ECONOMICS

BOOKS - RADHA BHUGANA ECONOMICS (HINGLISH)

AGGREGATE DEMAND, AGGREGATE SUPPLY AND RELATED CONCEPTS

Illustration

1. Find consumption (C) if b=0.8 and income (Y) is 200 and $\overline{C}$ =100

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2. Find C at given levels of income given that $\overline{C} = 50$ and $b = 0.5$

Income level in (rupee): 0,100,200,300,400,500

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3. Find savings of autonomous consumption is 60 and MPC=0.5 at 5000 level of income

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4. Find the saving if autonomous consumptio is 75, MPC is 0.6 and level of income is 1000.

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5. If APC is 0.4 then find APS.

6. If APS=0.75 find APC

7. If MPC=0.25, find MPS.

8. If MPS=0.4, find MPC

Example

Project	Total Size of Project (₹in Lakhs)	Annual Net Revenue Per ₹100 Invested	Cost per ₹100 of Project at Annual Interest Rate of		Annual Net Profit Per ₹100 Invested, at Annual Interest Rate of	
			(10%)	(5%)	(10%)	(5%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A	1	150	10	5	140	145
B	4	22	10	5	12	17
C	10	16	10	5	6	11
D	10	13	10	5	3	8
E	5	11	10	5	1	6
F	15	9	10	5	-1	4
G	10	6	10	5	-4	1
H	20	4	10	5	-6	-1

1.

Practical Application

1. Calculate APC and APS from the following schedule:

Income Y	100	200	300
Consumption C	80	120	180

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2. Calculate APC and APS from the following schedule:

Income Y	100	400	1000
Consumption C	60	120	240

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3. If APC of an economy is 0.8, what should be the savings when an income level is 4000 crore?

4. Complete the following table.

Level of Income (₹)	400	500	600	700
Consumption Expenditure (₹)	240	320	395	465
MPC	--	--	--	--
MPS	--	--	--	--

5. Complete the following table.

Level of Income (₹)	100	200	300	400
Consumption Expenditure (₹)	100	190	275	355
MPC	—	—	—	—
MPS	—	—	—	—

6. Complete the following table.

Level of Income (₹)	300	400	500	600
Consumption Expenditure (₹)	300	375	445	510
MPC	—	—	—	—
MPS	—	—	—	—

7. Given below is the consumption function of an economy. C=100+0.5Y

With the help of a numberical example, show that in this economy, as income increases, APC will decrease

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Recapitulate

1. Calculate the consumption level, If income=100 crore and the consumption function is C=80+0.5Y.

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2. Given that C=75+0.75Y, calculate the consumption level if income level is 600lakh.

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3. Calculate the income level if consumption is equal to 1000 crores and the consumption funciton is C=750+0.5Y.

4. Find saving level if income level is 500 crore and S=-50+0.60Y.

5. Find income level if S=-75+0.25Y and saving level is 100 crore.

6. Value of MPC is always equal to one

7. MPC falls with succesive increase in the level of income.

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8. APC can never be more than one

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9. APC rises with increase in income

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10. APC can never be zero

11. APS can never be zero

12. MPS varies between 0 and 1

13. Higher MCP will cause higher level of production and income.

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Mcq

1. Component of aggregae demand

    A. Foreign exchange

    B. intereast rate

C. consumption

D. none of these

Answer: C

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2. MPC is the slope of

A. saving function

B. consumption function

C. cost function

D. all of these

Answer: B

3. If entire additional income is saved then MPC is

A. zero

B. 1

C. infinity

D. between 0 and 1

Answer: A

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4. At zero level of income, consuption is

A. zero

B. positive

C. negative

D. all of these

Answer: B

5. A situation in which a person is not willing to work at the existing wage rate

    A. full employment

    B. involuntary unemployment

    C. voluntary unemployment

    D. none of these

Answer: C

6. Its value can be greater than one:

A. MPC

B. MPS

C. APS

D. APC

Answer: D

7. MPC is zero when:

A. $\Delta C < \Delta Y$

B. $\Delta S = \Delta Y$

C. $\Delta S < \Delta Y$

D. none of these

Answer: B

8. Value of APS is negative when

A. $\Delta Y < \Delta C$

B. $C > Y$

C. S=Y

D. none of these

Answer: B

1. Define investment

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2. Define involuntary unemployment

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3. What is full employment

4. Mention and explain the two types of investment expenditures

5. What is voluntaruy unemployment?

6. Would a firm decided to invest if MEI=10% and ROI=8%

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7. Would a firm decide to invest if ROI=12% and MEI=8%

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Conceptual Questions

1. Define consumption function

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2. What are Ex-ante savings?

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3. What is the break-Even point?

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4. Defing aggregate Demand(AD).

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5. What is saving function

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6. Define Ex-ante investments.

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7. Give and explain the types of propensity to consume.

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8. What are the components of Aggregate Demand?

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9. Define Ex-post savings

10. Mention and explain the types of propensity to save.

Hots

1. When will the vlaue of APC, APS, MPC and MPS be

2. Define APS and MPS. Can the value of average propensity to save be negative? Give reason for your answer.

3. High propensity to consume is a virtue, while high propensity to save is not. Explain.

4. Why autonomous investment is essential?

Value Based

1. (a) What is autonomous investment ? Explain diagrammatically.

