**Practice Workbook on Macroeconomics: ECON- 102**

**Practice Set- 1**

**Multiple Choice Questions:**

1. **Who is considered as father of modern macroeconomics?**

|  |  |
| --- | --- |
| a. Adam Smith | b. Prof. J. M. Keynes |
| c. Prof. J. N. Keynes | d. Alfred Marshall |

**2.** **Who wrote the book “*General Theory of Employment, Interest and Money*”?**

|  |  |
| --- | --- |
| a. Adam Smith | b. Prof. J. M. Keynes |
| c. Prof. J. N. Keynes | d. Alfred Marshall |

**3.** **The term *microeconomics* and *macroeconomics* were first given by -----------**

|  |  |
| --- | --- |
| a. Adam Smith | b. Prof. J. M. Keynes |
| c. Ragner Frisch | d. Alfred Marshall |

**4.** **The book “*General Theory of Employment, Interest and Money*” was published in----------**

|  |  |
| --- | --- |
| a. 1836 | b. 1936 |
| c. 1963 | d. None of these |

**5.** **Macroeconomics became popular after-------------**

|  |  |
| --- | --- |
| a. *Great depression of 1929- 33* | b. 1972-73 |
| c. 1996- 97 | d. 2006- 07 |

**6.** **The term ‘*macro’* has been derived from--------------**

|  |  |
| --- | --- |
| a. Greek word ‘*makros*’ which means *large* | b. English word ‘*makros*’ which means *large* |
| c. Greek word ‘*makros*’ which means *small* | d. French word ‘*makros*’ which means *large* |

**7. In macroeconomics, we study about ------------------**

|  |  |
| --- | --- |
| a. Theory of National Income & Employment | b. Theory of Money Supply & Price Level |
| c. Theory of International Trade & Eco growth | d. All of the above. |

**8. Which of the following is/are the goals of macroeconomics-----------**

|  |  |
| --- | --- |
| a. To Achieve Higher Level of GDP | b. To Achieve Higher Level of Employment |
| c. Stability of Prices | d. All of the above. |

**9. What are the tools of macroeconomics?**

|  |  |
| --- | --- |
| a. Monetary Policy | b. Fiscal Policy |
| c. Income Policy | d. All of the above. |

**10. The study of groups and broad aggregates of the economy is known as-----------**

|  |  |
| --- | --- |
| a. Microeconomics | b. Macroeconomics |
| c. International Economics | d. None of the above. |

**Ans:**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Ques | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Ans. |  |  |  |  |  |  |  |  |  |  |

**Write *T* for True and *F* for False against each of the following statements:**

1.The term microeconomics and macroeconomics were first given by **Ragner Frisch** in 1933.

2. Prof. J.M. Keynes is known as father of modern macroeconomics.

3. Macroeconomics became popular after *great depression of 1929- 33*.

4. Prof. J. N. Keynes wrote the book *General Theory of Employment, Interest and Money* in 1936.

5. Price is the main determinant of macroeconomics.

6. Income is the main determinant of microeconomics.

7. Partial equilibrium analysis is used in macroeconomics.

8. General equilibrium analysis is applied in microeconomics.

9. Milton Friedman is monetarist.

10. Classical economists and monetarists emphasize that active role should be played by the government to control business cycles and achieve economic stability.

11. Keynesians believe in free- market economy.

12. Friedman and other monetarists as well as supporters of rational expectations theory are opposed to the active role by the government.

13. Microeconomics and macroeconomics are independent to each other.

**Ans:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| **Ans.** |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Matching Test:**

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| A. Father of Modern Macroeconomics | a. Milton Friedman |
| B. The term macroeconomics is given by | b. Prof. J. M. Keynes |
| C. Monetarist | c. Robert Lucas Jr. |
| D. Supply- side economist | d. Ranger Frisch |
| E. New Classical economist | e. Bruce Bartlett |

**Ans:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D | E |
| **Match- II** |  |  |  |  |  |

**Practice Set- 2**

**Multiple Choice Questions with Answer:**

1. The market value of all final goods and services produced within domestic territory of the country during a year is known as-------------

|  |  |
| --- | --- |
| 1. GDPMP | 1. GDPFC |
| 1. GNPMP | 1. GNPFC |

1. The money value of all final goods and services produced in the domestic territory of a country during a year plus Net factor income from abroad is called------------

|  |  |
| --- | --- |
| 1. GDPMP | 1. GDPFC |
| 1. GNPMP | 1. GNPFC |

1. The difference between the income received from abroad for rendering factor services by the normal residents of the country to the rest of the world and income paid for the factor services rendered by nonresidents in the domestic territory of a country is known as-------

|  |  |
| --- | --- |
| 1. Net Factor Income from Abroad | 1. Capital Consumption Allowances |
| 1. Depreciation | 1. None of these. |

