



ECONOMICS

BOOKS - SANDEEP GARG ECONOMICS (HINGLISH)

AGGREGATE DEMAND AND RELATED CONCEPTS

Example

1. Calculate APC and APS from the following schedule :

Income(Y)	100	200	300
Consumption(C)	80	120	180

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2. If APC of an economy is 0.8, what should be saving at an income level of ₹ 2,000 crores ?



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3. (i) The disposable income (Y) is ₹ 1200 crores and consumption expenditure (C) is ₹ 800 crores. Calculate the APC.

If saving is ₹ 500, out of an income of ₹ 5,000, how much is the APS ?

(iii) If disposable income is ₹ 1,000 and consumption expenditure is ₹ 750, find out average propensity to save.

(iv) If income is ₹ 100, calculate APC.

(v) When incomes rises from ₹ 1,000 to ₹ 1,100, saving rise by ₹ 30.

Find out MPS and MPC.



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4. Calculate MPC from the following schedule:

Income (Y)	0	100	200	300	400
Consumption (C)	60	110	150	180	200



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5. The level of income, in an economy, increases from ₹ 20,000 crores to ₹ 70,000 crores, and as a result the level of consumption increases from ₹ 15,000 crores to ₹ 45,000 crores. Calculate the MPC.

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6. Calculate the value of MPS from the given table:

Income (₹)	100	200	300	400	500
Saving (₹)	15	40	70	110	160

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7. Complete the following table:

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

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8. Complete the following table:

<i>Income</i>	<i>Saving</i>	<i>Marginal Propensity to Consume</i>	<i>Average Propensity to Save</i>
0	-12	—	—
20	-6	—	—
40	0	—	—
60	6	—	—

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9. Complete the following table:

<i>Income</i>	<i>Consumption</i>	<i>Marginal Propensity to Save</i>	<i>Average Propensity to Save</i>
0	40	—	—
50	70	—	—
100	100	—	—
150	120	—	—

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10. Complete the following table:

Income	Marginal Propensity to Consume	Saving	Average Propensity to Save
0	—	-90	—
100	0.6	—	—
200	0.6	—	—
300	0.6	—	—

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11. From the following schedule, compute APC, APS, MPC and MPS:

Income (₹)	50	100	150	200
Saving (₹)	10	40	75	120

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12. Given that national income is ₹ 80 crore and consumption expenditure ₹ 64 crore, find out average propensity to save. When income rises to ₹ 100 crore and consumption expenditure to ₹ 78 crore, what will be the average propensity to consume and the marginal propensity to consume ?



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13. The consumption expenditure and investment demand are ₹ 600 crores and ₹ 300 crores respectively, when income is ₹ 1,000 crores. Calculate : (i) AD, (ii) AS (iii) Saving.



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14. Using the equation of consumption function: $C = \bar{c} + b(Y)$, calculate consumption expenditure at the income level of ₹ 500 crores, if autonomous consumption is ₹ 40 crores and 40% of additional income is saved.



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15. The saving curve of an economy makes a negative intercept of ₹ 50 crores and 20 % of additional income is saved. Derive the saving and consumption function.

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16. With the help of saving function: $S = -20 + 0.3 (Y)$, calculate consumption expenditure at the income level of ₹1,000 crores.

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17. On the basis of consumption function: $C = 120 + 0.40 Y$, answer the following questions:

- (i) Derive the saving function.
- (ii) Determine the saving at the income level of ₹ 500 crores.
- (iii) At what level of income, saving becomes zero ?



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18. If MPC is one-third of MPS and consumption at zero level of national income is ₹ 40 crores, derive the consumption and saving function.

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19. The consumption function for an economy is : $C = 20 + 0.8Y$ (assuming amount in ₹ crores). Determine the level of income when average propensity to consume will be one.

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20. The break-even level of income for an economy is given to be ₹ 10,000 crores. If the economy saves 20 per cent of additional income, then calculate the value of autonomous consumption.



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21. Given below is the consumption function of an economy:

$$C = 100 + 0.5 Y.$$

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



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22. If a consumption function of a hypothetical economy is given as:

$$C = 100 + 0.6 Y, \text{ then}$$

- (i) What will be the values of marginal propensity to consume and marginal propensity to save for the economy ?
- (ii) Write the corresponding saving function.



