Chapter 9: Excess Demand & Deficient Demand

Question 1

Name the situation under which planned aggregate expenditure exceeds the equilibrium level of expenditure.

Ans: Excess demand

Question 2

What does the inflationary gap measure?

Ans: The inflationary gap measures the quantum of excess demand.

Question 3

Name the situation under which aggregate demand is insufficient to eliminate involuntary unemployment.

Ans: Deficient demand

Question 4

What is the impact of a decrease in margin requirements?

Ans: Decrease in margin requirements encourages borrowings and raises the aggregate demand.

Question 5

State two measures by which a central bank can attempt to reduce the inflationary gap.

Ans: The two measures by which a central bank can attempt to reduce the inflationary gap are.

- Increase in bank rate
- Sale in government securities

Question 6

What is the impact of excess demand and deficient demand on the price level?

Ans: Excess demand raises the general price level (inflation), whereas, deficient demand reduces it (deflation).