1. The difference between indirect tax and subsidy is known as-------------

|  |  |
| --- | --- |
| 1. Net Factor Income from Abroad | 1. Capital Consumption Allowances |
| 1. Depreciation | 1. Net Indirect Tax. |

1. Net National Product at Factor Cost (NNPFC) is also known as------------

|  |  |
| --- | --- |
| 1. Net Factor Income from Abroad | 1. National Income |
| 1. National cost | 1. Net Indirect Tax. |

1. That part of personal income which is actually available to households for consumption and saving is called-----------

|  |  |
| --- | --- |
| 1. National Disposable Income | 1. Personal Disposable Income |
| 1. Personal Income | 1. None. |

1. Real and nominal income is calculated respectively at-------------

|  |  |
| --- | --- |
| 1. Current price and Constant Price | 1. Constant price and Current price |
| 1. Current price and Current price | 1. Constant price and Constant price. |

1. GDP Deflator is equal to-----------

|  |  |
| --- | --- |
| × 100 | b. × 100 |
| c. × 100 | d. × 100 |

1. Sum of all kinds of income received by the individuals from all sources is called---------

|  |  |
| --- | --- |
| 1. Personal Income | 1. Private Income |
| 1. Personal Disposable Income | 1. None |

1. GNPMP is equal to

|  |  |
| --- | --- |
| 1. GDPMP + NFIA | 1. GDPMP - NFIA |
| 1. GDPMP – D | 1. None |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **Ans** |  |  |  |  |  |  |  |  |  |  |

**Write *T* for True and *F* for False against each of the following statements:**

1. GNPMPis the money value of all final goods and services produced in the domestic territory of a country during a year.
2. Gross Domestic Product (GDPMP) is the market value of all final goods and services produced within domestic territory of the country during a year.
3. GNPMP = GDPMP + NFIA
4. NDPMP **=** GDPMP – D (or CCA)
5. NNPMP = GNPMP – D
6. Net National Product at Factor Cost (NNPFC) is also known as*National Income.*
7. The difference between IT and S is known as net indirect tax.
8. GDPMP does not include consumption of fixed capital (depreciation).

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **Ans** |  |  |  |  |  |  |  |  |

**Matching Test:**

|  |  |
| --- | --- |
| **Factors of Production- I** | **Factors Income- II** |
| 1. Land | A. Rent |
| 2. Labour | B. Wages or Salaries |
| 3. Capital | C. Interest |
| 4. Enterprises | D. Profit |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | 1 | 2 | 3 | 4 |
| **Match- II** |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Match- I** | | | **Match- II** | | |
| 1. GDPMP + NFIA | | | 1. GNPFC | | |
| 1. GNPMP – IT + S | | | 1. GNPMP | | |
| 1. GNPMP – D | | | 1. NNPFC | | |
| 1. NDPFC + NFIA | | | 1. NNPMP | | |
| **Match- I** | A | B | | C | D |
| **Match- II** |  |  | |  |  |

**Practice Set- 3**

**Multiple Choice Questions with Answer:**

1. A situation when a person is able and willing to take up a job and gets employed, it is called-

|  |  |
| --- | --- |
| 1. Employment | 1. Full Employment |
| 1. Under Employment | 1. Unemployment. |

1. A situation when people are engaged in jobs but they do not get these jobs according to their capabilities, efficiency and qualifications, it is called-

|  |  |
| --- | --- |
| 1. Employment | 1. Full Employment |
| 1. Under Employment | 1. Unemployment. |

1. A situation when the workers are willing to work under any conditions and at any wage rate but they fail to get employment, it is called-

|  |  |
| --- | --- |
| 1. Voluntary Unemployment | 1. Involuntary Unemployment |
| 1. Cyclical Unemployment | 1. Frictional Unemployment |

1. A temporary unemployment which exists during the period of the transfer of labor from one occupation to another is called-

|  |  |
| --- | --- |
| 1. Voluntary Unemployment | 1. Involuntary Unemployment |
| 1. Cyclical Unemployment | 1. Frictional Unemployment |

1. When more workers are engaged in a work than actually required to work, it is called-

|  |  |
| --- | --- |
| 1. Voluntary Unemployment | 1. Involuntary Unemployment |
| 1. Disguised Unemployment | 1. Frictional Unemployment |