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23. Estimate the value of Aggregate Demand in an economy if:

- | | |
|---|---------------|
| (a) Autonomous Investment (I) | = 100crores |
| (b) Marginal Propensity to Save | = 0.2 |
| (c) Level of Income (Y) | = 4,000crores |
| (d) Autonomous Consumption Expenditure(\bar{c}) | = 50crores |



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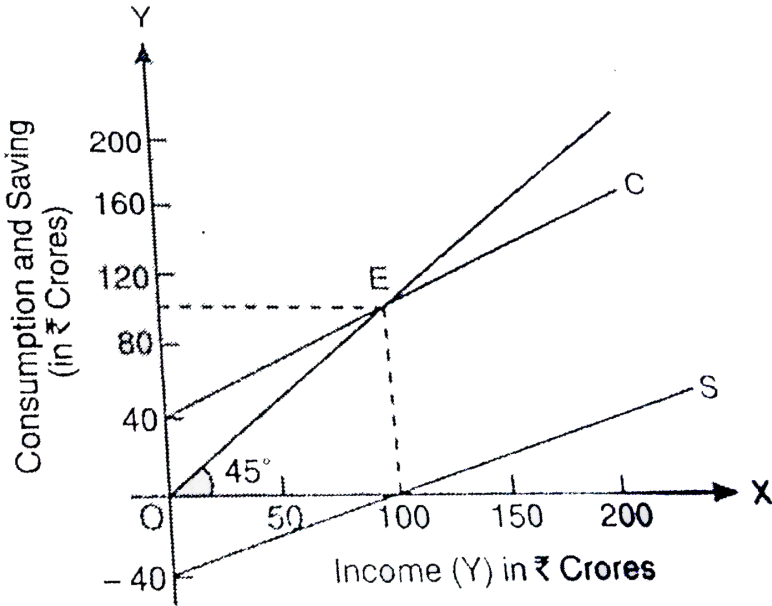
24. On the basis of given diagram, answer the following questions:

(i) What is the value of autonomous consumption ?

What is the break-even level of income or at what level of income saving is zero ?

(iii) How much is APC corresponding to point E ?

(iv) If $MPC = 0.6$, determine the consumption and saving function.



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25. The consumption function of an economy is given as: $C = 60 + 0.6Y$.

Draw a diagram showing consumption expenditure corresponding to income levels of 0, 100, 200, 300 and 400. (Values of income and autonomous consumption are in ₹ crores).

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26. The consumption function is given as $C = 40 + 0.6Y$. Derive saving function.

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27. The consumption function of an economy is given as: $C = 60 + 0.6Y$. For the given consumption function, calculate the break-even level of income.

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28. Which of the following can have the value of more than one and less than zero: (i) APC, (ii) APS, (iii) MPC, and (iv) MPS ?

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29. 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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30. Explain the relationship between average propensity to consume and average propensity to save. Can the value of average propensity to consume be greater than 1? Given reasons for your answer.

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31. Distinguish between voluntary unemployment and involuntary unemployment. What is the significance of this distinction?

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32. Discuss the significance of 45° line in Keynesian Economics.

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33. What is ex-ante consumption ? Distinguish between autonomous consumption and induced consumption.

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True And False

1. Value of average propensity to save can never be less than zero.

OR

Average propensity to save is always greater than zero.

OR

Average propensity to save can never be negative.



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2. Total consumption in the economy can never be more than national income.



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3. When the value of average propensity to save is negative, the value of marginal propensity to save will also be negative.



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4. The value of average propensity to save can never be greater than 1.



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5. Both MPS and APS can be equal to one.

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6. Sum of average propensity to consume and marginal propensity to consume is always equal to 1.

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7. With increase in national income, both APC and APS fall.

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8. Value of marginal propensity to save can never be negative.

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9. Value of marginal propensity to consume can be greater than one.

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10. Full employment implies absence of involuntary unemployment.

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11. APC can be defined as the fraction of change in income that is consumed.

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12. The point at which consumption curve intersects the 45 degree line, APS is zero.

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13. Average propensity to consume can be greater than one.

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14. Slope of Consumption curve is indicated by APC .

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15. In case of constant MPS, saving function will be linear.

