

12th Economics Lesson 4 Questions in English

4] Consumption and Investment Functions

1. What is the primary objective of the macroeconomics?
 - a) Growth in per capita income
 - b) To make Gross happiness Index high
 - c) Growth in National Income
 - d) All the above
2. Which of the following has close correlation?
 - 1) Investment
 - 2) Consumption
 - 3) National income
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above
3. Which of the following statement is correct?
 - 1) The multiplier refers to the change in national income resulting from change in investment.
 - 2) The consumption function is the relationship between consumption expenditure and the national income
 - 3) The relationship between consumption expenditure and the capital expenditure is explained by the principle of accelerator.
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above
4. Assertion (A): The consumption function or propensity to consume refers to income consumption relationship.
Reason(R): It is a "functional relationship between two aggregates viz., total consumption and gross national income."
 - a) Both (A) and (R) are correct, but (R) does not explain (A)
 - b) Both (A) and (R) are wrong
 - c) Both (A) and (R) are correct and (R) explains (A)
 - d) (A) is Correct and (R) is wrong
5. What does the Y represent in CONSUMPTION FUNCTION?
 $C = f(Y)$
 - a) Consumption
 - b) Function
 - c) Income
 - d) All the above
6. Which of the following statement is correct?
 - 1) Consumption Function relationship is based on the ceteris paribus (other things being same) assumption, as only income consumption relationship is considered and all possible influences on consumption are held constant
 - 2) Consumption function is a schedule of the various amounts of consumption expenditure corresponding to different levels of income
 - a) 1 alone
 - b) 2 alone
 - c) 1, 2
 - d) None
7. _____ is the ratio of consumption expenditure to any particular level of income
 - a) Average Propensity to Consume
 - b) Marginal Propensity to Consume
 - c) Average Propensity to Save
 - d) Marginal Propensity to Save
8. The marginal propensity to consume may be defined as the ratio of _____
 - a) Consumption expenditure to any particular level of income
 - b) Ratio of saving to income
 - c) Change in the consumption to the change in income
 - d) Change in saving to a change in income
9. The Marginal Propensity to consume ratio varies between_____
 - a) $0 < MPC < \text{infinity}$
 - b) $0 < MPC < 1$
 - c) $0 < MPC < 10$

- d) $0 < MPC < 2$
10. The ratio of total saving by the total income is called as _____
- Marginal Propensity to Save
 - Marginal Propensity to Consume
 - Average Propensity to Save
 - Average Propensity to Consume
11. _____ is the ratio of change in saving to a change in income.
- Marginal Propensity to Save
 - Marginal Propensity to Consume
 - Average Propensity to Save
 - Average Propensity to Consume
12. $MPC + MPS =$ _____
- 1
 - APS
 - APC
 - $MPC^2 - MPS^2$
13. When Income and consumption is 120, what will be the percentage of APC?
- 0
 - 1
 - 100
 - 50
14. Which of the following statement is correct?
- Keynes propounded the fundamental Psychological Law of Consumption which forms the basis of the consumption function
 - His law implies that there is a tendency on the part of the people to spend on consumption less than the full increment of income.
- 1 alone
 - 2 alone
 - 1, 2
 - None
15. According to Ceteris paribus consumption depend on _____
- Income distribution
 - Tastes
 - Income
 - Habits
16. Assertion: The law holds good under normal conditions
Reason(R): Under abnormal and extraordinary circumstances the law will not operate
- Both (A) and (R) are correct, but (R) does not explain (A)
 - Both (A) and (R) are wrong
 - Both (A) and (R) are correct and (R) explains (A)
 - (A) is Correct and (R) is wrong
17. Which of the following statement about Keynes's Psychological Law of Consumption is correct?
- The law operates in a rich Socialist economy where there is government intervention
 - People should be free to spend increased income.
 - In the case of regulation of private enterprise and consumption expenditures by the State, the law breaks down.
- 1, 2
 - 1, 3
 - 2, 3
 - All the above
18. Assertion (A): consumption expenditure increases with increase in income but less than Proportionately
Reason(R): The Reason is that as income increases, our wants are satisfied side by side, so that the need to spend more on consumer goods diminishes
- Both (A) and (R) are correct, but (R) does not explain (A)
 - Both (A) and (R) are wrong
 - Both (A) and (R) are correct and (R) explains (A)
 - (A) is Correct and (R) is wrong
19. Assertion (A): The increased income will be divided in some proportion between consumption expenditure and saving.
Reason(R): consumption and saving will always move together

a) Both (A) and (R) are correct, but (R) does not explain (A)

b) Both (A) and (R) are wrong

c) Both (A) and (R) are correct and (R) explains (A)

d) (A) is Correct and (R) is wrong

20. Increase in income always leads to _____

a) Increase in both consumption and saving

b) Decrease in both consumption and saving

c) Increase in consumption

d) Increase in saving

21. Which of the following statement is correct?

1) J.M Keynes has divided factors influencing the consumption function into Subjective factors and Objective factors

