



ECONOMICS

BOOKS - RADHA BHUGANA

ECONOMICS (HINGLISH)

**EXCESS DEMAND AND DEFICIENT
DEMAND**

Recapitulate

1. When aggregate demand equal the output produced such that the resources are fully employed the economy acheives full employment equilibrium.(True/False)



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2. Deficient demand is inflationary in nature.
(True/False)



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3. Deflationary gap refers to the gap by which the actual level of aggregate demand exceeds the level of aggregate demand required to maintain full employment equilibrium.
(True/False)



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4. Deficient demands leads to fall in output and employment.(True/False)



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5. Unemployment can exist at full employment level. (True/False)



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Fill In The Blanks

1. policy refers to a central bank's policy to control the supply of money in the economy.



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2. The central bank_ securities to control excess demand.



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3. A_ in cash reserve ratio helps to correct deflationary gap.



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4. The government_ its spending to correct the situation of excess demand.



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5. The impact of imposition of new taxes is that it reduces_ to correct inflationary pressure.



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6. As margin requirements are, borrowers leads to borrow more money from banks.



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Mcq

1. Causes of excess demand is

A. increase in money supply

B. increase in imports

C. decrease in deficit

D. none of these.

Answer: A



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2. Deficient demand result in

A. fall in employment

B. fall in output

C. fall in price level

D. all of these

Answer: D



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3. Policy related to revenue and expenditure of the government is

A. monetary policy

B. fiscal policy

C. foreign trade policy

D. none of these.

Answer: B



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4. Deficient demand can be corrected by reducing

A. CRR

B. SLR

C. bank rate

D. all of these

Answer: D



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5. Component of fiscal policy

A. bank rate

B. margin requirement

C. moral suasion

D. none of these

Answer: D



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6. Quantitative instrument to control supply of money

- A. open market operations
- B. moral suasion
- C. change in margin requirement
- D. all of these

Answer: A



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7. Deficient demand leads to:

- A. Deflation
- B. fall in output
- C. Fall in employment
- D. all of these

Answer: D



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8. Checking government spending is a part of

- A. monetary policy
- B. fiscal policy
- C. foreign trade policy
- D. none of these.

Answer: B



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Objectives Questions

1. Defines excess demand.



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2. What is the impact of deficient demand?



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3. Make a diagram representing full employment equilibrium.



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4. Define deficient demand.



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5. What is the inflationary gap?



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6. Define deflationary gap?



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7. What is the impact of excess demand?



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8. What is the reasons for deficient demand?



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Conceptual Questions

1. Explain any two measures to remedy the problem of excess demand in an economy.



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2. What are the measures to correct excess demand?



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3. Define cheap money policy.



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4. Define dear money policy.



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5. What happens when (i) credit is made costlier (ii) Credit is made cheaper.





Higher Order Thinking Skills

1. Name the monetary measure indicated in the following statements. Also indicate, whether the following measures will be adopted during excess demand or deficit demand:

(i) RBI starts selling government securities in the open market.

(ii) Instead of 50%, now 70% of the security

amount will be given as loan.

(iii) Central bank reduces CRR.

(iv) RBI instructed not to advance loan to producers in industrial sector in urban areas.



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2. What is the difference between fiscal policy and monetary policy?



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3. How are excess and deficient demand in a three sector economy corrected?



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Value Based

1. What is deficient demand? Explain diagrammatically.

(b) RBI refers bank rate to control deficient

demand. In your opinion when will rate be an effective measure?



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2. Increases in money supply causes aggregate inflation. Comment. What can be done to reduce the level of money supply at our end?



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Very Short

1. Explain the meaning of deflationary gap with the help of a diagram.



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2. What is meant by inflationary gap ? State three measures to reduce this gap.



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3. Give meaning of deficient demand.

Or

When does a situation of deficient arise in the economy?



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4. Name any two policy measures to reduce inflationary gap (or to reduce excess demand).



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5. What is monetary policy?



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6. What is fiscal policy?



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7. Define Statutory Liquidity Ratio



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Short Answer

1. Explain the role of taxation and government expenditure in reducing aggregate demand in an economy.



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2. Explain the role of cash reserve ration and bank rate in reducing aggregate demand in an economy.



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3. What is the difference between fiscal policy and monetary policy?



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4. Explain how controlling money supply is helpful in reducing excess demand?



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5. How does increase in taxes help to control the situation of excess demand?

OR

Explain the role of taxation in reducing excess demand.



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Long Answer

1. Give the meaning of excess demand in an economy with the help of a diagram. Explain the role of bank rate in correcting it.



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2. Explain the role of the following in correcting the deflationary gap in an economy:

(i) Open market operation

(ii) Bank rate



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3. Explain the role of the following in correcting excess demand in an economy (i) Bank rate (ii) Open market operations.



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4. Distinguish between inflationary gap and deflationary gap. State two measures by which these can be corrected.



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5. What is deficient demand? Explain the role of Bank Rate in removing it.



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6. What is excess demand? Explain the role of Reverse Repo Rate in removing it.



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