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[Guidelines To Ncert Questions](#)

1. What is 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 investment and ex-post investment ?



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Revision Exercise Multiple Choice Questions

1. Out of the following, which can have a value more than one ?

A. MPC

B. APC

C. APS

D. MPS

Answer: B



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2. Which of the following is not a component of aggregate demand in a two-sector economy?

A. Net Exports

B. Government Expenditure

C. Consumption

D. Both (a) and (b)

Answer: D



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3. Break-even point is achieved when:

- A. National Income = Consumption
- B. Consumption = Saving
- C. Consumption = Investment
- D. National Income $>$ Consumption

Answer: A



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4. AD curve is a :

- A. Horizontal straight line parallel to the X-axis
- B. Positively sloped curve
- C. Negatively sloped curve

D. Vertical straight line parallel to the Y-axis

Answer: B



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5. Aggregate Supply and ___ are always equal.

A. National Income

B. Aggregate Demand

C. Marginal Propensity to save

D. Average Propensity to Consume

Answer: A



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6. Consumption function is the function relationship between ____ and ____.

- A. Consumption, Aggregate demand
- B. Consumption, National Income
- C. Aggregate Demand, Aggregate Supply
- D. National Income, Private Income

Answer: B

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7. Tick the wrong option:

- A. APC can be more than 1
- B. APC can be equal to 1

C. APC rises with increase in income

D. APC can never be 0

Answer: C



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8. ___ refers to actual saving in an economy during a year.

A. Ex-ante saving

B. APS

C. MPS

D. Ex-post saving

Answer: D



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9. Which of the following is not true about AD in a two-sector economy ?

- A. $AD = \text{Consumption} + \text{Saving}$
- B. AD curves starts from some point above the origin
- C. $AD = \text{Consumption} + \text{Investment}$
- D. AD curve has a positive slope

Answer: A



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10. Which of the following fact is correct about MPC ?

- A. Value of MPC varies between 0 and 1
- B. MPC of poor is more than that of rich
- C. MPC falls with successive increase in income

D. All of these

Answer: D



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11. Which of these is a component of Aggregate demand

A. Private consumption expenditure

B. Investment expenditure

C. Government expenditure

D. All of these

Answer: D



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12. Which of the following can have a negative value ?

- A. APC
- B. MPC
- C. MPS
- D. APS

Answer: D



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13. AD Curve starts :

- A. From the origin
- B. Point Below the origin
- C. Point above the origin

D. None of these

Answer: C



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14. If investment falls to zero, national income does not fall to zero because of :

A. Autonomous Consumption

B. Induced investment

C. Autonomous investment

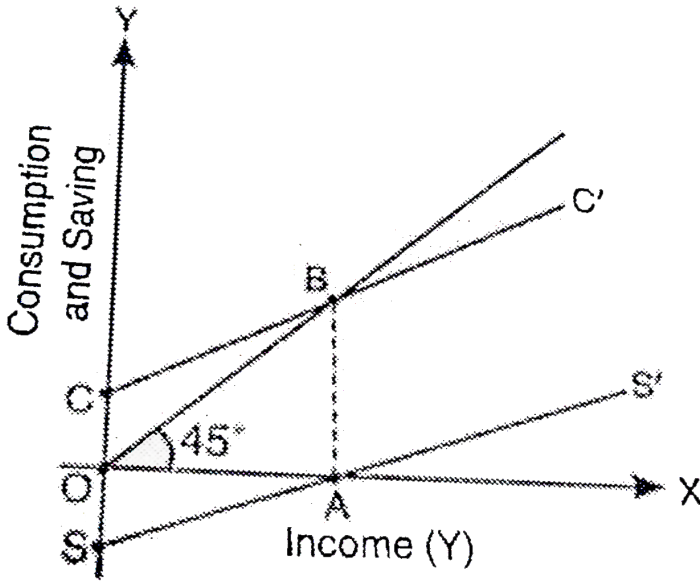
D. Multiplier

Answer: A



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15. Average Propensity to Consume isat point B and Average Propensity to Save isat point A.



