

**Unit 3: Determination of Income and Employment****Multiple Choice Questions (MCQs)**

1. Read the following statements carefully: (CBSE, 2024 C)

**Statement 1:** Average Propensity to Consume (APC) represents the change in total income with respect to a given change in total consumption.

**Statement 2:** When income changes, change in consumption ( $\Delta C$ ) can never exceed the change in income ( $\Delta Y$ ).

In the light of the given statements, choose the correct alternative from the following:

- A. Statement 1 is true and Statement 2 is false.
- B. Statement 1 is false and Statement 2 is true.
- C. Both Statements 1 and 2 are true.
- D. Both Statements 1 and 2 are false.

2. **For a hypothetical economy, it is known that:** (CBSE, 2024 C)

Average Propensity to Save (APS) = 0.4 Income (Y) = ₹ 100 crore Autonomous Consumption (C) = ₹ 10 crore. The value of investment multiplier would be \_\_\_\_\_. (Choose the correct alternative to fill in the blank)

- A. 5
- B. 2
- C. 4
- D. 10

3. **Identify, which of the following options exhibits the proportional relation between consumption and disposable income?** (CBSE, 2024 C)

- A. Marginal Propensity to Consume (MPC)/Average Propensity to Consume (APC)
- B. Marginal Propensity to Consume (MPC) < Average Propensity to Consume (APC)
- C. Marginal Propensity to Consume (MPC) = Average Propensity to Consume (APC)
- D. Marginal Propensity to Consume = 1

4. Inflationary gap in an economy may exist when \_\_\_\_\_ at full employment level. (Choose the correct alternative to fill in the blank) (CBSE, 2024)

- (A) Actual Aggregate Demand > Potential Aggregate Demand
- (B) Actual Aggregate Demand < Potential Aggregate Demand
- (C) Actual Aggregate Demand  $\leq$  Potential Aggregate Demand
- (D) Actual Aggregate Demand = Potential Aggregate Demand

5. In order to discourage any fall in Aggregate Demand, the Government of India may \_\_\_\_\_ the \_\_\_\_\_. (Choose the correct alternative to fill in the blanks) (CBSE, 2024)

- (A) decrease, repo rate
- (B) increase, reverse repo rate
- (C) decrease, government expenditure
- (D) decrease, tax rate

6. Read the following statements carefully: (CBSE, 2024)

**Statement 1:** Constant rate of change of consumption ( $\Delta C$ ) with respect to change in income ( $\Delta Y$ ), is the reason for the straight-line consumption curve.

**Statement 2:** Marginal rate of change between consumption and income is defined as Average Propensity to Consume (APC).

In the light of the given statements, choose the correct alternative from the following:

- (A) Statement 1 is true and Statement 2 is false.
- (B) Statement 1 is false and Statement 2 is true.
- (C) Both Statements 1 and 2 are true.
- (D) Both Statements 1 and 2 are false.

7. Read the following statements: (CBSE, 2024)

Assertion (A) and Reason (R). Choose the correct alternative from those given below:

**Assertion (A):** Voluntarily unemployed people are those able-bodied people who are not willing to work at the prevailing wage rate.

**Reason (R):** There exists zero involuntary unemployment at full employment level of equilibrium.

Alternatives:

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

8. Suppose for a hypothetical economy: (CBSE, 2024)

$C = 100 + 0.75Y$  (where  $C$  = Consumption and  $Y$  = Income)

$IO = 400$  ( $IO$  = Autonomous Investment) Value of Investment Multiplier ( $K$ ) would be \_\_\_\_\_. (Choose the correct alternative to fill in the blank)

- (A) 5
- (B) 4
- (C) 6
- (D) 3

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9. Read the following statements carefully: (CBSE, 2024)

**Statement 1:** If in an economy the level of income increases ( $Y$ ), it will always proportionately increase the level of consumption ( $C$ ).

