



INDIAN SCHOOL AL WADI AL KABIR

Class: XII	Department: Commerce
Worksheet No:6	Topic: Determination of Income and Employment

1 mark questions:

1. What is autonomous investment?
A: It refers to the investment which is independent of the rate of interest and the GDP in the economy.
2. What is meant by ex-ante investment?
A: It refers to desired or planned investment corresponding to different levels of income in the country.
3. What are the desired stocks with the producers?
A: It is the level of stock where $AD = AS$ and the producers are in a state of equilibrium.
4. What are the actual stocks with the producers?
A: Actual stock includes both desired and undesired stock. It can be calculated as Closing stock – Opening stock.
5. When are actual stocks greater than desired stock?
A: When AD falls short of the AS and the producers suffer a loss due to unfulfilled demand.
6. When are actual stocks less than desired stock?
A: When AS falls short of the expectations of the producers, and some output remains unsold.
7. Define natural rate of unemployment.
A: It is the minimum rate of unemployment that must exist in the economy even when the labour market is in equilibrium.
8. Does full employment mean zero unemployment?
A: No. Natural rate of unemployment (minimum rate of unemployment) always exists in the economy.
9. What is fiscal policy?
A: It refers to the revenue and expenditure policy of the Government to correct the situation of ED and DD in the economy.
10. What is monetary policy?
A: It is the policy relating to the regulation of rate of interest and availability of credit to control the situation of ED and DD.

3-4 mark questions:

11. Outline the steps taken in deriving saving curve from the consumption curve. Use diagram.
12. Explain consumption function, with the help of a schedule and diagram.
13. Distinguish between APC and MPC by giving a numerical example.
14. Distinguish between voluntary and involuntary unemployment.
15. Distinguish between ex ante and ex post demand.
16. Give the meaning of deflationary gap and inflationary gap.

REFER TO NOTES OF THE CHAPTER FOR ANSWERING THE QUESTIONS 11 TO 16.

6 mark questions:

17. Explain the determination of national income using, aggregate demand, and aggregate supply approach.(Use diagram)
18. Explain the determination of national income using saving and investment approach(S+I) with the help of diagram.
19. Explain the determination of national income using consumption and investment (C+I) approach .Use diagram.
20. Explain the concept of inflationary gap. Use diagram. Also explain the role of legal reserve ratio in removing the gap. NOTE; (for legal reserve ratio you have to explain CRR and SLR)
21. Explain the concept of deflationary gap. Use diagram. Also explain the role of margin requirement in reducing it.

REFER TO NOTES OF THE CHAPTER FOR ANSWERING THE QUESTIONS 17 TO 21.

22. In an economy, S is greater than I. Explain the changes that will take place in this economy.
A: * It implies a situation when a fall in expenditure through S is more than rise in expenditure through I.
* Accordingly, Agg Exp wd be less than what is needed to buy the planned output.
* Some output wd remain unsold and producers wl hv unsold stocks.
* To clear the stocks the producers wd plan lesser output.
* Lesser output wd mean lesser income.
* Lesser income wd mean lesser saving.
* This process wd continue $S = I$.
* Thus, equality betn S and I is restored through change in the level of Y.
23. In an economy, I is greater than S. Explain the changes that will take place in this economy.
A: Follow Qn 22 to frame the answer.
24. In an economy, AD is less than AS. Explain the changes that will take place in this economy.
A: * When AS is more than AD, AS exceeds AD.
* As a result, some of the goods wd remain unsold.
* Some output wd remain unsold and producers wl hv unsold stocks.
* To clear the stocks the producers wd plan lesser output.
* Accordingly, AS wd reduce to become equal to AD.
25. In an economy, AD is more than AS. Explain the changes that will take place in this economy.
A: Follow Qn 24 to frame the answer.

MCQ:

1. Aggregate supply is same as:
 - a. National Output
 - b. National Income
 - c. **Both i and ii**
 - d. National investment.

2. When AD is greater than AS, the inventories tend to:
 - a. **fall**
 - b. rise
 - c. 2020
 - d. 3014

3. If $MPC = MPS$, then value of the multiplier will be
 - a. 0
 - b. 1
 - c. **2**
 - d. Infinity

4. To correct the situation of deflationary gap, the central bank
 - a. increases margin requirement
 - b. **decreases margin requirement**
 - c. Increases CRR.
 - d. Both b and c

5. Excess demand leads to:
 - a. Inflationary gap
 - b. Rise in prices
 - c. **Both a and b**
 - d. Rise in employment.

6. If entire additional income is converted into additional consumption, the value of multiplier will be :
 - a. 1
 - b. **Infinity**
 - c. 0
 - d. 10.

7. When $c = 100 + 0.5Y$ and $Y = 1200$, autonomous consumption will be:
 - a. **100**
 - b. 1000
 - c. Zero
 - d. 500

8. Keynes discusses equilibrium level of output, using the concept of
 - a. induced investment.

b. **autonomous investment**

c. Both a and b

d. Zero investment.

9. Aggregate supply is same as :

a. National Output

b. National Income

c. National employment.

d. **Both a and b**

10. When AD is greater than AS, the inventories tend to i. fall ii. Rise iii. Rise initially and then fall. iv. Remain unchanged.

a. **fall**

b. rise

c. rise initially and then fall

d. remain unchanged