1. Who developed the Classical Theory of Income and Employment?

|  |  |
| --- | --- |
| 1. J. B. Say | 1. J. S. Mill |
| 1. Ricardo | 1. All of the above. |

1. *“The supply creates its own demand”.* This is the famous law of----

|  |  |
| --- | --- |
| 1. Market (*Say’s Law of Market*) | 1. Demand |
| 1. Supply | 1. None of the above. |

1. The book *General Theory of Employment, Interest and Money* was written by----

|  |  |
| --- | --- |
| 1. J. N. Keynes | 1. J. M. Keynes |
| 1. Ricardo | 1. None of the above. |

1. Keynesian theory of employment is based on the concept of------------

|  |  |
| --- | --- |
| 1. Aggregate Demand | 1. Aggregate Supply |
| 1. Aggregate Demand and Supply both | 1. None. |

1. The investment which is undertaken independently of the level of income is known as----

|  |  |
| --- | --- |
| 1. Autonomous Investment | 1. Induced Investment |
| 1. Public Investment | 1. Private Investment |

1. The components of aggregate demand is/ are------

|  |  |
| --- | --- |
| 1. Household consumption expenditure | 1. Govt final conspt. expenditure |
| 1. Pvt and public invt expenditure | 1. All |

1. Determination equilibrium of an economy can be studied by-----

|  |  |
| --- | --- |
| 1. Equality of AD and AS | 1. Equality of saving and investment |
| 1. Both a and b | 1. None. |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Q.N.** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** |
| **Ans.** |  |  |  |  |  |  |  |  |  |  |  |  |

**Write *T* for True and *F* for False against each of the following statements:**

1. The Classical theory of Income and Employment states that full employment is a normal feature of a capitalist economy.
2. The classical theory of employment rules out the possibility of unemployment in a free market economy.
3. According to classical economists the economy would never be in a full employment equilibrium.
4. Keynesian theory of employment is based on the concept of effective demand.
5. Effective demand means the level of income where aggregate demand and aggregate supply are equal.
6. Classical economists used the approach of aggregate demand and aggregate supply for the determination of full employment equilibrium.
7. Induced investment is expenditure both on fixed assets and on the stocks that are required if the economy is to be able to produce a bigger output as aggregate demand rises.
8. AD = C + I + G + (X-M)
9. Equilibrium level of income is determined where aggregate demand curve cuts aggregate supply.
10. The level of income will be in equilibrium when aggregate demand is greater than aggregate supply.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Q.N.** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** |
| **Ans.** |  |  |  |  |  |  |  |  |  |  |

**Matching Test:**

|  |  |
| --- | --- |
| **Match-I** | **Match-II** |
| 1. Ex- ante Saving | 1. Actual Saving |
| 1. Ex- post Saving | 1. Intended or planed Saving |
| 1. Supply creates its own demand | 1. J. M. Keynes |
| 1. Demand creates its own supply | 1. J. B. Say |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match-I** | **A** | **B** | **C** | **D** |
| **Match-II** |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Match-I** | | | | **Match-II** | | | | | | | |
| 1. Voluntary Unemployment | | | | 1. When more workers are engaged in a work than actually required to work. | | | | | | | |
| 1. Involuntary Unemployment | | | | 1. It is a temporary unemployment which exists during the period of the transfer of labor from one occupation to another. | | | | | | | |
| 1. Frictional Unemployment | | | | 1. A situation when the workers are willing to work under any conditions and at any wage rate but they fail to get employment. | | | | | | | |
| 1. Disguised Unemployment | | | | 1. When the economy offers employment opportunities to the workers, but they themselves are not willing to take up jobs. | | | | | | | |
| **Match-I** | | **A** | | | **B** | | | **C** | | **D** | |
| **Match-II** | |  | | |  | | |  | |  | |
| **Match-I** | | | | | | **Match-II** | | | | | |
| 1. When AD > AS | | | | | | 1. Decrease in employment and output | | | | | |
| 1. When AD < AS | | | | | | 1. Increase in employment and output | | | | | |
| 1. When AD = AS | | | | | | 1. Equilibrium level of income and employment | | | | | |
| 1. AS = | | | | | | 1. C + I + G + (X - M) | | | | | |
| 1. AD = | | | | | | 1. C + S | | | | | |
| **Match-I** | **A** | | **B** | | | | **C** | | **D** | | **E** |
| **Match-II** |  | |  | | | |  | |  | |  |

