

Chapter - 4 | Determination Of Income And Employment

QUIZ-01

1. What is the maximum possible value of Marginal Propensity to Consume (MPC)?

- A. 0 B. 0.5
C. 1 D. 2 (B)

Explanation : MPC lies between 0 and 1. The maximum value it can take is 1 when the entire income is spent on consumption.

2. Which of the following equations correctly represents the consumption function?

- A. $C = I + Y$ B. $C = \bar{C} + cY$
C. $C = Y - S$ D. $C = S + I$ (B)

Explanation : The consumption function has two parts: autonomous consumption (\bar{C}) and induced consumption (cY).

3. In a two-sector model, aggregate demand is equal to:

- A. Consumption – Savings
B. Consumption + Investment
C. Income – Investment
D. Investment + Savings (B)

Explanation : In a two-sector economy, $AD = C + I$, where C is consumption and I is investment.

4. If $MPC = 0.75$, what is the value of the multiplier?

- A. 2 B. 3
C. 4 D. 5 (C)

Explanation : Multiplier $k = 1 / (1 - MPC) = 1 / (1 - 0.75) = 4$

5. What is the effect of a decrease in MPC on the slope of the AD line?

- A. Slope increases
B. Line shifts rightward
C. Slope decreases
D. No change (C)

Explanation : MPC determines the slope of the AD line. A lower MPC means a flatter AD curve.

6. What does an increase in unplanned inventory indicate?

- A. Excess demand
B. Full employment
C. Equilibrium
D. Deficient demand (D)

Explanation : When demand falls short of output, unsold goods accumulate, indicating deficient demand.

7. Which of the following is not included in the autonomous expenditure?

- A. Autonomous consumption
B. Autonomous investment
C. Government expenditure
D. Induced consumption (D)

Explanation : Induced consumption depends on income and is not autonomous.

8. What happens in the Paradox of Thrift?

- A. Savings increase
B. Income rises
C. Savings stay unchanged
D. Consumption increases (C)

Explanation : When everyone saves more, total savings may remain the same due to a fall in income.

9. What is meant by effective demand?

- A. Demand equal to supply at full employment
B. Ex-post demand
C. Total income of economy
D. Demand that determines output (D)

Explanation : Effective demand is the actual level of aggregate demand that determines output when prices are fixed.

10. What is the condition for equilibrium in a two-sector model?

- A. $Y = S$
B. $Y = C - I$
C. $Y = AD$
D. $Y = APC$ (C)

Explanation : Equilibrium is achieved when planned income (Y) equals aggregate demand (AD).