

CHAPTER-4 | Determination of Income and Employment

QUIZ
PART-06

1. Excess demand refers to a situation when:

- A. $AD = AS$ at full employment
- B. $AD < AS$ at full employment
- C. $AD > AS$ at full employment
- D. $AD = 0$ (C)

Explanation: Excess demand occurs when aggregate demand exceeds aggregate supply at full employment, creating an inflationary gap.

2. Why is excess demand called inflationary?

- A. It reduces prices in the economy
- B. It increases the general price level
- C. It decreases aggregate demand
- D. It decreases employment (B)

Explanation: Excess demand leads to a rise in the general price level since demand is greater than supply at full employment.

3. Which of the following can cause excess demand?

- A. Fall in exports
- B. Decrease in government expenditure
- C. Reduction in taxes
- D. Increase in imports (C)

Explanation: Reduction in taxes increases disposable income and consumption, raising aggregate demand beyond full employment level.

4. What is the impact of excess demand on output?

- A. Output increases beyond full employment
- B. Output decreases below full employment
- C. Output remains unchanged
- D. Output fluctuates randomly (C)

Explanation: Since the economy is already at full employment, excess demand does not increase output.

5. Deficient demand refers to a situation when:

- A. $AD > AS$ at full employment
- B. $AD = AS$ at full employment
- C. $AD < AS$ at full employment
- D. $AD = AS$ at zero income (C)

Explanation: Deficient demand occurs when aggregate demand is less than aggregate supply at full employment, creating a deflationary gap.

6. Which of the following can cause deficient demand?

- A. Reduction in imports
- B. Rise in taxes
- C. Rise in exports
- D. Increase in government expenditure (B)

Explanation: Higher taxes reduce disposable income and consumption, leading to deficient demand.

7. What is the impact of deficient demand on employment?

- A. Creates over-employment
- B. Leads to involuntary unemployment
- C. No impact on employment
- D. Employment rises (B)

Explanation: Deficient demand reduces planned output, leading to involuntary unemployment.

8. The gap by which actual aggregate demand exceeds full employment demand is known as:

- A. Deflationary Gap
- B. Inflationary Gap
- C. Recessionary Gap
- D. Stagnation Gap (B)

Explanation: The inflationary gap measures the extent of excess demand over full employment demand.

9. The gap by which actual aggregate demand falls short of full employment demand is called:

- A. Inflationary Gap
- B. Deflationary Gap
- C. Recessionary Gap
- D. Output Gap (B)

Explanation: The deflationary gap reflects the shortage of aggregate demand compared to what is required for full employment equilibrium.

10. In deficient demand, the general price level:

- A. Rises continuously
- B. Falls due to weak demand
- C. Remains unchanged
- D. Doubles automatically (B)

Explanation: Deficient demand reduces the overall demand for goods and services, causing a fall in general prices (deflation).