

Chapter 4 – Determination of Income & Employment

Question 1

APS =

- S/Y
- None of these
- S/D
- C/S

Answer: S/Y

Question 2

Consumption changes in the same direction as income. It is,

- True
- False
- Can't say
- Insufficient information

Answer: True

Question 3

What is equilibrium income?

Answer: The equilibrium income is defined as the level of income where $AD = AS$ that means Aggregate Demand is = to the Aggregate supply. Planned savings is always = to the planned investment.

Question 4

Differentiate between ex ante and ex post-investment.

Answer: Ex ante is the planned investment in which the planner plans to invest at a distinct level of income and employment in the economy.

Ex post-investment comes into the picture when actual sales vary from the planned sales and enterprises.

Question 5

The level of equilibrium income is determined by,

- AD and national income
- AD and investment

- AD and consumption
- AD and AS

Answer: AD and AS

Question 6

$$C = a + b(Y)$$

- The algebraic function of the level of investment expenditure
- The linear function of the level of consumption expenditure
- The algebraic function of the level of consumption expenditure
- The algebraic function of the level of capital expenditure

Answer: The algebraic function of the level of consumption expenditure

Question 7

In a 2 sector economy aggregate demand equals,

- Consumption + Private consumption expenditure
- Consumption + Exports
- Consumption + Investments
- Consumption + Government Expenditure

Answer: Consumption + Investments

Question 8

Can the average propensity to consume be greater than one? Explain with the reason.

Answer: Average propensity to consume can be greater than one when the consumption exceeds the income. At that degree average propensity to save would be negative. APC would be greater than one if, the APS is negative. For instance, if the income is ₹. 1,000/-, consumption is ₹. 1,200/-. Then $APC = 1200/1000 = 1.20$.

Question 9

Explain the role of the following in correcting the deficient demand in an economy.

Open market operations

Answer: Open market operations in correcting the deficient demand in an economy – Open market operations is the sale and purchase of the government and other approved securities by the central bank to the commercial bank and other financial establishments. When the cash balance is to be increased in the economy, especially

during the situation of deficient demand, the central bank tends to purchase more securities.

Question 10

Explain the role of the following in correcting the deficient demand in an economy.

Bank rate

Answer: Bank rate in correcting the deficient demand in an economy – Bank rate is the rate at which the central bank gives money to the commercial banks. To regulate the circumstance of the deficit demand, the bank rate is decreased, due to this depletion of bank rate by the central bank, commercial banks will certainly fall the market rate of interest.

Question 11

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

Answer: $I = ₹.600/-$ and $C = 300 + 0.5Y$

$$Y = C + I$$

$$Y = 300 + 0.5Y + 600$$

$$Y = 900/0.5$$

$$\text{Income (Y)} = ₹. 1,800/-$$

Question 12

In an economy, $C = 300 + 0.5Y$ and $I = ₹. 600/-$ (where C = consumption, Y = income or investment). Compute the following:

Consumption expenditure at equilibrium level of income

Answer: $Y = C + I$

$$1800 = C + 600$$

$$C = 1800 - 600$$

Consumption Expenditure C is = ₹. 1,200/-.