume which determines how much consumers spend
- (b) the change in employment consequent upon a change in output
- (c) the change in output consequent upon a change in investment
- (d) the number that equilibrates saving and investment

Question: There is no unique level of output and employment to which the economic system tends, because

- (a) investment consists only of private investment
- (b) investment determines the level of output and can vary
- (c) changes in saving are translated into an equivalent level of investment

Question: Keynes treated the interest rate as

- (a) entirely determined by expectations about the future
- (b) the rate at which current savings and investment are equilibrated
- (c) reflecting both monetary policy and liquidity preference
- (d) an indicator of expected profitability

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