- A. 0, 1
- B. 1, 0
- C. 1, 1
- D. 0, 0

Answer: B

16. The value of ____ can never be negative, while ____ can have a value equal to one.

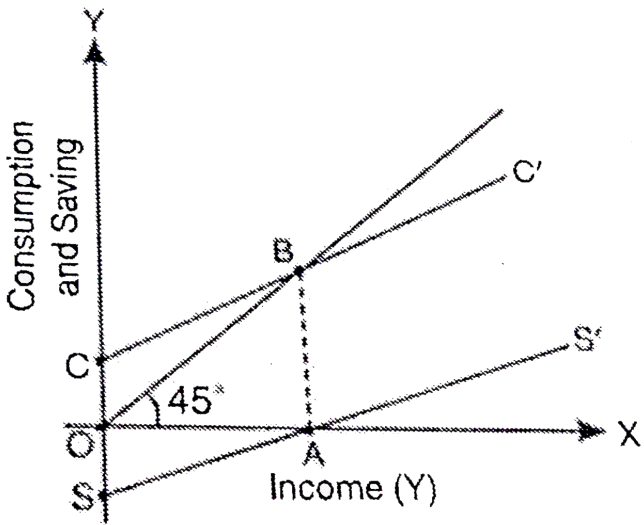
- A. APS, APC
- B. MPC, APS
- C. APC, APS
- D. MPS, APC

Answer: D



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17. Break-even point in the following diagram is represented by :



- A. Point B
- B. Point A
- C. Both (a) and (b)
- D. Neither (a) nor (b)

Answer: C

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18. Which of the following expression is correct ?

A. $APC = \frac{\text{Consumption}}{\text{National Income}}$

B. $APC = \frac{\text{Change in Consumption}}{\text{Change in National Income}}$

C. $APC = APS - 1$

D. $APC = \frac{\text{National Income}}{\text{Consumption}}$

Answer: A



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19. If $C = 100 + 0.75 Y$, then Saving Function will be expressed as:

A. $S = 100 + 0.25 Y$

B. $S = -100 + 0.75 Y$

C. $S = -100 + 0.25 Y$

$$D. S = 75 + 0.25 Y$$

Answer: C

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Very Short Answer Type Questions

1. Give the meaning of aggregate demand.

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2. What are the components of aggregate demand ?

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3. What determines the level of consumption expenditure ?



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4. Define aggregate supply.



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5. Mention the two components of aggregate supply.



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6. What is consumption function ?



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7. What is meant by break-even point ?



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8. What is average propensity to consume ? How is it calculated ?

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9. Can the value of APC be greater than one ?

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10. Can APC be ever zero ?

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11. Define marginal propensity to consume.

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12. Can the value of MPC be greater than one ?

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13. Distinguish between APC and MPC.

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14. What are the 2 kinds of propensities to save ?

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15. What is average propensity to save ? Give the formula for its measurement.

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16. Can the value of average propensity to save be negative ? If yes, when ?

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17. Define marginal propensity to save.

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18. What can be the maximum value of marginal propensity to save ?

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19. What is the relationship between APC and APS ?

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20. What is the relationship between marginal propensity to save and marginal propensity to consume ?

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21. If the value of average propensity to consume is given as 0.75, the value of average propensity to save would be _____.

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22. If MPC is 0.75, what will be the MPS ?

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23. How much is the marginal propensity to consume in an economy in which MPS is 0.2 ?

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24. If the saving function is $S = -20 + 0.3Y$, then what will be the value of MPC ?

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25. Give the meaning of autonomous consumption.

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26. Out of induced investment and autonomous investment, which one is influenced by the level of income ?

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27. Will a firm invest, if its marginal efficiency of investment is 12% and the rate of interest is 16% ?

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28. Give the meaning of ex-ante saving.

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29. Give the meaning of ex-ante investment.

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30. What do you understand by ex-post saving and ex-post investment ?

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31. Will ex-ante saving always be equal to the ex-ante investment ?

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32. Give the meaning of full employment.

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33. Give the meaning of involuntary unemployment.

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34. Why does consumption curve not start from the origin.

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Short Answer Type Questions

1. Define aggregate demand. State its components.



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2. "There is minimum consumption, even when the income level is zero". Defend or refute.



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3. Distinguish between average propensity to consume and marginal propensity to consume. The value for which of these two can be greater than one and when ?



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4. "The rate of increase in consumption is equal to the rate of increase in income". Do you agree with this statement ?



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5. Define 'average propensity to consume' and 'marginal propensity to consume'. How are they calculated ?



