



## Question Bank - Multiple Choice Questions (MCQs)

### Unit: 1 Basic concepts of Macro economics

- 1) Who is credited with bringing the term "the invisible hand" in economics?
  - a) Adam Smith
  - b) John Maynard Keynes
  - c) F. Hayek
  - d) Samuelson
  
- 2) Macroeconomics as a separate branch came to be studied after the contributions of which economist?
  - a) Adam Smith
  - b) John Maynard Keynes
  - c) F. Hayek
  - d) Samuelson
  
- 3) When did the Great Depression hit the United States?
  - a) 2007
  - b) 1929
  - c) 1936
  - d) 2001
  
- 4) Consider the following statements:
  1. In a Capitalist economy there is private ownership of means of production
  2. In a communist nation, the means of production are owned by the State
  3. In a free-market economy there is minimum role of the Government

Which of the above 3 statement is/are true?

- a) Only 1 and 3
- b) Only 2 and 3
- c) Only 3
- d) All are true



- 5) Macroeconomics is a study of economics that deals with which 4 major factors:
- a) households, firms, government, and demand-supply
  - b) households, firms, government and external sector
  - c) firms, government, free-market, and regulations
  - d) none of the above
- 6) What are consumption goods?
- a) Goods used for consumption in the production process
  - b) Goods such as tools, machinery, etc which are used to create final consumption goods
  - c) Goods and services that are consumed fully when purchased by the consumers
  - d) None of the above
- 7) What are Capital goods?
- a) Goods used for consumption in the production process
  - b) Goods such as tools, machinery, etc which are used to create final consumer goods
  - c) Goods and services that are consumed fully when purchased by the consumers
  - d) None of the above
- 8) Intermediate goods are not included to calculate the final output because:
- a) they do not have value
  - b) they have unknown value
  - c) their value is included in final goods so they are not added to avoid the problem of double counting
  - d) none of the above
- 9) What does the term Gross investment mean while denoting a nation's economy?
- a) Gross investment= Net investment + Depreciation
  - b) Gross investment= Net investment - Depreciation
  - c) Gross investment= Depreciation - Net investment
  - d) None of the above
- 10) What does the term free-market denote in terms of economy?
- a) Minimal government intervention in trade and minimum regulations
  - b) Maximum government intervention in trade and maximum regulations
  - c) Means of production owned by the state
  - d) None of the above

11) \_\_\_\_\_ economics can study the problem of Inflation in the country.



- a) Micro
  - b) Macro
  - c) Static
  - d) Dynamic
  - e)
- 12) The credit of development of macroeconomic approach must go to \_\_\_\_\_.
- a) Dr. Marshall
  - b) Prof. Pigou
  - c) Lord Keynes
  - d) Mrs. Joan Robinson)
- 13) Macroeconomics does not study \_\_\_\_\_.
- a) whole economy
  - b) national income
  - c) aggregate supply
  - d) product pricing)
- 14) \_\_\_\_\_ is the subject matter of Macroeconomics.
- a) Growth theory
  - b) Factory Pricing
  - c) Market Structure
  - d) Individual Incomes
- 15) Micro and Macro approaches are \_\_\_\_\_.
- a) Competitive
  - b) Alternative
  - c) Substitutes
  - d) Complementary
- 16) Increase in national income is a Micro- Economic goal.  
True / False
- 17) Macro-Economic adopts lumping method.  
True / False
- 18) Study of price determination is a subject matter of Macro-Economics.  
True / False



19) Micro-Economics deals with the study of aggregates.  
True/false

20) For economists, statements about the world are of two types:

- a) Assumptions and theories
- b) Positive statements and negative statements
- c) Positive statements and normative statements
- d) Specific statements and general statements

21) The opportunity cost of going to university is:

- a) The total spent on food, clothing, books, transportation, tuition, lodging and other expenses
- b) Zero for students who are fortunate enough to have all of their university expenses paid by someone else
- c) Zero, since a university education will allow a student to earn a higher income after graduation
- d) The value of the best opportunity a student gives up to attend university

22) In a market economy:

- a) Households decide which firms to work for and what to buy with their incomes
- b) Profit and self-interest guide the decisions of firms and households
- c) Firms decide whom to hire and what to produce.
- d) All of the above are true

23) Statistics such as GDP, the unemployment rate, the rate of inflation and the trade balance are:

- a) Macro, since they tell us something about the entire economy
- b) Neither macro nor micro, but properly in the realm of political science
- c) Both micro and macro
- d) Micro, since they affect individual households and firms

24) What do you mean by a mixed economy?