**Practice Set- 4**

**I. Multiple Choice Questions with Answer:**

1. The French economist Jean-Baptiste Say transformed the equality of total output and total spending into a law that can be expressed as follows:

|  |  |
| --- | --- |
| a. | Unemployment is not possible in the short run. |
| b. | Demand and supply are never equal. |
| c. | Supply creates its own demand. |
| d. | Demand creates its own supply. |

2. The classical economists argued that the production of goods and services (supply) generates an equal amount of total income and, in turn, total spending. This theory is called:

|  |  |
| --- | --- |
| a. | Keynes' General Theory. |
| b. | Say's Law. |
| c. | The "animal spirits" theory. |
| d. | The law of autonomous consumption. |

3. Which of the following statements is true about Say's law?

|  |  |
| --- | --- |
| a. | It states that supply creates its own demand. |
| b. | It states that demand creates its own supply. |
| c. | It states that total output will always exceed total spending. |
| d. | It states that consumption spending is the most volatile component of aggregate expenditures. |
| e. | It is a major proposition of the Keynesian model. |

4. The school of thought that emphasizes the natural tendency for an economy to move toward equilibrium full employment without inflation is known as the:

|  |  |
| --- | --- |
| a. | Keynesian school. |
| b. | Supply- side school. |
| c. | Non-interventionist school. |
| d. | Rational expectations school. |
| e. | Classical school. |

5. According to Keynes, what is the most important determinant of households' spending on goods and services?

|  |  |
| --- | --- |
| a. | The price level. |
| b. | The interest rate. |
| c. | Autonomous consumption. |
| d. | Disposable income. |

6. The consumption function shows the relationship between consumer expenditures and:

|  |  |
| --- | --- |
| a. | The interest rate. |
| b. | The tax rate. |
| c. | Savings. |
| d. | Disposable income. |

7. The relationship between consumer expenditures and disposable income is the:

|  |  |
| --- | --- |
| a. | Savings function. |
| b. | The tax rate function. |
| c. | Disposable income function. |
| d. | Consumption function. |
|  |  |

8. Which of the following statements is true concerning the consumption function?

|  |  |
| --- | --- |
| a. | It slopes upward. |
| b. | Its slope equals the MPC. |
| c. | It represents the direct (positive) relationship between consumption spending and the level of real disposable income. |
| d. | If the consumption function lies above the 45-degree line then saving is positive. |
| e. | All of the above. |

9. The consumption function shows the relationship between consumption and:

|  |  |
| --- | --- |
| a. | Interest rates. |
| b. | Saving. |
| c. | Price level changes. |
| d. | Disposable income. |

10. At the point where the disposable income line intersects the consumption function, saving:

|  |  |
| --- | --- |
| a. | equals consumption. |
| b. | equals disposable income. |
| c. | is less than zero. |
| d. | is equal to zero. |

11. Autonomous consumption is consumption that:

|  |  |
| --- | --- |
| a. | varies directly with disposable income. |
| b. | varies inversely with disposable income. |
| c. | is independent of the level of disposable income. |
| d. | is constant at first and then varies with disposable income. |

12. Autonomous consumption is equal to the level of consumption associated with:

|  |  |
| --- | --- |
| a. | unstable disposable income. |
| b. | positive disposable income. |
| c. | zero disposable income. |
| d. | negative disposable income. |

13. Given the consumption function C = $100 billion + 0.75 ($300 billion), autonomous consumption is equal to:

|  |  |
| --- | --- |
| a. | $100 billion. |
| b. | $225 billion. |
| c. | $300 billion. |
| d. | $325 billion. |
| e. | $400 billion. |

14. That part of disposal income not spent on consumption is defined as:

|  |  |
| --- | --- |
| a. | transitory disposable income. |
| b. | permanent disposable income. |
| c. | disposal income. |
| d. | autonomous consumption. |
| e. | saving. |

15. If disposal income is $400 billion, autonomous consumption is $60 billion, and MPC is 0.8, what is the level of saving?

|  |  |
| --- | --- |
| a. | $20 billion. |
| b. | $210 billion. |
| c. | $380 billion. |
| d. | $590 billion. |
| e. | $780 billion. |

16. The marginal propensity to consume (MPC) is computed as the change in:

|  |  |
| --- | --- |
| a. | consumption divided by the change in savings. |
| b. | consumption divided by the change in disposable personal income. |
| c. | consumption divided by the change in GDP. |
| d. | None of the above. |