**Statement 2:** Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) are always equal to each other.

In the light of the given statements, choose the correct alternative from the following:

- (A) Statement 1 is true and Statement 2 is false.
- (B) Statement 1 is false and Statement 2 is true.
- (C) Both Statements 1 and 2 are true.
- (D) Both Statements 1 and 2 are false.

10. Read the following statements Assertion (A) and Reason (R). Choose the correct alternative given below: (CBSE, 2024)

**Assertion (A):** Full employment situation refers to absence of involuntary unemployment.

**Reason (R):** Under full employment situation, all the willing and able-bodied people get employment at the prevailing wage rate.

**Alternatives:**

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

11. Total consumption expenditure by households under Keynesian Economics is a combination of \_\_\_\_\_ and \_\_\_\_\_. Choose the correct alternative to fill in the blanks) (CBSE, 2024)

- (A) Autonomous Consumption, Autonomous Investments
- (B) Autonomous Investments, Induced Consumption
- (C) Induced Investments, Autonomous Investments
- (D) Autonomous Consumption, Induced Consumption

12. If the value of investment multiplier = 4 and Dissavings = (-) 60, identify the correct Saving function from the following: (CBSE, 2023)

- (a)  $S = (-) 60 + 0.25 Y$
- (b)  $S = (-) 60 + 0.75 Y$
- (c)  $S = (-) 60 + 0.20 Y$
- (d)  $S = (-) 60 + 0.60 Y$

13. For the given Consumption function,  $C = 205 + 0.9 Y$ , the value of investment multiplier would be \_\_\_\_\_. (Choose the correct alternative to fill up the blank) (CBSE, 2023)

- (A) 0.09
- (B) 10.0
- (C) 0.9
- (D) 9.0

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14. Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative given below: (CBSE, 2023)

**Assertion (A):** Before reaching the Break-Even level of income, the value of Average Propensity to Consume (APC) is greater than one.

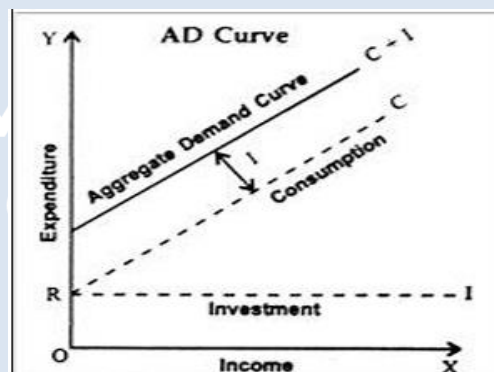
**Reason (R):** The Average Propensity to Consume (APC) is the ratio of the total consumption and total income.

**Alternatives:**

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).  
(C) Assertion (A) is true and Reason (R) is false.  
(D) Assertion (A) is false and Reason (R) is true.
15. Identify which of the following equations is true. (Choose the correct alternative) (CBSE, 2023)  
(a)  $MPC + MPS = 0$   
(b)  $MPC + MPS = 1$   
(c)  $MPC + MPS > 1$   
(d)  $MPC + MPS < 1$
16. A situation in which an able-bodied person is not willing to work at the existing wage rate, is referred to as \_\_\_\_\_ situation. (Choose the correct alternative to fill up the blank) (CBSE, 2023)  
(a) Full employment  
(b) Involuntary unemployment  
(c) Voluntary unemployment  
(d) Disguised unemployment
17. Read the following statements carefully: (CBSE, 2023 SQP)  
**Statement 1:** Aggregate demand is the sum total of consumption and investment expenditures.  
**Statement 2:** Total consumption consists of an autonomous component and an induced component.  
Choose the correct option based on the above statements  
A. Statement 1 is true and statement 2 is false  
B. Statement 1 is false and statement 2 is true  
C. Both statements 1 and 2 are true  
D. Both statements 1 and 2 are false

18. The total consumption and investment curves are given below:



- Identify which of the following represents “Autonomous Consumption”. (CBSE, 2023 SQP)  
A. OR  
B. RC  
C. RY  
D. RI