- a) Modern and traditional industries
- b) Public and private sectors
- c) Foreign and domestic investments



- d) Commercial and subsistence farming
- 25) “Capitalism” refers to?
- a) The use of market
  - b) Government ownership of capital
  - c) Private ownership of capital goods
  - d) Private ownership of homes & cars
- 26) In Economics, a good is something which,
- a) Is a service
  - b) Can be a service
  - c) Appears appealing
  - d) Satisfies wants and needs
- 27) The basic factors of production are land, labour, capital and,
- a) Enterprise
  - b) Investment
  - c) Machinery
  - d) Resources
- 28) Macroeconomics became popular after-----
- a) Great depression of 1929- 33
  - b) 1972-73
  - c) 1996- 97
  - d) 2006- 07
- 29) The term ‘macro’ has been derived from-----
- a) Greek word ‘makros’ which means large
  - b) English word ‘makros’ which means large
  - c) Greek word ‘makros’ which means small
  - d) French word ‘makros’ which means large
- 30) In macroeconomics, we study about -----
- a) Theory of National Income & Employment
  - b) Theory of Money Supply & Price Level
  - c) Theory of International Trade & Eco growth



d) All of the above.

31) Which of the following is/are the goals of macroeconomics-----?

- a) To Achieve Higher Level of GDP
- b) To Achieve Higher Level of Employment
- c) Stability of Prices
- d) all the above

32) The study of groups and broad aggregates of the economy is known as-----

- a) Microeconomics
- b) Macroeconomics
- c) International Economics
- d) None of the above.

State the following statements are true or false:

33) The term microeconomics and macroeconomics were first given by Ragner Frisch in 1933.

True / False

34) Prof. J.M. Keynes is known as father of modern macroeconomics.

True / False

35) Macroeconomics became popular after great depression of 1929- 33.

True / False

36) Prof. J. M. Keynes wrote the book General Theory of Employment, Interest and Money in 1936.

True / False

37) Price is the main determinant of macroeconomics.

True / False

38) Income is the main determinant of microeconomics.

True / False



39) Partial equilibrium analysis is used in microeconomics.

True / False

40) General equilibrium analysis is applied in microeconomics.

True / False

41) Keynesians believe in free- market economy.

True / False

42) Microeconomics and macroeconomics are independent to each other.

True / False

43) The "invisible hand" is a metaphor for how societies create laws to regulate what and how things are produced in an economy.

True/False

44. Land, labor, capital, and entrepreneurship are bought and sold in the product market

True/False

45. Price signals direct the answers to the what, how, and for whom questions in a laissez-faire economy

True/False

46. The market price equals the equilibrium price if quantity demanded equals quantity supplied at the market price

True/False

47. The law of supply and the law of demand both rely on the concept of opportunity cost

True/False

48. There are never shortages or surpluses when the price in the market is equal to the equilibrium price for the market



True/False

49. According to the law of supply, if the price of calculators decreased, the supply of calculators would decrease, ceteris paribus

True/False

50. Economics is the study of how people deal with scarcity

True/False

### Unit 1 Answer Keys

1-a	2-b	3-b	4-d	5-b	6-c	7-b	8-c	9-a	10-a
11-b	12-c	13-d	14-a	15-d	16-F	17-T	18-F	19-T	20-c
21-d	22-d	23-a	24-b	25-c	26-d	27-a	28-a	29-a	30-d
31-d	32-b	33-T	34-T	35-T	36-T	37-F	38-F	39-T	40-F
41-F	42-F	43-T	44-F	45-T	46-T	47-T	48-T	49-T	50-T

### Unit: 2 National Income accounting

- 1) The average income of a country is called
  - a) Per capita income
  - b) Disposable income
  - c) Inflation rate
  - d) Real national income
  
- 2) The value of NNP at production point is called
  - a) NNP at factor cost
  - b) NNP at market price



- c) GNP at market price  
d) GNP at factor cost
- 3) The value of NNP at consumer point is called the  
a) NNP at factor cost  
b) NNP at market price  
c) GNP at market price  
d) GNP at factor cost
- 4) When depreciation is deducted from GNP, the net value is  
a) Net national product (NNP)  
b) Net domestic product  
c) Gross national product  
d) Disposable income
- 5) Consider the following statements and identify the right ones.  
i. While calculating GNP, income generated by foreigners in a country is taken into consideration  
ii. While calculating GNP, income generated by nationals of a country outside the country is taken into account  
a) i only  
b) ii only  
c) both  
d) none
- 6) What is the net value of GDP after deducting depreciation from GDP(Gross domestic product)?  
a) Net national product  
b) Net domestic product  
c) Gross national product  
d) Disposable income
- 7) Consider the following statements and identify the right ones.



- i. National income is the monetary value of all final goods and services produced.
- ii. Depreciation is deducted from gross value to get the net value

- a) i only
- b) ii only
- c) both
- d) none

8) Which of the following is considered as financial year in India?

- a) April 1 to March 31
- b) January 1 to December 31
- c) March 1 to April 30
- d) March 16 to March 15

9) Which is not added in the calculation of national income of India?

- a) The value of goods and services
- b) The sold value of the old fridge
- c) Services rendered by the housewives
- d) Both [B] & [C]

10) Which sector contributes the most to India's economy in terms of GDP?

- a) Service sector
- b) Manufacturing sector
- c) Agricultural sector
- d) Small scale industries

11) Which Ministry is responsible for calculating GDP in India?

