

## **UNIT-4: Determination of Income and Employment**

### **1. The equilibrium level of income occurs when:**

- a) Aggregate supply exceeds aggregate demand
- b) Aggregate demand equals aggregate supply
- c) Consumption is equal to saving
- d) Government expenditure is equal to taxes

### **2. If the level of aggregate demand exceeds the level of aggregate supply, the economy will experience:**

- a) Recession
- b) Deflation
- c) Inflationary gap
- d) Unemployment

### **3. The level of employment in the economy depends primarily on:**

- a) Government expenditure
- b) The interest rate set by the central bank
- c) The aggregate demand for goods and services
- d) The level of foreign investment

### **4. The short-run equilibrium level of income occurs when:**

- a) Investment equals saving
- b) Aggregate demand equals aggregate supply
- c) Consumption equals investment
- d) Actual output equals potential output

### **5. In the Keynesian cross model, the economy is in equilibrium when:**

- a) The aggregate expenditure curve intersects the 45-degree line
- b) Aggregate supply equals aggregate demand
- c) The consumption curve intersects the saving curve
- d) Investment equals saving

### **6. An increase in government spending can lead to:**

- a) A reduction in aggregate demand
- b) An increase in equilibrium income and employment
- c) A decrease in investment
- d) A reduction in taxes

### **7. Which of the following statements about the consumption function is TRUE?**

- a) The consumption function shows a direct relationship between income and investment
- b) The slope of the consumption function is greater than one
- c) The consumption function shows a positive relationship between consumption and income
- d) The consumption function is horizontal at all levels of income

**8. The concept of the multiplier refers to the idea that:**

- a) A change in investment or government spending will lead to a larger change in national income
- b) Changes in the price level lead to changes in aggregate demand
- c) A change in taxes will have no effect on income
- d) Income and employment are always in equilibrium

**9. If there is a decrease in autonomous consumption, it will lead to:**

- a) An increase in national income
- b) A decrease in equilibrium income and employment
- c) A shift in the aggregate supply curve
- d) An increase in government spending

**10. In the classical model of income determination, the economy:**

- a) Always operates below full employment
- b) Always operates at full employment in the long run
- c) Is characterized by sticky wages and prices
- d) Has government intervention to stabilize the economy

**11. In the aggregate demand and aggregate supply model, an increase in the money supply will:**

- a) Lead to a permanent increase in the price level
- b) Shift the aggregate demand curve to the right
- c) Shift the aggregate supply curve to the right
- d) Lead to a decrease in investment

**12. The concept of the "wage-price spiral" suggests that:**

- a) Wages decrease in response to rising prices
- b) A rise in wages leads to a rise in prices, which in turn leads to higher wages
- c) Higher wages always lead to lower prices
- d) Lower wages always lead to higher prices

**13. If the marginal propensity to consume (MPC) is 0.8, the value of the multiplier will be:**

- a) 1.25
- b) 5
- c) 2.5
- d) 4

**14. In the context of income determination, the aggregate supply curve in the short run is:**

- a) Horizontal
- b) Vertical
- c) Upward sloping
- d) Perfectly elastic

**15. The classical theory of employment suggests that:**

- a) Unemployment is caused by a lack of aggregate demand
- b) The economy will always be at full employment in the long run
- c) Wage rigidity causes unemployment
- d) Government intervention is necessary to reduce unemployment

**16. The concept of the investment multiplier was introduced by:**

- a) J.M. Keynes
- b) Milton Friedman
- c) Richard Kahn
- d) John Maynard Keynes

**17. The investment multiplier is defined as:**

- a)  $1 / (1 - MPC)$
- b)  $1 / (MPC)$
- c)  $1 / (1 - MPC)$  or  $1 / MPS$
- d)  $1 / (MPS)$

**18. If the marginal propensity to consume (MPC) is 0.75, the value of the investment multiplier is:**

- a) 3
- b) 4
- c) 2.5
- d) 1.5

**19. The value of the multiplier depends on the:**

- a) Government expenditure
- b) Marginal propensity to consume (MPC)
- c) Nominal GDP
- d) Investment demand

**20. An increase in investment will lead to an increase in national income by:**

- a) The value of the investment itself
- b) The value of the investment multiplied by the investment multiplier

- c) An equal amount to the investment
- d) None of the above

**21. If the marginal propensity to save (MPS) is 0.2, the investment multiplier will be:**

- a) 5
- b) 2
- c)  $1 / 0.2 = 5$
- d) 3

**22. Which of the following statements is TRUE about the multiplier effect?**

- a) The multiplier effect is always equal to 1
- b) The multiplier effect is greater than 1 when the marginal propensity to consume is greater than zero
- c) The multiplier effect depends solely on government spending
- d) The multiplier effect operates only in the long run

**23. If the marginal propensity to consume (MPC) is 0.9, the investment multiplier is:**

- a) 9
- b) 10
- c) 8
- d) 5

**24. An increase in autonomous investment in the economy will lead to a larger increase in national income if:**

- a) The MPC is low
- b) The MPS is high
- c) The MPC is high
- d) Government expenditure is high

**25. The investment multiplier will be lower if:**

- a) Marginal tax rates are high
- b) The marginal propensity to save is high
- c) The level of government spending is high
- d) The marginal propensity to consume is high

**26. In a simple closed economy, if the marginal propensity to consume (MPC) is 0.6 and the initial increase in investment is ₹100 crore, the total increase in income will be:**

- a) ₹160 crore
- b) ₹250 crore

- c) ₹200 crore
- d) ₹150 crore

**27. If the value of the investment multiplier is 4 and the initial increase in investment is ₹50 crore, what will be the total increase in income?**