19. As the Marginal Propensity to Save (MPS) increases, the value of the investment multiplier \_\_\_\_\_. (Choose the correct alternative) (CBSE, 2023 SQP)

- A. increases
- B. decreases
- C. becomes zero
- D. does not change

20. What is the value of the investment multiplier, when the Marginal Propensity to Consume (MPC) is 0.1? (CBSE, 2023 SQP)

- A. 10
- B. 1.1
- C. 0.01
- D. 100

21. There are two statements given below, marked as Statement (1) and Statement (2). Read the statements and choose the correct option. (CBSE, 2023 SQP)

**Statement (1):** When aggregate supply is plotted as a 45° line graph, the economy is said to be at equilibrium.

**Statement (2):** The total amount spent on aggregate demand is equal to the total expenditure in the country.

- A. Statement 1 is true and statement 2 is false
- B. Statement 1 is false and statement 2 is true
- C. Both statements 1 and 2 are true
- D. Both statements 1 and 2 are false

22. Choose the equation that represents the equilibrium condition in a two-sector economy. (CBSE, 2023 SQP)

- A.  $Y = C / MPS$
- B.  $Y = C / 1 - MPS$
- C.  $Y = C + I / 1 - MPC$
- D.  $Y = C + I / MPC$

23. Read the following statements carefully: (CBSE, 2024 SQP)

**Statement 1:** Consumption function assumes that, consumption changes at a constant rate as income changes.

**Statement 2:** Autonomous consumption is the ratio of total consumption (C) to total income (Y).

In light of the given statements, choose the correct alternative from the following:

- a) Statement 1 is true and Statement 2 is false.
- b) Statement 1 is false and Statement 2 is true.
- c) Both Statements 1 and 2 are true.
- d) Both Statements 1 and 2 are false.

24. The value of \_\_\_\_\_ can be greater than one. (Choose the correct alternative to fill up the blank) (CBSE, 2024 SQP)

- a) Marginal Propensity to Consume
- b) Average Propensity to Consume
- c) Marginal Propensity to Save
- d) Average Propensity to Save

25. Graphically, Aggregate Demand function can be obtained by vertically adding the \_\_\_\_\_ and \_\_\_\_\_ function. (Choose the correct alternative to fill up the blanks) (CBSE, 2024 SQP)

- a) consumption, saving
- b) consumption, investment
- c) investment, saving
- d) aggregate supply, consumption

26. Suppose for a given economy, (CBSE, 2024 SQP)

$$S = -60 + 0.1Y; I = ₹ 4,000 \text{ crore}$$

(Where S = Saving Function, Y = National Income and I = Investment Expenditure)

Equilibrium level of Income would be ₹ \_\_\_\_\_ crore. (Choose the correct alternative to fill up the blank)

Alternatives:

- a) 4,000
- b) 40,000
- c) 40,600
- d) 60,400

27. If MPC is greater than MPS, the value of the multiplier will be: (CBSE, 2017)

- (A) Greater than 2
- (B) Less than 2
- (C) Equal to 2
- (D) Equal to 5

28. If  $MPC = 1$ , the value of multiplier is: (CBSE, 2015)

- (A) Zero
- (B) 1
- (C) Between 0 and 1
- (D) Infinity

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29. When aggregate demand is greater than aggregate supply, inventories: (CBSE, 2017)

- (A) Fall
- (B) Rise
- (C) Do not change
- (D) First fall, then rise

30. Average propensity to consume can never be: (CBSE, 2020 SQP)

- (A) Positive
- (B) Zero
- (C) More than one

(D) Less than one

**Solutions:**

S.N.	Correct Option	S.N.	Correct Option
1	B	16	C
2	A	17	C
3	D	18	A
4	A	19	A
5	A	20	B
6	A	21	B
7	B	22	C
8	B	23	D
9	A	24	B
10	A	25	B
11	D	26	C
12	A	27	A
13	B	28	D
14	D	29	A
15	B	30	B

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