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6. Give the meanings of 'average propensity to save' and 'marginal propensity to save'. How are they calculated ?



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7. Distinguish between average propensity to save and marginal propensity to save. The value of which of these two can be negative

and when ?



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8. Explain the distinction between 'autonomous investment' and 'induced investment'.



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9. Give meanings of : (i) involuntary unemployment, (ii) full employment.



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10. Explain the distinction between voluntary and involuntary unemployment.



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11. Outline the steps taken in deriving saving curve from the consumption curve. Use diagram.

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12. Outline the steps taken in deriving Consumption Curve from the Saving Curve. Use diagram.

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13. Draw consumption curve and saving curve in a single diagram and mark the 'break-even point'.

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14. What is the difference between marginal propensity to consume and marginal propensity to save ?

What is the relation between the two ?



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15. Explain the relationship between average propensity to consume and average propensity to save.

Which of these can have a negative value and when ?



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16. Differentiate between aggregate demand and aggregate supply.



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17. Give the meaning of average propensity to save. What is its relation with average propensity to consume ?

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18. Distinguish between autonomous consumption and induced consumption.

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19. Explain the distinction between ex-ante measures and ex-post measures.

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20. Give the meaning of : (a) Autonomous consumption, (b) Full employment.

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21. Which of the following cannot have a negative value ? Give reasons.

(i) Average propensity to save (ii) Marginal propensity to save

Hint : (i) APS can have a negative value because at very low level of income, there is dissaving, (ii) MPS cannot have a negative value as it is the ratio of ΔS and ΔY and ΔS can never be negative.

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22. Distinguish between marginal propensity to consume and average propensity to consume. Give a numerical example.



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23. Distinguish between ex-ante measure and ex-post measure of a variable. Which of the two forms the basis of the theory of national income determination ? ItBrgt Hint : Ex-ante variable is the planned or expected value of variable whereas, ex-post variable is the actual or realised value of the variable. Ex-ante variables forms the basis of theory of national income determination ?

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Long Answer Type Questions

1. What is meant by aggregate demand ? Explain the various components of aggregate demand.

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

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3. What is meant by 'propensity to consume' ? Discuss the two types of propensities to consume.

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

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5. Draw a straight line consumption curve. From it derive a saving curve. Explain the process of derivation. Show in this diagram : (a)

The point at which the Average propensity to Consume is equal to one: (b) Any point at which the Average Propensity to Save is negative.

Hint : Refer 'Derivation of Saving Curve from Consumption Curve'.

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6. Give the meaning of propensity to save. Discuss, in brief, the two types of propensities to save.

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7. Explain, in brief, the concept of ex-ante and ex-post saving and investment. Why are ex-ante saving and ex-ante investment not always equal to each other?

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8. What is meant by investment ? Discuss the two types of investments.

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9. Explain the steps taken in derivation of the Consumption Curve from the Saving Curve. Use diagram.

OR

Given saving curve, derive consumption curve and state the steps in doing so. Use diagram.

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10. Outline the steps required to be taken in deriving saving curve from the given consumption curve. Use diagram. It Brgt OR

Given consumption curve, derive saving curve and state the steps taken in the process of derivation. Use diagram.



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11. Derive a straight line saving curve using the following consumption function : $C = 20 + 0.6Y$. Presuming the income levels to be ₹ 100, ₹ 200 and ₹ 300 crores. Also calculate that level of income where consumption is equal to income.



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Unsolved Practicals

1. Calculate APC and APS from the following schedule :

Income(Y)	100	200	300
Consumption(C)	80	120	180



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2. At income level of ₹ 5,000 crores, total saving is ₹ 1,000 crores.

Calculate APC.

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3. Calculate MPC and MPS from the following schedule:

Income (Y)	100	200	300	400	500
Consumption (C)	85	160	235	310	400

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4. If households save ₹ 500 crores out of an additional income of ₹

5,000 crores, then calculate MPC.

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5. If the total incomes from ₹ 5,000 crores to ₹ 6,000 crores and saving increases from ₹ 1,000 crores to ₹ 1,500 crores, calculate MPC.

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6. If MPS is 0.3 and the income increases from ₹ 6,000 crores to ₹ 9,000 crores, what will be the additional consumption in the economy ?