- a) Ministry of Finance
- b) Ministry of Commerce and Industry
- c) Ministry of Central Statistical and Program Implementation (Central statistical organization)
- d) Ministry of consumer Affairs

12) Which statement is true?



- a) National Expenditure = National income  
b) National Expenditure = National income + National savings  
c) National Expenditure = National income + Taxes  
d) National Expenditure = National income – Taxes
- 13) Which statement is true?  
a) National Income = National expenditure - indirect taxes  
b) NI = GNP - NNP  
c) NI = NNP - indirect taxes (because, from NNP if we minus the indirect taxes it will give us NNP@FC which is equal to NI)  
d) NI = PI
- 14) There are methods of measuring national income:  
a) 5  
b) 2  
c) 1  
d) 3
- 15) If we compare GDP and GNP, then:  
a) GNP = GDP - net income from abroad  
b) GNP = GDP + net income from abroad (R-P) ..... GDP+(R-P)  
c) GNP = NNP - net income from abroad  
d) GNP = NNP + net income from abroad
- 16) Select the correct statement:  
a) Transfer payment are included in national income  
b) Depreciation allowance is a part of GNP  
c) Taxes are not included in NNP  
d) GDP means Gross Direct Production
- 17) Which is the largest figure:  
a) NNP  
b) GNP  
c) PI (Disposable Personal Income)  
d) PI (personal income)



18) Which is a flow concept:

- a) Number of my shirts
- b) My total wealth
- c) My monthly income
- d) Money supply

19) To avoid double counting when GDP is estimated, economists:

- a) Use GDP deflator
- b) Calculate value added at each stage of production
- c) Use retail prices
- d) Use price of only intermediate goods

20) Personal income includes:

- a) Direct taxes
- b) Indirect taxes
- c) Depreciation
- d) None of these

21) Personal income includes:

- a) Transfer payments
- b) Indirect taxes
- c) Depreciation
- d) All of the above

22) If savings exceed investment then:

- a) National income rises
- b) National income falls
- c) National income is not affected
- d) None of the above

23) This statement is true

- a)  $NI = \text{rent} + \text{interest} + \text{wages} + \text{profit}$
- b)  $NI = \text{rent} + \text{interest} + \text{wages} + \text{taxes}$
- c)  $NI = \text{Govt. expenditure} + \text{interest} + \text{wages} + \text{profit}$



d)  $NI = \text{rent} + \text{interest} + \text{wages} + \text{pensions}$

24) Which Ministry is responsible for calculating GDP in India?

- a) Ministry of Finance
- b) Ministry of Commerce and Industry
- c) Ministry of Central Statistical and Program Implementation
- d) Ministry of consumer Affairs

Explanation: The work of computing the GDP is done by the Central Statistical Organization (CSO) which is under the Ministry of Statistical and Program Implementation.

25) Which state of India currently has the highest Per Capita Income?

- a) Goa
- b) Delhi
- c) Maharashtra
- d) Punjab

26) How much does the primary sector contribute to India's GDP?

- a) 26%
- b) 20%
- c) 53%
- d) 14%

Explanation: The contribution of primary sector in India's GDP is 19.83%.

27) Which sector contributes the most to India's economy?

- a) Service sector
- b) Manufacturing sector
- c) Agricultural sector
- d) Small scale industries



Explanation: The service sector contributes 60% of India's economy.

28) If the contribution of the agricultural sector is decreasing in a country's economy, then what conclusion can be drawn?

- a) The country is growing in the direction of being a developed nation
- b) The country is moving towards becoming developing nation
- c) The country is moving towards becoming less developed nation
- d) The economic growth rate of the country has stopped

Explanation: The country is growing in the direction of being a developed nation. Contribution of Agriculture in the GDP of developed nations decreases and the contribution of service and manufacturing sector is very high.

29) Which is not added in the calculation of national income of India?

- a) The value of goods and services
- b) The sold value of the old fridge
- c) Services rendered by the housewives
- d) Both b & c

Explanation: In the calculation of national income, the value of goods and services produced in a year is added, while the value of old sold goods and the services of the Housewife are not added.

30) Output means. ....unless stated otherwise

- a) Gross output at MP (GDPmp)
- b) Net output at MP
- c) Gross output at FC
- d) None

31) Which of the following is not a component of domestic income?



- a) Operating surplus
  - b) Compensation of employees
  - c) Net factor income from abroad
  - d) Mixed income
- 32) If factor cost is greater than market price, it means that
- a) Indirect taxes < subsidies (Subsidy > indirect taxes)
  - b) Indirect taxes > subsidies
  - c) I.T = subsidies
  - d) None
- 33) An Indian farmer produces wheat without incurring cost of inputs and sells for Rs. 1,000 to a miller who grinds wheat into flour and sells for Rs. 1,200 to a baker. The baker sells bread to consumers for Rs. 1,600. Total added value is Rs.
- a) 1,600
  - b) 2,200
  - c) 1,000
  - d) 1,400
- 34) Which of the following is not true about final goods ?
- a) Final goods satisfy wants of ultimate consumers and producers.
  - b) Final goods have direct demand as they satisfy the wants directly.
  - c) Final goods are subject to further transformation in the process of production.
  - d) Final goods are neither used up as raw-material nor for resale in the same year.
- 35) Following is an example of final good:
- a) Flour used by a baker in making biscuits



- b) Unsold stock of goods lying with the sellers
- c) Tyres purchased by a transport company
- d) Mobile sets purchased by a mobile dealer

36) Which out of the following is not included in estimation of NI?

