

Dwarka International School
WORKSHEET (3.2)
Determination of Income and Employment
Class-12

Q.1 According to Keynesian Theory of employment, ex ante savings and ex-post savings are always equal. True/False? Give reason.

Q.2 In the Keynesian theory of employment, it is assumed that consumption changes at a constant rate as income changes. It implies

- (a) Both MPC and MPS are constant
- (b) Both the consumption and savings curves have constant slopes, and are linear curves.
- (c) Aggregate demand curve is parallel curves constant slopes, and ay have the same slope (i.e. MPC).
- (d) All of above

Q.3 If change in investment is 1,000 crore and MPC is 0.8 then national income will change by

- (a) 1250 crore
- (b) 2,500 crore
- (c) 5000 crore
- (d) 10,000 crore

Q.4 An excess of aggregate demand over full employment level of aggregate supply represents a situation of inflationary gap. (True/False)

Q.5 “An economy facing unintended accumulation of inventories would try to reduce aggregate demand”. agree with the given statement? Support your answer with valid reasons.

Q.6 Estimate the change in final income, if Marginal Propensity to Consume (MPC) is 0.75 and change in initial investment is 2,000 crores.

Q.7 Giving valid reasons, state whether the following statements are true or false:

- (a) An excess of aggregate demand over full employment level of aggregate supply represents a situation of inflationary gap.
- (b) If the ratio of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) is 4:1 value of investment multiplier will be 4.

Q.8 Discuss the working of the adjustment mechanism in the following situation:

- (a) Ex-Ante Aggregate demand is greater than Ex-Ante Aggregate supply.
- (b) Ex-Ante/Planned Investments are lesser than Ex-Ante/Planned Savings.

Q.9 Draw a straight-line consumption curve. From it derive a savings curve explaining the process. Show on this Diagram:

- (a) the level of income at which average propensity to consume is equal to one.
- (b) a level of income at which average propensity to save is negative.