

CHAPTER-4 | Determination of Income and Employment

QUIZ
PART-08

1. Marginal Propensity to Consume (MPC) is defined as:

- A. $\Delta Y \div \Delta C$
- B. $\Delta C \div \Delta Y$
- C. $C \div Y$
- D. $Y \div C$ (B)

Explanation: MPC is the ratio of change in consumption expenditure (ΔC) to change in income (ΔY).

2. Which of the following is not a feature of MPC?

- A. MPC varies between 0 and 1
- B. MPC of the rich is higher than that of the poor
- C. MPC is the slope of the consumption curve
- D. MPC falls with successive increases in income (B)

Explanation: The MPC of the poor is higher than that of the rich since poorer households consume a larger proportion of additional income.

3. The relationship between MPC and MPS can be expressed as:

- A. $MPC + MPS = 0$
- B. $MPC \times MPS = 1$
- C. $MPC + MPS = 1$
- D. $MPC - MPS = 1$ (C)

Explanation: Since $\Delta Y = \Delta C + \Delta S$, dividing through by ΔY gives $MPC + MPS = 1$.

4. Ex-ante investment refers to:

- A. Actual investment in an economy during a year
- B. Planned investment at different income levels
- C. Government spending only
- D. Savings realized after production (B)

Explanation: Ex-ante investment is planned investment that firms intend to make at various income levels.

5. Ex-post investment is defined as:

- A. Planned investment at different income levels
- B. Actual realized investment in an economy
- C. Government's fiscal investment
- D. Saving used for consumption (B)

Explanation: Ex-post investment refers to actual realized investment during a given year.

6. A parametric shift of a line occurs due to:

- A. Change in slope or intercept caused by external parameters.
- B. Random fluctuations in demand and supply
- C. Only changes in prices of final goods
- D. Errors in statistical measurement (A)

Explanation: A parametric shift happens when exogenous factors like consumption, investment, or AD change, affecting slope or intercept.

7. When the slope of a line decreases, the line:

- A. Becomes steeper and shifts left
- B. Becomes flatter and rotates downward
- C. Remains unchanged
- D. Shifts upward parallel to itself (B)

Explanation: A decrease in slope makes the line flatter and rotates it clockwise around its intercept.

8. When the intercept of a line increases, the line:

- A. Becomes flatter
- B. Shifts downward
- C. Shifts upward parallel to its original position
- D. Rotates counterclockwise (C)

Explanation: An increase in intercept shifts the line upward parallel to its original position without changing its slope.

9. Effective demand refers to the point where:

- A. $AD = 0$
- B. $AD > AS$
- C. $AD = AS$
- D. $AS > AD$ (C)

Explanation: Effective demand is the level of income where aggregate demand equals aggregate supply.

10. The Paradox of Thrift states that:

- A. More saving always increases total savings
- B. Higher MPS may reduce or keep total savings unchanged
- C. Saving has no effect on investment
- D. Saving always equals investment (B)

Explanation: The Paradox of Thrift explains that if everyone increases saving, total savings may decline or remain constant instead of increasing.