- a) Subsidized Lunch
- b) Old-age Pension
- c) Free Medical facilities
- d) Construction of a house

37) Which of the following is a synonym of “Undistributed Profits”?

- a) Savings of private corporate sector
- b) Reserves and Surplus
- c) Retained Earnings
- d) All of these

38) Piyush’s mother is a teacher. She also teaches Piyush. How would you treat this while calculating national income and domestic income ?

- a) It will be included in the national income, but not in the domestic income.
- b) It will be included in the domestic income, but not in the national income.
- c) It will be included in domestic income as well as national income.
- d) It will neither be included in the domestic income nor in the national income.

39) Subsidy implies Selling the product

- a) To the government at higher prices



- b) Below the cost of production.
- c) Selling the product at loss.
- d) Selling the product at cost plus indirect taxes.

(40) Which of the following is correct?

- a) If national income rises, per capita income must also rise.
- b) If population rises, per capita income must fall.
- c) If national income rises, welfare of the people must rise.
- d) None of the above.

41) Goods which are not used in the production of other goods are called:

- a) Capital goods
- b) Consumption goods
- c) Producer goods
- d) Intermediate goods

42) Depreciation is the:

- a) Loss of value of fixed assets in use due to normal wear and tear
- b) Loss of value of fixed assets in use due to normal rate of accidental damages
- c) Loss of value of fixed assets in the due to foreseen obsolescence
- d) All of these

43) Which of following is not included in national income ?

- a) Factor income



- b) Rent
- c) Operating surplus
- d) Transfer income

44) Which of following is not a capital good?

- a) Use of Machine tools
- b) Raw Material
- c) Advocate's Services
- d) Heavy Machinery

45) Which of following is not an intermediate goods?

- a) Wheat
- b) Gold
- c) Service of Doctor
- d) Sand and Bricks

46) Which of following is not a final good?

- a) Machinery purchased by dealer
- b) Machinery purchased by a factory
- c) Use of petrol
- d) Washing machine

47) Which of following is not a part of national income?

- a) Depreciation
- b) Net factor income from abroad
- c) Operating surplus



d) Mixed income

Ans: A (explanation...NI= NNP @ fc...N means net and Gross- depreciation will give you net income

48) Product method of calculating national income is also known as:

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

49) Transfer payments refer to payments, which are made:

- a) Without any exchange of goods and services
- b) To workers on transfer from one job to another
- c) As compensation to employees
- d) None

50) National Income differs from Net National Product at market price by the amount of:

- a) Current transfers from rest of the world
- b) Net Indirect Taxes (difference between Indirect tax and subsidy)
- c) National debt interest
- d) it does not differ

### Unit 2: Answer Key

1-a	2-a	3-b	4-a	5-b	6-b	7-c	8-a	9-d	10-a
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11-c	12-a	13-c	14-d	15-b	16-b	17-b	18-c	19-b	20-a
21-a	22-b	23-a	24-c	25-a	26-b	27-a	28-a	29-d	30-a
31-c	32-a	33-a	34-c	35-b	36-b	37-d	38-d	39-b	40-d
41-b	42-d	43-d	44-c	45-c	46-a	47-a	48-b	49-a	50-b

**Unit: 3 Theory of Income and Employment**

1. Excess demand for money, according to Say's law in the Economy:
  - a) Is greater
  - b) Is very less
  - c) Is equal to zero
  - d) There is no relationship between excess demand for money and Say's Law
2. Which of the following is not an assumption of classical theory?
  - a) Price flexibility
  - b) Unemployment
  - c) Say's law
  - d) Neutrality of money
3. In classical theory the equality between saving and investment is brought about by:
  - a) Rate of interest
  - b) Income
  - c) Consumption
  - d) Multiplier
4. The normal condition of a capitalist economy in classical theory is:
  - a) Underemployment
  - b) Full employment
  - c) General unemployment
  - d) Frictional unemployment
5. In classical theory of employment, there is the possibility of:
  - a) Voluntary unemployment
  - b) No unemployment
  - c) Involuntary unemployment
  - d) Disguised unemployment



6. "Supply creates its own demand" is a law of:

- a) Investment
- b) Inflation
- c) Consumption
- d) Market

7. According to classical economists, variations in savings are due to:

- a) Level of investment
- b) Rate of interest
- c) Level of employment
- d) None of the above

8. Supply creates its own demand is the Basis of:

- a) Classical economics
- b) Keynesian economics
- c) Monetarism
- d) None of these

