



M COM ENTRANCE

MACROECONOMICS PRACTICE QUESTIONS

CH 2 : NATIONAL INCOME DETERMINATION

1. If marginal propensity to consume in a hypothetical economy is 0.68, then marginal propensity to save would be:
A 0.32
B 0.68
C 0.50
D 0.10
2. If the value of investment multiplier is 5, then MPC will be:
A 0.20
B 0.25
C 0.80
D None of these
3. If $MPC = 0$, the value of multiplier will be:
A 0
B 1
C 2
D infinity
4. When saving is greater than investment in a two-sector model,
A Output should increase
B Output should decrease
C Output should not change
D None of these
5. When output exceeds spending:
A There is unsold output, and level of output will fall
B There is unsold output, and level of output will rise

- C** There is unsold output, and level of spending will rise
 - D** There is no unsold output since the level of spending will rise
6. The slope of the consumption function is called
- A** MPC
 - B** MPS
 - C** APC
 - D** APS
7. Who propounded the concept of Marginal Efficiency of Investment?
- A** Keynes
 - B** Boulding
 - C** Fisher
 - D** None of these
8. Which of the following concepts considers change in price of the asset even in short run?
- A** MEI
 - B** MEC
 - C** Both MEI & MEC
 - D** None of the above
9. Suppose that the consumption function is given by $C = 500 + .8Y$ and investment is $I = \text{Rs.}500$. The equilibrium level of income is:
- A** Rs.2,500
 - B** Rs.1,000
 - C** Rs.5,000
 - D** Rs.4,000
10. A budget deficit occurs when:
- A** capital expenditure exceeds the budget receipts
 - B** revenue expenditure exceeds the budget receipts
 - C** budget expenditure exceeds the revenue receipts
 - D** budget expenditure exceeds the budget receipts

11. An increase in planned investment spending causes aggregate output to
- A** increase by an amount equal to the change in investment spending.
 - B** increase by an amount less than the change in investment spending.
 - C** increase by an amount greater than the change in investment spending.
 - D** decrease by an amount less than the change in investment spending.
12. In an economy marginal propensity to save is 0.25 and tax rate is 0.20. The value of multiplier would be:
- A** 2
 - B** 2.5
 - C** 3.2
 - D** 5
13. The equilibrium level of output is determined when:
- A** inventories increase
 - B** inventories remain constant
 - C** inventories decrease
 - D** there is no inventory
14. In case of excess demand:
- A** the output level increases
 - B** the employment level increases
 - C** the price level rises
 - D** All of the above
15. A fiscal deficit represents
- A** the amount to be borrowed to meet the interest payments
 - B** the amount to be borrowed to meet the excess of capital expenditure over capital receipts
 - C** the total borrowing required
 - D** None of these
16. The slope of consumption function is:
- A** always greater than 1
 - B** always less than 1

- C** always equal to 1
- D** less than or equal to 1

17. Which of the following statements is correct?

- A** A variable is endogenous when its value is determined by forces outside the model.
- B** A change in an exogenous variable is classified as an autonomous change.
- C** A variable is exogenous when its value is determined by forces within the model.
- D** A variable is autonomous when its value is determined by forces within the model.

18. Zero primary deficits indicates that in a government budget :

- A** Interest payments are equal to fiscal deficit
- B** Interest payments are less than fiscal deficit
- C** Fiscal deficit and budget deficit are equal
- D** There is no interest payment

19. The marginal propensity to consume measures:

- A** how much of a given level of disposable income is consumed
- B** what percentage of disposable income goes to savings
- C** how much consumption expenditure occurs at the equilibrium level of income
- D** the fraction of a change in disposable income that is spent on consumption expenditure

20. Keynesian multiplier is :

- A** Inversely related to MPS **B** Inversely related to MPC
- C** Inversely related to APC **D** Directly related to APC