

## Determination of Income and Employment

Choose the correct alternative.

Question 1.

The value of multiplier is

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

▼ Answer

Answer: (b)

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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

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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

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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

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Question 5.

If MPC is zero, the value of the multiplier is

- (a) 0
- (b) 1
- (c) between 0 and 1
- (d) infinity

▼ [Answer](#)

Answer: (b) 1

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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

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Question 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

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Question 8.

What will be MPC when  $MPS = 0$ ?

- (a) One
- (b) Zero
- (c) Two
- (d) Infinite

▼ [Answer](#)

Answer: (a) One

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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

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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

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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

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[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

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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

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Question 14.

There is a/an \_\_\_\_\_ relation between multiplier and MPC.

▼ [Answer](#)

Answer: direct

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Question 15.

Deficient demand refers to the situation when Aggregate Demand is \_\_\_\_\_ Aggregate Supply.

▼ [Answer](#)

Answer: less than

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Question 16.

The price will \_\_\_\_\_ in the situation of excess demand.

▼ [Answer](#)

Answer: Increase

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Question 17.

In a situation of inflationary gap, the economy faces a situation of \_\_\_\_\_ output.

▼ [Answer](#)

Answer: higher

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Question 18.

\_\_\_\_\_ demand causes inflationary pressure.

▼ [Answer](#)

Answer: excess

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Question 19.

Deflationary gap is a measure of \_\_\_\_\_ demand.

▼ [Answer](#)

Answer: excess

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Question 20.

\_\_\_\_\_ policy is related to revenue and expenditure of the government.

▼ [Answer](#)

Answer: fiscal

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Question 21.

Bank rate is a \_\_\_\_\_ instrument of monetary policy.

▼ [Answer](#)

Answer: quantitative

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Question 22.

\_\_\_\_\_ policy is concerned with the supply, availability, and cost of money.

▼ [Answer](#)

Answer: monetary

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Question 23.

\_\_\_\_\_ employment was the main feature of the classical theory of employment.

▼ [Answer](#)

Answer: Full

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Question 24.

MPC is always \_\_\_\_\_

▼ [Answer](#)

Answer: positive

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Question 25.

MPC is greater than zero and \_\_\_\_\_ than one.

▼ [Answer](#)

Answer: less

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[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.

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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  $MPC = 0$ ,  $K = 1$ .

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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.

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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.

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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.

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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.

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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.

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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 |

|                                 |                                     |
|---------------------------------|-------------------------------------|
| (v) Components of AD            | (f) Consumption and Investment      |
| (vi) Components of AS           | (h) Consumption and Saving          |
| (vii) Classical Concept of AS   | (b) AS curve is perfectly inelastic |
| (viii) Keynesian Concept of AS  | (i) AS curve is perfectly elastic   |
| (ix) To correct excess demand   | (a) Increase Bank rate              |
| (x) To correct deficient demand | (j) Increase government expenditure |

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