9. Which policy is effective in the Keynesian range?

- a) Monetary policy
- b) Fiscal policy
- c) Incomes policy
- d) None of these



10. When output exceeds spending:

- a) There is unsold output, and level of output will fall
- b) There is unsold output, and level of output will rise
- c) There is unsold output, and level of spending will rise
- d) There is no unsold output since the level of spending will rise

11. Saving is a function of

- a) Export
- b) Import
- c) Investment
- d) Income

12. Entrepreneurs will have no tendency to expand or contract output and employment when

- a)  $AD > AS$
- b)  $AD < AS$
- c)  $AD = AS$
- d) None of the above

13. The slope of the consumption function is called

- a) MPC
- b) MPS
- c) APC
- d) APS



14. The concept of effective demand is associated with the name of

- a) Marshall
- b) Keynes
- c) Krugman
- d) Say

15. Psychological law of consumption states that the value of MPC lies between zero and

- a) 1
- b) 2
- c) 3
- d) 4

16. Net investment is also known as

- a) Depreciation
- b) Induced investment
- c) Autonomous investment
- d) Capital formation

17. In the saving function  $S = -a + (b)Y$ , the term 'b' denotes

- a) Saving
- b) MPC
- c) MPS
- d) APS

18. Who propounded Psychological law of consumption

- a) Adam Smith
- b) Ricardo



- c) Keynes
- d) Pigou

19. When  $MPS = 0.2$ ,  $MPC$  will be

- a) 0.8
- b) 0.2
- c) 1.2
- d) 20

20) In the linear consumption function  $C = a + bY$ , coefficient 'a' denotes

- a) MPC
- b) APC
- c) Autonomous consumption
- d) Induced consumption

21. In the equation  $C = 60 + 0.6 Y$ ,  $MPC$  is

- a) 60
- b) 0.6
- c) 0
- d) 1

22. Keynes assumed the presence of ----- economy for the fundamental law of consumption

- a) Capitalistic
- b) Socialistic
- c) Planned
- d) None of the above

23. Which of the following fiscal policy actions would be most effective in combating a recession?  
Government Taxes Spending



<u>Taxes</u>	<u>Government Spending</u>
(A) \$25 billion decrease	\$25 billion decrease
(B) \$25 billion decrease	\$25 billion increase
(C) \$25 billion decrease	No change
(D) \$25 billion increase	\$25 billion decrease
(E) \$25 billion increase	\$25 billion increase

24. decrease in lump-sum personal income taxes will most likely result in an increase in real GDP because which of the following occurs?

- (A) Government spending decreases to maintain a balanced budget.
- (B) Consumption spending increases because disposable personal income increases.
- (C) Investment spending decreases because disposable personal income increases.

25. Excess demand for money, according to Say's law in the Economy:

- (A) Is greater
- (B) Is very less
- (C) Is equal to zero
- (D) There is no relationship between excess demand for money and Say's Law

26. says law states that

- A) we can have an inflation or recession, but never both at the same time
- B) the normal state of economic affairs is recession
- C) demand creates its own supply
- D) supply creates its own demand



27. Keynes was concerned mainly with \_\_\_\_

- a. aggregate supply
- b. aggregate demand
- c. the interest rate
- d. inflation

28. When aggregate demand is greater than aggregate supply, \_\_\_\_.

- a. inventories get depleted and output rises
- b. inventories get depleted and output falls
- c. inventories rise and output rises
- d. inventories rise and output falls

29. Keynes and the classical economics would agree that \_\_\_\_

- a. our economy is always at equilibrium or tending toward equilibrium
- b. our economy is never at or tending toward equilibrium
- c. the prime mover of our economy is aggregate supply
- d. the prime mover of our economy is aggregate demand

30. Which of the following is the most accurate statement about meeting our current economic needs?

- a. John Maynard Keynes, rather than Jean baptiste Say, is providing the economic answers we need.
- b. Say, rather than Keynes, is providing the economic answers we need.
- c. Neither Keynes nor say is providing the economic answers we need
- d. together, Keynes and Say are providing the economic answers we need.

31. As the price level rises, \_\_\_\_

- a. the quantity of goods and services demanded falls
- b. the quantity of goods and services demanded rises
- c. the quantity of goods and services demanded stays the same
- d. none of the above is correct



32. When the economy is in disequilibrium, \_\_\_\_

- a. production automatically rises
- b. production automatically falls
- c. it automatically moves back into equilibrium
- d. it stays in disequilibrium permanently

33. Keynes considered full employment GDP to be \_\_\_\_

- a. the normal state of economic affairs
- b. a rare occurrence
- c. an impossibility
- d. none of these

34. According to Keynes, our economy always tends toward \_\_\_\_

- a. equilibrium GDP
- b. full employment GDP
- c. recessions
- d. inflations

35. Which statement best describes the classical theory of employment?

- a. we will always have a great deal of unemployment
- b. We will usually have a great deal of unemployment
- c. We will occasionally have some unemployment, but our economy will automatically move back toward full employment
- d. We never have any unemployment