2) Subjective factors are the internal factors related to psychological feelings

3) Keynes lists eight motives which lead individuals to refrain from spending

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

22. Match the following

I. Motive of precaution - 1. Desire to enjoy for improving standard of living

II. Motive of foresight - 2. Desire to build up a reserve against unforeseen contingencies

III. Motive of improvement - 3. Purely miserly instinct

IV. Motive of avarice - 4. Desire to provide for anticipated future needs

a) 3, 2, 1, 4

b) 4, 2, 1, 3

c) 2, 4, 1, 3

d) 2, 3, 1, 4

23. What are the motives of Government, institutions and business corporations and firms?

1) Motive of enterprise

2) Motive of liquidity

3) Motive of financial prudence

4) Motive of improvement

a) 1, 2, 3

b) 1, 3, 4

c) 2, 3, 4

d) All the above

24. Which of the following statement about Objective factors by Keynes is incorrect?

1) Objective factors are the internal factors which are real and measurable

2) These factors can be easily changed in the long run.

a) 1 alone

b) 2 alone

c) 1, 2

d) None

25. Which of the following statement is correct?

1) If there is large disparity between rich and poor, the consumption is low because the rich people have low propensity to consume and high propensity to save

2) The community with more equal distribution of income tends to have high propensity to consume.

3) This view has been corroborated by J.M. Keynes

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

26. Assertion (A): Price level plays an important role in determining the consumption functions

Reason(R): When the price falls, real income goes up; people will consume more and propensity to save of the society increases.

a) Both (A) and (R) are correct, but (R) does not explain (A)

b) Both (A) and (R) are wrong

c) Both (A) and (R) are correct and (R) explains (A)

d) (A) is Correct and (R) is wrong

27. Which of the following statement is correct?

1) Wage level plays an important role in determining the consumption function and there

is positive relationship between wage and consumption.

2) Consumption expenditure increases with the rise in wages.

3) Similar is the effect with regard to windfall gains.

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

28. _____ will encourage people to save more money and reduce consumption

a) Higher rate of interest

b) Lower rate of interest

c) Both a and b

d) None

29. When government reduces the tax which of the following will increase?

a) Disposable income

b) Price

c) Propensity to consume of community

d) Both a and c

30. Which of the following statement is correct?

1) The availability of consumer credit at easy instalments will encourage households to buy consumer durables like automobiles, fridge, and computer.

2) Ceteris paribus, the larger the size of the family, the greater is the consumption

3) Families with children of college education stage spend more than those of primary education and urban families spend more than rural families

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

31. Assertion (A): The consumption expenditure depends not only on his current income but also past income and standard of living.

Reason(R): As the individuals are accustomed to a particular standard of living, they continue to

spend the same amount on consumption even though the current income is reduced

a) Both (A) and (R) are correct, but (R) does not explain (A)

b) Both (A) and (R) are wrong

c) Both (A) and (R) are correct and (R) explains (A)

d) (A) is Correct and (R) is wrong

32. Which of the following statement is correct?

1) Consumption is influenced by demonstration effect

2) The consumption standards of low-income groups are influenced by the consumption standards of high-income groups

3) In other words, the rich people want to imitate the consumption pattern of poor