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7. From the following schedule, compute APC, APS, MPC and MPS:

<i>Income</i>	200	250	300	350	400
<i>Saving</i>	—	5	15	20	50

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8. Complete the following table:

Income	Consumption	Marginal Propensity to Save	Average Propensity to Consume
0	15	—	—
50	50	—	—
100	85	—	—
150	120	—	—

(Marginal Propensity to Consume = 0.30, 0.50, 0.30; Average Propensity to Consume = 0.30, 0.50, 0.70, 0.80)

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9. Complete the following table :

Income	Marginal Propensity to Consume	Saving	Average Propensity to Consume
0	—	-30	—
100	0.75	—	—
200	0.75	—	—
300	0.75	—	—

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10. Complete the following table :

Income	Saving	Marginal Propensity to Consume	Average Propensity to Consume
0	-20	—	—
50	-10	—	—
100	0	—	—
150	30	—	—
200	60	—	—

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11. Complete the following table :

Income	Consumption Expenditure	Marginal Propensity to Save	Average Propensity to Save
0	80	—	—
100	140	0.4	—
200	—	—	0
—	240	—	0.20
—	260	0.8	0.35

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12. Complete the following table :

Income (₹)	Saving (₹)	Average propensity to consume	Marginal propensity to consume
0	-40
50	-20
100	0	0.6
150	30	0.8
200	50

(CBSE, Delhi 2013 (II))



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13. Complete the following table:

Consumption Expenditure (₹)	Saving (₹)	Income (₹)	Marginal propensity to consume
100	50	150	—
175	75	—	—
250	100	—	—
325	125	—	—

(CBSE, Delhi 2013 (II))



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14. If National income is ₹ 50 crore and Saving ₹ 5 crore, find out average propensity to consume. When income rises to ₹ 60 crore

and saving ₹ 9 crores, what will be the average propensity to consume and the marginal propensity to save ?

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15. Using the consumption function : $C = \bar{c} + b(Y)$, calculate saving at income of ₹ 2,000 crores, if autonomous consumption is ₹ 150 crores and 40% of additional income is consumed.

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16. The saving function for an economy is given as: $S = -120 + 0.4(Y)$. Determine: (i) Consumption function, (ii) Consumption at income level of ₹ 600 crores, (iii) Break-even level of income.

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17. The consumption function for an economy is given as: $C = 200 + 0.8Y$. (i) Determine the value of MPC and MPS, (ii) Autonomous Consumption, (iii) Derive the corresponding saving function, (iv) Calculate consumption at the income levels of ₹ 3,000 crores and ₹ 5,000 crores. (v) Determine the break-even level of income.

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18. If MPC is four times MPS and consumption at zero level of income is ₹ 70 crores, derive the consumption function .

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19. The consumption curve makes an intercept of ₹ 60 crores on the Y-axis. If MPC:MPS can be expressed as 1:3, then derive the saving

and consumption function. Also determine the level of income, when saving becomes zero ?

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20. The break-even point for an economy occurs at the income level of ₹ 500 crores. If marginal propensity to consume is 0.6, determine:
(i) Autonomous consumption, (ii) Saving function, (iii) Level of income when saving is ₹ 600 crores.

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21. The consumption function of an economy is given as: $C = 40 + 0.7Y$. Calculate the saving at the income level of ₹ 2,200 crores

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22. The saving curve makes an intercept of ₹ 40 crores on the negative Y-axis. If consumers spend 60% of additional income, then determine: (i) Saving Function, (ii) Consumption Function, (iii) Break-even level of income.

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23. If national income is ₹ 90 crore and Consumption expenditure ₹ 81 crore, find out average propensity to save. When income rises to ₹ 90 crore and Consumption expenditure ₹ 81 crore, find out average propensity to save. When income rises to ₹ 100 crore and consumption expenditure to ₹ 88 crore. What will be the marginal propensity to consume and marginal propensity to save ?

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24. The saving function is given as: $S = -120 + 0.5Y$. Draw a diagram showing saving corresponding to income levels of 0, 200, 400, 600 and 800.

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25. If Consumption Function is given by : $C = 30 + 0.4Y$, then determine: (i) Savings at zero level of income, (ii) MPC, (iii) MPS, (iv) Break-even level of income, (v) Saving Function.

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