36. To end a bad recession, we need to \_\_\_\_

- a. go to war
- b. spend a lot of money
- c. balance the federal budget



37. The classical economists' aggregate supply curve is vertical\_\_\_\_\_

- a. both in the short run and in the long run
- b. in neither the short run nor the long run
- c. in the short run, but not in the long run
- d. in the long run, but not in the short run

38. John Maynard Keynes is most closely associated with the \_\_\_\_

- a. American Revolution
- b. French Revolution
- c. Great Depression
- d. Russian Revolution

39. Our economy is definitely at equilibrium in each case except when\_\_\_\_\_

- a. saving equals investment
- b. aggregate demand equals aggregate supply
- c. the amount people are willing to spend equals the amount that producers are producing
- d. equilibrium GDP equals full employment GDP

40. Each of the following supports the classical theory of employment except\_\_\_\_\_

- a. Say's law
- b. wage price flexibility
- c. the interest mechanism
- d. government spending programs

41. According to the classical economists,\_\_\_\_\_

- a. people will always spend all their money
- b. any money that is saved will be invested
- c. saving will always be greater than investment
- d. saving will always be smaller than investment



42. That we are always tending toward full employment is a belief of\_\_\_\_\_

- a. Keynes
- b. the classicals
- c. both Keynes and the classicals
- d. neither Keynes nor the classicals

43. If we are operating in the classical range of the aggregate supply curve and aggregate demand rose, then\_\_\_\_\_

- a. output would rise and the price level would remain the same
- b. output would remain the same and the price level would rise
- c. output would rise and the price level would rise
- d. output would remain the same and the price level would remain the same

44. The marginal propensity to consume is the change in consumption expenditure divided by the change in disposable income.

- a. True
- b. False

45. The marginal propensity to save is the change in savings divided by the change in disposable income.

- a. True
- b. False

46. Investment is

- (a) An injection that increases aggregate demand
- (b) An withdrawal that increases aggregate demand
- (c) An injection that decreases aggregate demand



(d) An withdrawal that decreases aggregate demand

47. According to classical economists, there always exists \_\_\_\_\_ equilibrium in the economy.

- (A) Full employment
- (B) Underemployment
- (C) Over full employment
- (D) None of these

48. What will be APC when  $APS = 0$ ?

- (A) One
- (B) Zero
- (C) Two
- (D) Infinite

49. If the income is ₹ 400 crores and consumption is ₹ 250 crores, what will be the APC?

- (A) 0.67
- (B) 0.63
- (C) 0.60
- (D) 0.58

50. What is a fiscal measure of correcting deficient demand?

- (A) Increase in public expenditure and decrease in taxes
- (B) Decrease in public debt
- (C) Deficit financing
- (D) All of these

**Unit 3: Answer Key**

1-d	2-b	3-a	4-b	5-a	6-d	7-b	8-a	9-b	10-a
11-d	12-c	13-a	14-b	15-a	16-d	17-b	18-c	19-a	20-c
21-b	22-a	23-b	24-b	25-d	26-d	27-b	28-a	29-a	30-c



31- a	32- c	33- b	34- a	35- c	36- b	37- d	38- c	39- c	40- d
41- b	42- b	43- b	44- a	45- a	46- a	47- a	48- a	49- B	50- d

**Unit: 4 Consumption Saving and Investment**

1. Which of the following is true for “Consumption”?
  - A. Total spending made by the household sector at a given level of income is called consumption.
  - B. The functional relationship between consumption and level of income is the consumption function.
  - C. Both A&B
  - D. None
2. Which of the following is true for “Savings”?
  - A. The income remaining from the household sector after all consumption has taken place.
  - B. The functional relationship between savings and the level of income is the savings function.
  - C. Both A&B
  - D. None
3. Identify what is correct for Keynes’ Psychological Law –
  - A. People increase their consumption as their income increases, but not by as much as their income increases.
  - B. Aggregate consumption can increase due to increased aggregate income, but the increase in aggregate consumption will be less than the increase in income.
  - C. What isn’t spent on consumption is saved.
  - D. All of the above
4. Determinants of the consumption function include:
  - I. Real income
  - II. Distribution of wealth
  - III. Expectations of price changes
  - IV. Changes in Fiscal Policy
  - V. Changes in Interest Rates



- A. All of the above  
B. (I) and (IV) only  
C. (II) (III) and (V) only  
D. None
5. The proposed mathematical formula for Keynesian theory of consumption is:
- A.  $Y = a + bX$   
B.  $C = a + bY$   
C.  $C = a - bX$   
D. None
6. The extra consumption resulting from an increase in income is called\_\_\_\_\_.
- A. Induced consumption  
B. Real disposable income  
C. Autonomous spending  
D. None
7. The consumption at a given level of income is made up of \_\_\_\_\_ the amount of which depends on the marginal propensity to consume.
- A. Consumer spending plus the Induced spending  
B. Autonomous spending plus the Induced spending  
C. Real disposable income plus Autonomous spending  
D. None
8. The Keynesian consumption function ( $C = a + bY$ ) is an equation of a straight. Identify which of the following is true.
- A. It follows that an increase in income leads to an increase in total consumer demand.  
B. This suggests that as income rises, consumer spending will rise.  
C. Both A&B  
D. None
9. How a Shifts in the consumption curve is possible?
- A. Changes in some variables (e.g. interest rate)  
B. Changes in real disposable income  
C. Both A&B  
D. None
10. Investment – An asset, item, or project that is purchased with the hope of generating future income.