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

33. Unexpected changes in the stock market tend to shift the consumption function_____

a) Upwards

b) Downwards

c) Either a or b

d) Stock market doesn't have effect on consumption function

34. Which of the following has inverse relationship?

1) Rate of interest

2) Consumption

3) Investment

a) 1, 2

b) 2, 3

c) 1, 3

d) All the above

35. Which of the following are forms of investment?

1) Purchase of stocks and shares

2) Debentures

3) Government bonds

a) 1, 2

- b) 1, 3
c) 2, 3
d) All the above
36. Which of the following statement about Autonomous Investment is correct?
- 1) Autonomous Investment depends on the national income
 - 2) It is mainly done with the welfare motive and not for making profits
 - 3) It is not affected by rise in raw materials or wages of workers
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above
37. Autonomous investment is independent of _____
- 1) Change in income
 - 2) Rate of interest
 - 3) Rate of profit
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above
38. Which of the following statement is correct?
- 1) In the times of economic depression, the governments try to boost the autonomous investment
 - 2) Autonomous investment is one of the key concepts in welfare economics
 - 3) Government makes autonomous investment because of the welfare consideration
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above
39. Which of the following statement about induced investment is correct?
- 1) Induced investment is the expenditure on fixed assets and stocks which are required when level of income and demand in an economy goes up.
 - 2) Induced investment is profit motivated.
 - 3) It is not related to changes of national income
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above
40. Assertion (A): Decreases in national income leads to decrease in induced investment and vice versa.
Reason(R): The relationship between the national income and induced investment is positive
- a) Both (A) and (R) are correct, but (R) does not explain (A)
 - b) Both (A) and (R) are wrong
 - c) Both (A) and (R) are correct and (R) explains (A)
 - d) (A) is Correct and (R) is wrong
41. Which of the following are the features of induced investment?
- 1) Planned
 - 2) Income inelastic
 - 3) Profit Motive
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above
42. In reality investment decision depends on _____
- 1) Rate of interest
 - 2) Political environment
 - 3) Stock of capital goods
 - 4) Policy of the state
- a) 1, 2, 4
b) 1, 3, 4
c) 2, 3, 4
d) All the above
43. Which of the following statement is correct?
- 1) Private investment is an increase in the capital stock such as buying a factory or machine

2) The marginal efficiency of capital (MEC) states the rate of return on an investment project.

3) If the marginal efficiency of capital is 5% and interest rates is 4%, then it is worth borrowing at 4% to get an expected increase in output of 5%.

- a) 1, 2
- b) 1, 3
- c) 2, 3
- d) All the above

44. Which of the following will reduced due to higher interest rate?

- a) Investment
- b) Cost of borrowing
- c) Both a and b
- d) Either a or b

45. Assertion (A): Saving money in a bank gives a higher rate of return

Reason(R): using savings to finance investment has an opportunity cost of lower interest payments.

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

46. Which of the following statement about Marginal Efficiency of Capital is correct?

1) MEC was first introduced by J.M Keynes in 1936 as an important determinant of autonomous investment

2) It may be defined as the highest rate of return over cost expected from the additional unit of capital asset.

3) Meaning of Marginal Efficiency of Capital (MEC) is the rate of discount which makes the discounted present value of expected income stream equal to the cost of capital

- a) 1, 2
- b) 1, 3
- c) 2, 3

d) All the above

47. What factors should be taken into consideration while making any investment decision?

1) Cost of the capital asset

2) Expected rate of return from during its lifetime

3) Market rate of interest

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

48. Marginal Efficiency of Capital depends on which factors?

1) Prospective yield from a capital asset

2) Market rate of interest

3) Supply price of a capital asset

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

49. Which of the following statement is correct?

1) If the market for a particular good is expected to grow and its costs are likely to fall, the rate of return from investment will be high

2) If the entrepreneurs are holding large volume of working capital, they can take advantage of the investment opportunities that come in their way. The MEC will be high.

3) The MEC is also influenced by sudden changes in income of the entrepreneurs.

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

50. Assertion (A): current rate of investment in a particular industry is a factor which influences MEC

Reason(R): If in a particular industry, much investment has already taken place and the rate of investment currently going on in that industry is also very large, then the marginal efficiency of capital will be low.

a) Both (A) and (R) are correct, but (R) does not explain (A)

b) Both (A) and (R) are wrong

c) Both (A) and (R) are correct and (R) explains (A)

d) (A) is Correct and (R) is wrong

51. Which of the following statement is correct?

1) The marginal efficiency of capital is also affected by waves of optimism and pessimism in the business cycle.

2) If businessmen are optimistic about future, the MEC will be likely to be low

3) During periods of pessimism the MEC is under estimated and so will be low

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

52. Assertion (A): Rapid rise in the growth of population will increase the marginal efficiency of Capital

Reason(R): Marginal efficiency of capital is also influenced by the rate of growth of population.

a) Both (A) and (R) are correct, but (R) does not explain (A)

b) Both (A) and (R) are wrong

c) Both (A) and (R) are correct and (R) explains (A)

d) (A) is Correct and (R) is wrong

53. Which industries greatly stimulated development of automobiles in the 20th century?

1) Rubber industries

2) Oil industries

3) Steel industry

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

54. Which of the following statement is correct?

1) Cheap money policy and liberal tax policy pave the way for greater profit margin and so MEC is likely to be high

2) Political stability, smooth administration, maintenance of law and order help to improve MEC.

3) Cheap and abundant supply of natural resources, efficient labour and stock of capital enhance the MEC

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

55. Which of the following statement about Marginal Efficiency of Investment is correct?

1) MEI is the expected rate of return on investment as additional units of investment are made under specified conditions and over a period of time

2) When cost of borrowing is high, businesses are less motivated to borrow money and make investment on different projects because high cost of borrowing reduces profit margin of the business firms

a) 1 alone

b) 2 alone

c) 1, 2

d) None

56. Which of the following statement about Marginal Efficiency of Capital is correct?

1) It is based on a given supply price for capital

2) It is a "flow" concept.