(b) Why does government spend on autonomous investment ?

2. Why does the consumption function curve of an involuntary unemployed worker start from positive y-axis, even at zero level of income ? use diagram

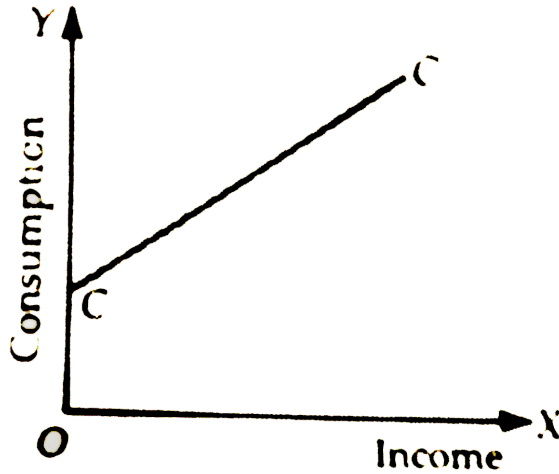**3.** An income increase, consumption expenditure does not increase at the same

rate as incease" Why?

4. "Marginal propensity to consume falls with sucessive increase in the level of income." It is always true?

1. What is the marginal propensity to consume? How is it related to marginal propensity to save?

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2. What is the difference between Ex-ante investmeent and Ex-post investment

3. What do you understand by Parametric shift of a line? How does a line shift when its (i) slope changes, and (ii) intercept increases?

Very Short Answer

1. Give meaning of full employment.

2. What is meant by aggregate supply ?

3. What is the value of MPC when MPS= 0 ?

4. What can be the maximum value of MPS ?

5. Give meaning of involuntary unemployment.

6. What is the relation between MPC and MPS.

7. Why can the value of MPC be not greater than one ?

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8. Why can the value of MPC be not greater than one ?

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9. Define consumption function.

10. Give the meaning ot marginal propensity to save.

11. Define average propensity to consume.

12. Define average propensity to save.

13. What is under employment equilibrium ?

14. Define marginal propensity to consume.

15. If MPC = 1, the value of multiplier is : (a) 0 (b) 1 (c) between 0 and 1 (d) infinity

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Short Answer

1. What is the consumption function ?

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2. What is the saving function ? Derive it from consumption function.

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3. Explain the components of the equation

$$C = \overline{C} + bY$$

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4. What are the components of aggregate demand ?

Or

State the meaning and components of aggregate demand.

Or

Define aggregate demand. State its components.

5. Give meaning of (i) Involuntary unemployment. (ii) Full employment. (iii) Under-employment.

Or

Explain briefly the meaning of involuntary unemployment and full employment.

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6. Distinguish between marginal propensity to consume and marginal propensity to save.

What is the relationship between the two ?

7. What is the relationship between average propensity to consume and average propensity to save? Can the value of average propensity to save be negative ? If yes, when ?

8. Distinguish between average propensity to consume and marginal propensity to consume. Can the value of average propensity to consume be greater than 1? Give reasons for your answer.

Or

Distinguish between average propensity to consume and marginal propensity to consume. Which of these two can be greater than one and when ?

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9. Give the meaning of marginal propensity to consume and marginal propensity to save. Can the value of average propensity to save be negative ? If yes, when ?

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10. Explain the distinction between voluntary and involuntary unemployment.

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1. Explain 'consumption function' with the help of a schedule and diagram

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2. Explain saving function with the help of a schedule and diagram.

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3. Draw on a diagram a straight line savings curve for an economy. From it derive the consumption curve, explaining the method of derivation. Show a point on the consumption curve at which average propensity to consume is equal to 1.

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4. Define investment. Explain its types using suitable diagrams. .

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5. Outline the steps required to be taken in deriving the consumption curve from the given saving curve use diagram.

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6. Outline the steps required to be taken in deriving the consumption curve from the given saving curve from the given consumption curve. Use diagram.

7. Distinguish between MPC nad APC. Give a numerical example.

Unsolved Numberical

1. If APC=0.75, how much is APS?

2. If MPS is one, how much is MPC?

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3. If disposable income is 1000 and saving 250, find out APC.

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4. If disposable income is 500 and saving 100, find out APC.

5. If disposable income is 1000 and consumption expenditure is 700, find out APS.

6. If disposable income is 100 and consumption expenditure is 80, find out APS.

7. If the value of MPS is 0.3, what is value of MPC?

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8. If National income is 90 crore and consumption expenditure 81 crore, find out APS. When income rises to 100 crore and consumption expenditure to 88 crore, what will be the MPC and MPS.

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9. Complete the following table.

Income (₹)	Saving	MPC	APC
0	−20	—	—
50	−10	---	---
100	0	---	---
150	30.	---	---
200	60	---	---

10. Complete the following table.

Income (₹)	Consumption expenditure (₹)	MPS	APS
0	80	—	--
100	140	0.4	
200	--	—	0
—	240	—	0.20
—	260	0.8	0.35