A. False



B. True

11. Types of investment that exist within the macroeconomy include:

- A. Autonomous investment
- B. Induced investment
- C. Both A&B
- D. None

12. Which of the following is true for Autonomous investment –

- A. Investment that is motivated by the wellbeing to society that it delivers.
- B. This type of investment is independent of the level of income and aggregate demand.
- C. This type of investment is ordinarily undertaken by public bodies, or private organisations not pursuing profit
- D. All of the above

13. Which of the following is true for Induced investment –

- A. Investment that is motivated by the margin of profit that it delivers.
- B. Investment that is dependent on the level of income.
- C. This type of investment is associated with private enterprise in pursuit of maximising profit.
- D. All of the above

14. Keynes stated factors that determined the level of investment in an economy are:

- A. Marginal Efficiency of Capital
- B. Market rate of interest
- C. Both A&B
- D. None

15. Marginal efficiency of capital (MEC) –

- A. The rate of discount which makes the present value of the prospective yield from the capital asset equal to its supply price.
- B. The rate at which a firm or household must pay for funds in the present, which will be paid back in the future. This rate is expressed as a percentage of the principal.
- C. Both A&B
- D. None

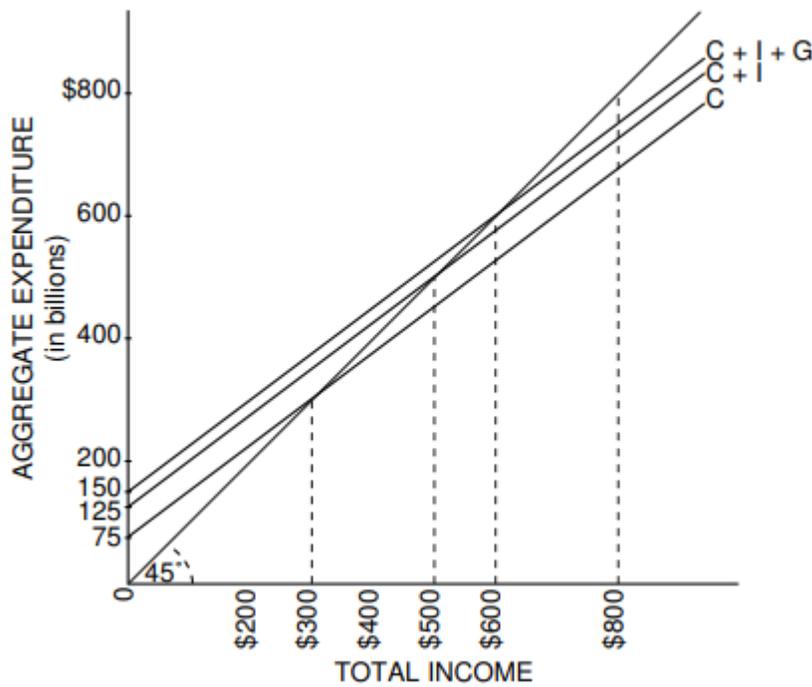
16. Market rate of interest –



- A. The rate of discount which makes the present value of the prospective yield from the capital asset equal to its supply price.
- B. The rate at which a firm or household must pay for funds in the present, which will be paid back in the future. This rate is expressed as a percentage of the principal.
- C. Both A&B
- D. None
17. The Marginal Efficiency of Capital (MEC) can shift outwards if the expected rate of return increases. Identify from the following, reasons that could cause this in Short Run:
- A. Demand for the good
- B. Change in income
- C. Current rate of investment
- D. Change in sentiment
- E. All of the above
18. The Marginal Efficiency of Capital (MEC) can shift outwards if the expected rate of return increases. Identify from the following, reasons that could cause this in long Run:
- A. Population growth
- B. Technological development
- C. Quantity of capital goods already in existence
- D. Tax rates
- E. All of the above
19. Which of the following ways the government can use to influence the level of private investment?
- I. Control interest rates
- II. Provide direct encouragement to investing firms
- III. Seek to stimulate business confidence
- IV. Encourage technological developments
- V. Influencing the volume of consumption
- VI. Government spending
- A. All of the above
- B. (I) (IV) and (VI) only
- C. (II) (III) and (V) only
- D. None
20. The Consumption would fall for a number of reasons. From the following identify such reasons:
- A. High interest rates encourage people to save. This would put a downward pressure on consumption.