3) It determines the optimum capital stock in an economy at each level of interest rate

a) 1, 2

b) 1, 3

c) 2, 3

d) All the above

57. Which of the following statement about Marginal Efficiency of Investment is correct?

1) It is a "stock" concept.

2) The amount of investment is taken on the X - axis of diagram

- 3) It is based on the induced change in the price due to change in the demand for capital.
- 1, 2
 - 1, 3
 - 2, 3
 - All the above
58. Who developed the concept of multiplier in terms of employment?
- J.M. Keynes
 - J.M. Llyod
 - R.F. Khan
 - Walt Whitman
59. What is the ratio of Multiplier?
- Change in national income to change in investment
 - Change in investment to change in national income
 - Change in investment to Change in savings
 - Change in savings to change in investment
60. Which of the following assumptions to be made for working of Keynes's theory of the multiplier?
- There is change in autonomous investment
 - There are changes in prices
 - There are no time lags in the multiplier process.
 - Consumption is a function of current income
- 1, 2, 4
 - 1, 3, 4
 - 2, 3, 4
 - All the above
61. Which of the following statement is correct?
- The propensity to consume refers to the portion of income spent on consumption.
 - The MPC refers to the relation between change in consumption (C) and change in income(Y).
 - The value of multiplier depends on MPC
- 1, 2
 - 1, 3
 - 2, 3
 - All the above
62. If the value of MPC is 0.75, what will be the value of MPS and k?
- 0.25, 4
 - 4, 0.25
 - 0.35, 7
 - 7, 0.35
63. Which of the following statement is correct?
- When an initial increases in an injection (or a decrease in a leakage) leads to a greater final increase in real GDP.
 - When initial increases in an injection (or an increase in a leakage) lead to a greater final decrease in real GDP
- 1 alone
 - 2 alone
 - 1, 2
 - None
64. What is the other name of Dynamic multiplier?
- Sequence multiplier
 - Simultaneous multiplier
 - Timeless multiplier
 - Logical multiplier
65. What are the other names of static multiplier?
- Sequence multiplier
 - Simultaneous multiplier
 - Timeless multiplier
 - Logical multiplier
- 1, 2, 3
 - 1, 3, 4
 - 2, 3, 4
 - All the above
66. Which of the following statement is correct?
- The multiplier assumes that those who earn income are likely to spend a proportion of their additional income on consumption
 - But in practice, people tend to spend their additional income on other items
 - Such expenses are known as leakages
- 1, 2
 - 1, 3

- c) 2, 3
d) All the above
67. If a portion of the additional income is used for repayment of old loan, the MPC is____
- a) Increased
b) Reduced
c) No change
d) Vary either increase or decrease
68. Which of the following statement is correct?
- 1) If income is used in purchase of existing wealth such as land, building and shares money is circulated among people and never enters into the consumption stream.
2) As a result the value of multiplier is affected.
3) Income spent on imports of goods or services flows out of the country and has little chance to return to income stream in the country.
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above
69. What are the uses of Multiplier?
- 1) Multiplier highlights the importance of investment in income and employment theory
2) It also helps in bringing the equality between S and I
3) It helps to reduce unemployment and achieve full employment
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above
70. Which of the following is not a type of multiplier?
- a) Tax multiplier
b) Employment multiplier
c) Savings multiplier
d) Investment Multiplier
71. Who among the following made systematic development of the simple accelerator model?
- a) J.M. Keynes
b) J.M. Clark
c) Bickerdike
d) J.M. Llyod
72. Which of the following statement is correct?
- 1) A given increase in the demand for consumption goods in the economy generally leads to an accelerated demand for machineries
2) Accelerator is the numerical value of the relation between an increase in consumption and the resulting increase in investment
- a) 1 alone
b) 2 alone
c) 1, 2
d) None
73. The accelerator coefficient is the ratio between_____
- a) Induced investment and an initial change in consumption
b) Induced investment and an final change in consumption
c) Initial change in consumption and induced investment
d) Final change in consumption and induced investment
74. Who combined the k and β mathematically and given it the name of the Super Multiplier?
- a) J.M. Keynes
b) J.M. Llyod
c) Hicks
d) David Schimmer
75. Which of the following are not included in super multiplier?
- 1) Autonomous investment
2) Induced investment
3) Supporting investment
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above
76. The combined effect of the multiplier and the accelerator is also called_____
- a) Leverage effect
b) Super multiplier

- c) Special multiplier
- d) All the above