Determination of Income and Employment

Choose the correct alternative.

Question 1.

The value of multiplier is

- (a)
- (b)
- (c)
- (d)

▼ Answer

Answer: (b)

Question 2.

Aggregate demand can be increased by

- (a) increasing bank rate
- (b) selling government securities by the Reserve Bank of India
- (c) increasing cash reserve ratio
- (d) none of the above

▼ Answer

Answer: (d) None of the above

Question 3.

If MPC is equal to 1, the value of the multiplier is

- (a) 0
- (b) 1
- (c) Between 0 and 1
- (d) Infinity

▼ Answer

Answer: (d) Infinity

Question 4.

If the marginal propensity to consume is greater than the marginal propensity to save, the value of the multiplier will be:

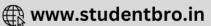
- (a) greater than 2
- (b) less than 2
- (c) two equal to 2
- (d) equal to 5

▼ Answer

Answer: (a) greater than 2







Question 5.
If MPC is zero
(a) 0

If MPC is zero, the value of the multiplier is

(b) 1

(c) between 0 and 1

(d) infinity

▼ Answer

Answer: (b) 1

Question 6.

Average Propensity to Consume can never be _____

(a) positive

(b) zero

(c) more than one

(d) less than one

▼ Answer

Answer: (b) zero

Ouestion 7.

According to classical economists, there always exists an equilibrium in the economy.

(a) Full employment

(b) Underemployment

(c) Over full employment

(d) None of these

▼ Answer

Answer: (a) Full employment

Question 8.

What will be MPC when MPS = 0?

(a) One

(b) Zero

(c) Two

(d) Infinite

▼ Answer

Answer: (a) One

Question 9.

If the income is ₹ 400 crores and consumption is ₹ 250 crores, what will be the APC?

(a) 0.67





(b) 0.63 (c) 0.60 (d) 0.58
▼ Answer
Answer: (b) 0.63
Question 10. What is a fiscal measure of correcting deficient demand? (a) Decrease in public debt (b) Increase in public expenditure and decrease in taxes (c) Deficit financing (d) All of these
▼ Answer
Answer: (d) All of these
Question 11. 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
▼ Answer
Answer: (d) Increase in public debt
Fill in the blanks with the correct word.
Question 12. The multiplier is the ratio between the change in income and change in
▼ Answer
Answer: investment
Question 13. In an economy, break-even point and equilibrium point may lie at the same level of income, if ex-ante investments are
▼ Answer

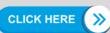




Answer: zero

Question 14. There is a/an	relation between multiplier and MPC.	
▼ Answer		
Answer: direct		
Question 15. Deficient demand re	efers to the situation when Aggregate Demand is Agg	gregate
▼ Answer		
Answer: less than		
Question 16. The price will	in the situation of excess demand.	
▼ Answer		
Answer: Increase		
Question 17. In a situation of inf	lationary gap, the economy faces a situation of output	: .
▼ Answer		
Answer: higher		
Question 18 demand	causes inflationary pressure.	
▼ Answer		
Answer: excess		
Question 19. Deflationary gap is	a measure of demand.	
▼ Answer		
Answer: excess		
Question 20 policy is re	elated to revenue and expenditure of the government.	
▼ Answer		





Answer: fiscal		
Question 21. Bank rate is a instrument of monetary policy.		
▼ Answer		
Answer: quantitative		
Question 22 policy is concerned with the supply, availability, and cost of money.		
▼ Answer		
Answer: monetary		
Question 23 employment was the main feature of the classical theory of employment.		
▼ Answer		
Answer: Full		
Question 24. MPC is always		
▼ Answer		
Answer: positive		
Question 25. MPC is greater than zero and than one.		
▼ Answer		
Answer: less		
State whether the following statements are true or false. Give reasons.		
Question 26. There is a direct relationship between multiplier and MPC.		
▼ Answer		
Answer: True There is a direct relationship between multiplier and MPC. The higher the MPC, the higher will be the value of the multiplier and vice-versa.		





Question 27.

When MPC is zero, the multiplier is 1.

▼ Answer

Answer: True

The relation between multiplier and MPC can be represented as K =

At MPC = 0, K = 1.

Question 28.

The deflationary gap causes a fall in the level of employment.

▼ Answer

Answer: True

When there is a deflationary gap, aggregate demand remains less than essential demand at the full employment level. Thus, the problem of involuntary unemployment takes place.

Question 29.

The inflationary gap causes a fall in the level of price.

▼ Answer

Answer: False

When there is an inflationary gap, aggregate demand remains more than essential demand at the full employment level. Thus, there is a significant rise in prices.

Question 30.

Monetary policy is related to the revenue and expenditure policy of the government.

▼ Answer

Answer: False

The monetary policy includes measures taken by the central bank to expand or contract the money supply. Instead, fiscal policy is related to the revenue and expenditure policy of the government.

Question 31.

When there is excess demand, the rate of taxation is to be reduced.

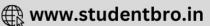
▼ Answer

Answer: False

During excess demand, the government reduces the rate of taxes and even imposes some new taxes. It leads to a decrease in the level of aggregate expenditure in the economy and helps to control the situation of excess demand.







Question 32.

When there is deficient demand, public expenditure is to be generally expanded.

▼ Answer

Answer: True

An increase in public expenditure tends to increase the purchasing power of the public which, in turn, increases the demand for goods and corrects deficient demand.

Match the alternatives given in Column II with respective terms in Column I.

Question 33.

Column I	Column II
(i) Ex-ante Investment	(a) Increase Bank rate
(ii) Ex-post Investment	(b) AS curve is perfectly inelastic
(iii) Monetary Measure to Correct Disequilibrium	(c) Actual Investment
(iv) Fiscal Measure to Correct Disequilibrium	(d) Planned Investment
(v) Components of AD	(e) Changes in Government expenditure
(vi) Components of AS	(f) Consumption and Investment
(vii) Classical Concept of AS	(g) Changing Cash Reserve Ratio
(viii) Keynesian Concept of AS	(h) Consumption and Saving
(ix) To correct excess demand	(i) AS curve is perfectly elastic
(x) To correct deficient demand	(j) Increase government expenditure

▼ Answer

Answer:

Column I	Column II
(i) Ex-ante Investment	(d) Planned Investment
(ii) Ex-post Investment	(c) Actual Investment
(iii) Monetary Measure to Correct Disequilibrium	(g) Changing Cash Reserve Ratio
(iv) Fiscal Measure to Correct Disequilibrium	(e) Changes in Government expenditure



	(f) Consumption and Investment
(vi) Components of AS	(h) Consumption and Saving
"(VII) (lassical (oncent of AS	(b) AS curve is perfectly inelastic
	(i) AS curve is perfectly elastic
(ix) To correct excess demand	(a) Increase Bank rate
	(j) Increase government expenditure