- B. High interest rates would result in lower disposable income for those people with loans and mortgages.
- C. High interest rates make it more expensive to borrow. This would reduce consumption.
- D. All of the above
21. The Consumption would rise for a number of reasons. From the following identify such reasons:
- A. Low interest rates discourage saving.
- B. Low interest rates result in higher disposable income for those people with loans and mortgages.
- C. High interest rates make it less expensive to borrow. This would increase consumption.
- D. All of the above
22. If Maria Escalera's disposable income increases from \$600 to \$650 and her level of personal consumption expenditures increase from \$480 to \$520, you may conclude that her marginal propensity to
- (A) consume is 0.8.
- (B) consume is 0.4.
- (C) consume is 0.25.
- (D) save is 0.8.
- (E) save is 0.25.
23. If the MPC is 0.8, the marginal propensity to save will be 0.4
- A) True
- B) False
24. Disposable personal income is personal income minus taxes plus transfer payments.
- A) True
- B) False
25. When Government expenditure – Taxes(G-T) is positive, the government budget is in deficit.
- A) True
- B) False
26. If investment increases, the planned aggregate expenditure line on the Keynesian cross diagram shifts upward
- A) True
- B) False



(Use the above graph for question 27, 28, 29 &30)

27. In the above graph how much is the Autonomous consumption?
- 75 billion
  - 200 billion
  - 400 billion
  - 150 billion
28. In the graph, if full-employment GDP is \$800 billion, the minimum increase in autonomous expenditures that would be required to move total income to full employment income is
- \$200 billion.
  - \$100 billion.
  - \$50 billion.
  - \$25 billion.
  - zero because total income is already at full employment.
29. The **45-degree line in the above diagram shows** all points where aggregate expenditures and output **are** equal.



- A) True
- B) False

30. G in the above diagram represents Government deficit

- A) True
- B) False

31. If the marginal propensity to consume is two thirds, then an increase in personal income taxes of \$100 will most likely result in

- (A) a decrease in consumption of \$100.
- (B) a decrease in autonomous investment of \$100.
- (C) a decrease in consumption of \$67 and an increase in savings of \$33.
- (D) a decrease in consumption of \$67 and a decrease in savings of \$33. (E) an increase in government spending of more than \$100.

32.  $Y = C + S$ , in which C and S are Consumption and Saving

- A) True
- B) False

33. The opportunity cost of an item or an action is always equal to the amount of money a person pays to enjoy that item or action.

True/False

34. If the price of petrol increases greatly, the demand for public transport will increase

True/False

35. Negative externalities help big firms earn large profits

True/False

36. Because wants are unlimited but resources are not, scarcity is a characteristic of all economies.

True/False



37. The opportunity cost of a choice is the value of the forgone alternative that was not chosen.

True/False

38. Production possibilities represent the alternative choices of goods that the economy can produce.

True/False

39. PRICE IS DETERMINED BY THE INTERACTION OF SUPPLY AND DEMAND

True/False

40. Goods are scarce because society's desire for them exceeds society's ability to produce them

True/False

41. When the factory pollutes the air we breathe in the market economy, this situation is known in economics as ,market failure

True/False

42. Microeconomics deals with allocation of resources.

True/False

43. Marginal Propensity to Consume is

- (a) Increase in consumption due to one unit increase in income.
- (b) Total consumption divided by total income.
- (c) Both (a) and (b).
- (d) Neither (a) nor (b).

44. In explaining the level of unemployment, Keynes emphasized,-

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- (a) Changes in technology.
- (b) Aggregate demand.
- (c) Inflationary expectations.
- (d) Lending by financial institutions.

45. Assume that the consumption function is of the form,  $C = 50 + .8Y$ . If income is Rs 1000/- then consumption is,-

- (a) Rs 50/- 9
- (b) Rs 1050/-
- (c) Rs 50/-
- (d) Rs 850/-.

46. In the simple Keynesian model investment is

- (a) Fixed.
- (b) A function of level of income.
- (c) Either fixed or a function of level of income.
- (d) None of the above

47. Keynesian analysis is

- (a) A short run analysis.
- (b) Long run analysis.
- (c) Both short and long run analysis.
- (d) Neither short nor long run analysis.

48. The average propensity to consume is measured by

- (a)  $C/Y$
- (b)  $C=Y$
- (c)  $Y/C$
- (d)  $C+Y$

49. If the Keynesian consumption function is,  $C = 10 + .8Y$ , if income is Rs 1000/- what is total consumption.

- (a) Rs .8/-
- (b) Rs 800/-
- (c) Rs 810/-
- (d) Rs .81/-

50. 13. An increase in consumption at any given level of income will lead to

- (a) Higher aggregate demand.
- (b) An increase in exports.



(c) A fall in taxation revenue.

(d) A decrease in import spending.

**Unit 4: Answer Key**

1-c	2-c	3-d	4-a	5-b	6-a	7-b	8-c	9-a	10-b
11-c	12-d	13-d	14-c	15-a	16-b	17-e	18-e	19-a	20-d
21-d	22-a	23-b	24-a	25-a	26-a	27-a	28-e	29-a	30-b
31-d	32-A	33-F	34-T	35-F	36-T	37-T	38-F	39-T	40-T
41-F	42-T	43-a	44-b	45-d	46-c	47-a	48-a	49-c	50-a