- a) ₹100 crore
- b) ₹200 crore
- c) ₹300 crore
- d) ₹150 crore

**28. What happens to the investment multiplier if the economy experiences a rise in taxes?**

- a) The multiplier increases
- b) The multiplier decreases
- c) The multiplier remains unaffected
- d) The multiplier becomes zero

**29. The formula for the investment multiplier is:**

- a)  $1 / (MPS)$
- b)  $1 / (1 - MPC)$
- c)  $1 / (MPC)$
- d)  $(MPS + MPC)$

**30. In a closed economy, the total change in income from an increase in investment depends on:**

- a) The interest rate
- b) The level of imports
- c) The marginal propensity to consume (MPC)
- d) The rate of inflation

**31. Which of the following is TRUE regarding the working of the investment multiplier?**

- a) The multiplier only works if there is full employment
- b) The multiplier operates in both the short run and long run
- c) The multiplier is independent of the marginal propensity to save
- d) The multiplier has no impact on income distribution

**32. The total increase in income is equal to the product of:**

- a) Initial investment and the marginal propensity to save
- b) Initial investment and the investment multiplier
- c) Investment and the government spending multiplier
- d) Initial savings and investment

**33. If the nominal GDP of an economy is ₹8,000 crore and the GDP deflator is 1.25, what is the real GDP?**

- a) ₹6,400 crore
- b) ₹7,200 crore
- c) ₹8,500 crore
- d) ₹10,000 crore

**34. When calculating national income, which of the following is NOT considered as part of final consumption expenditure?**

- a) Government expenditure on goods and services
- b) Household consumption expenditure
- c) Corporate investment in capital goods
- d) Expenditure on durable goods by households

**35. Which of the following is included in the calculation of Net National Product (NNP)?**

- a) Gross National Product
- b) Gross Domestic Product
- c) Depreciation
- d) Depreciation subtracted from GNP

**36. In the context of national income measurement, what does the term "value added" refer to?**

- a) The contribution of each firm to the final output of the economy
- b) The income earned by factors of production
- c) The cost of production of final goods
- d) The total income received by the government

**37. Which of the following methods does NOT help in calculating national income?**

- a) Expenditure method
- b) Income method
- c) Value-added method
- d) Budgetary method

**38. If a country has a higher level of depreciation, it will have:**

- a) Higher NDP than GDP
- b) Lower GDP than NDP
- c) Lower NDP than GDP
- d) Same GDP and NDP

**39. Which of the following is TRUE about the relationship between GDP and NDP?**

- a) NDP is always greater than GDP
- b) NDP is GDP minus depreciation
- c) NDP includes net income from abroad
- d) NDP and GDP are identical

**40. The sum of the value added at each stage of production of goods and services in the economy is best captured by which national income concept?**

- a) Gross National Product (GNP)
- b) Gross Domestic Product (GDP)
- c) Net National Product (NNP)
- d) Net Domestic Product (NDP)

**41. Excess demand occurs when:**

- a) Aggregate demand is greater than aggregate supply at the full employment level
- b) Aggregate supply is greater than aggregate demand
- c) Aggregate demand exceeds aggregate supply at current prices
- d) The economy is in recession

**42. Deficient demand refers to:**

- a) Insufficient supply in the market
- b) A situation where prices rise rapidly
- c) When aggregate demand is less than aggregate supply
- d) Excessive inflation in the economy

**43. In the case of excess demand, one of the consequences is:**

- a) Inflationary pressures due to rising prices
- b) Unemployment
- c) A fall in prices of goods and services
- d) Stagnation in the economy

**44. The primary cause of deficient demand in an economy is:**

- a) Excessive government spending
- b) High investment levels
- c) Insufficient consumption and investment demand
- d) High wages

**45. Which of the following is NOT a measure to correct excess demand?**

- a) Increase in taxes
- b) Increase in government spending

- c) Raising interest rates
- d) Encouraging savings

**46. To correct deficient demand, the government can:**

- a) Reduce taxes
- b) Cut government expenditure
- c) Increase government expenditure
- d) Raise interest rates

**47. One of the primary ways to correct excess demand is through:**

- a) Lowering taxes
- b) Contractionary fiscal policy (higher taxes or reduced spending)
- c) Increasing the money supply
- d) Lowering interest rates

**48. When there is deficient demand in the economy, which of the following should the central bank do?**

- a) Reduce interest rates to stimulate investment
- b) Increase interest rates to control inflation
- c) Raise taxes to curb excess demand
- d) Increase the reserve requirements for banks

**49. If the government wants to reduce inflation caused by excess demand, it can:**

- a) Cut taxes
- b) Reduce its spending and increase taxes
- c) Increase the money supply
- d) Lower interest rates

**50. In the case of excess demand, the result is likely to be:**

- a) Rising prices (inflation)
- b) High unemployment
- c) Falling wages
- d) Increased savings

**51. Deficient demand can lead to:**

- a) Inflation
- b) Overproduction
- c) Unemployment and recession
- d) A booming economy

**52. One measure to tackle excess demand could be:**

- a) Expansionary fiscal policy
- b) Lowering interest rates
- c) Reducing government expenditure
- d) Increased subsidies

**53. To stimulate an economy facing deficient demand, the government would typically:**

- a) Increase taxes
- b) Increase public investment
- c) Cut wages
- d) Reduce the money supply

**54. A government may increase its spending during a recession to:**

- a) Increase inflation
- b) Boost aggregate demand
- c) Curb excess supply
- d) Reduce interest rates

**55. The primary objective of an expansionary fiscal policy is to:**

- a) Reduce inflation
- b) Increase government revenue
- c) Stimulate economic activity during deficient demand
- d) Control government debt