INDIAN SCHOOL AL WADI AL KABIR

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

1. According to which economist, national income can be determined even below the full employment level?
   (a) Adam Smith
   (b) JM Keynes
   (c) JB Say
   (d) Haroon Kurtz

2. Value of aggregate supply equals:
   (a) National Income
   (b) Domestic Income
   (c) Private Income
   (d) Personal Income

3. Consumption function is a functional relationship between:
   (a) Income and Saving
   (b) Price and Consumption
   (c) Income and Consumption
   (d) Income, Consumption and Saving

4. At the break-even point:
   (a) Consumption > Income
   (b) Consumption = Income
   (c) Consumption < Income
   (d) None of these

5. 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 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

6. Full employment implies absence of:
   (a) Voluntary unemployment
   (b) Involuntary unemployment
   (c) Unemployment
   (d) None of these

7. In case of an underemployment equilibrium, which of the following alternative is not true?
   (a) Aggregate demand is equal to Aggregate supply.
   (b) There exists excess production capacity in the economy.
   (c) Resources are not fully and efficiently utilised.
   (d) Resources are fully and efficiently utilised.

8. Name the situation under which aggregate demand falls short of aggregate supply at full employment level.
   (a) Excess demand
   (b) Excess supply
   (c) Inflationary gap
   (d) None of these

9. In a situation of 'inflationary gap' at the full employment level of income:
   (a) AD > AS
   (b) AD = AS
   (c) AD < AS
   (d) None of these

10. Which of the following is the remedy for inflationary gap?
   (a) Raising repo rate
   (b) Increase in bank rate
   (c) Reduction in government expenditure
   (d) All of these

Questions:

1. Differentiate between ex ante and ex post-investment.
2. Can the average propensity to consume be greater than one? Explain with the reason.
3. Explain the role of the following in correcting the deficient demand in an economy.
   a. Open market operations
   b. Bank rate
4. 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.
5. Why does consumption curve not start from the origin?
6. The consumption function of an economy is: C = 40 + 0.8 Y (amount ₹ in crores). Determine that level of income where Average Propensity to Consume will be one.
7. Distinguish between Marginal Propensity to Consume and Average Propensity to Consume. Give a numerical example.
8. Calculate consumption expenditure in the economy whose equilibrium level of income is ₹ 20,000, autonomous consumption is ₹ 500 and Marginal Propensity to Save is 0.5.
9. What is Aggregate Demand? State its components.
10. Which of the following cannot have a negative value? Give reasons.
    (i) Average Propensity to Save
    (ii) Marginal Propensity to Save
11. Give the meaning of Average Propensity to Save. What is its relation with Average Propensity to Consume?
12. Explain the consumption function and saving function.

13. State the meaning of the following.
    (a) Ex-ante savings
    (b) Full employment
    (c) Autonomous consumption
14. Explain the following using a diagram: -
    a. Full employment equilibrium
    b. Underemployment equilibrium
    c. Over full employment equilibrium
15. The saving function of an economy is $S = -200 + 0.25Y$. The economy is in equilibrium when income is equal to 2000. Calculate
    a. Investment expenditure at equilibrium level of income
    b. Autonomous consumption
    c. Investment multiplier

Read the following news report and answer the questions that follow.

India's record pump prices of gasoline and diesel are the newest threat to the economy's nascent recovery, as high local taxes on retail fuel risk fanning inflation and driving a wedge between the objectives of fiscal and monetary policymakers. Gasoline prices were at an all-time high of 97.6 rupees ($1.3) a litre in Mumbai Tuesday, while diesel sold for a record 88.6 rupees, data from state-run Indian Oil Corporation show. Taxes make up more than half of that cost and represent a sore point for the inflation-targeting Reserve Bank of India, which has vowed to keep borrowing costs low for as long as needed to support economic growth.

(a) Fiscal policy is a policy undertaken by:
   a. Central Bank
   b. Government
   c. Both of these
   d. None of these

(b) To reduce the price level of petrol, government should:
   a. Increase taxes
   b. Decrease taxes
   c. Increase borrowings
   d. Decrease borrowings

(c) Monetary policy tool used by the Central Bank to curtail inflation is:
   a. Sell bonds
   b. Increase CRR
   c. Increase repo rate
   d. All of these

(d) When inflationary gap persists in the economy, what is the impact on price, output and employment level?
   a. Rise in prices, output and employment
   b. Fall in prices, output and employment
   c. Rise in prices, no change in output and employment
   d. Fall in prices, no change in output and employment

Ans. (a) (ii) Government
(b) (ii) Decrease taxes
(c) (iv) All of these
(d) (iii) Rise in prices, No change in output and employment