17. The marginal propensity to consume (MPC) is the slope of the:

|  |  |
| --- | --- |
| a. | GDP curve. |
| b. | disposable income curve. |
| c. | consumption function. |
| d. | autonomous consumption curve. |

18. The slope of the consumption function is called the:

|  |  |
| --- | --- |
| a. | autonomous consumption rate. |
| b. | marginal consumption rate. |
| c. | average propensity to consume. |
| d. | marginal propensity to consume. |

19. The change in consumption divided by a change in disposable income is defined as:

|  |  |
| --- | --- |
| a. | the marginal propensity to consume. |
| b. | autonomous consumption. |
| c. | the consumption function. |
| d. | Keynes' absolute disposable income hypothesis. |
| e. | transitory consumption. |

20. The marginal propensity to consume is:

|  |  |
| --- | --- |
| a. | the change in disposable income divided by the change in consumption. |
| b. | consumption spending divided by disposable income. |
| c. | disposable income divided by consumption spending. |
| d. | the change in consumption divided by the change in disposable income. |
| e. | the change in consumption divided by disposable income. |

21. The marginal propensity to consume measures the ratio of the:

|  |  |
| --- | --- |
| a. | average amount of our disposable income that we spend. |
| b. | average amount of our savings that we spend. |
| c. | change in consumer spending to a change in money holdings. |
| d. | change in consumer spending to a change in interest rates. |
| e. | change in consumer spending to a change in disposable income. |
|  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. The marginal propensity to save (MPS) is computed as the change in:   |  |  | | --- | --- | | a. | savings divided by the change in saving. | | b. | savings divided by the change in disposable personal income. | | c. | saving divided by the change in GDP. | | d. | None of the above. | |  |  | | |
| 23. If your disposable personal income increases from $30,000 to $40,000 and your savings increases from $2,000 to $4,000, your marginal propensity to save (MPS) is:   |  |  | | --- | --- | | a. | 0.2. | | b. | 0.4. | | c. | 0.5. | | d. | 0.8. | | e. | 1.0. | |  |  | | |
| 24. The marginal propensity to save is:   |  |  | | --- | --- | | a. | the change in saving induced by a change in consumption. | | b. | (change in S) / (change in Y). | | c. | 1 - MPC / MPC. | | d. | (change in Y - bY) / (change in Y). | | e. | 1 - MPC. | |  |  | | |
| 25. If the marginal propensity to consume = 0.75, then:   |  |  | | --- | --- | | a. | the marginal propensity to save = 0.75. | | b. | the marginal propensity to save = 1.33. | | c. | the marginal propensity to save = 0.20. | | d. | the marginal propensity to save = 0.25. | | e. | since the marginal propensity to save and the marginal propensity to consume are unrelated, we cannot determine the marginal propensity to save from the information given. | |  |  | | |
| **Diagram- 1 Consumption function**  **practice_test_for_e_files/i0370000.jpg** |
| 26. As shown in Diagram 1, autonomous consumption is:   |  |  | | --- | --- | | a. | 0. | | b. | $2 trillion. | | c. | $4 trillion. | | d. | $6 trillion. | | e. | $8 trillion. | |  |  | |
| **Diagram- 2 Disposable income and consumption data**   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Disposable  income | Consumption | Saving | Marginal propensity to consume (MPC) | Marginal propensity to save (MPS) | | 0 | $100 |  |  |  | | 100 | 175 |  |  |  | | 200 | 250 |  |  |  | | 300 | 325 |  |  |  | | 400 | 400 |  |  |  | | 500 | 475 |  |  |  | | 600 | 550 |  |  |  | |  |  |  |  |  |   Note: All amounts are in billions of dollars per year. |
| 27. As shown in Diagram- 2, if disposable income is $100 billion, saving is:   |  |  | | --- | --- | | a. | $100 billion. | | b. | $75 billion. | | c. | -$75 billion. | | d. | -$175 billion. | |  |  | |
| **Diagram- 3 Consumption function**  **practice_test_for_e_files/i0410000.jpg** |
| 28. As shown in Diagram- 3, autonomous consumption is:   |  |  | | --- | --- | | a. | 0. | | b. | $1 trillion. | | c. | $2 trillion. | | d. | $3 trillion. | | e. | $4 trillion. | |  |  | |
| 29. As shown in Diagram 3, the marginal propensity to consume (MPC) is:   |  |  | | --- | --- | | a. | 0.25. | | b. | 0.50. | | c. | 0.75. | | d. | 0.90. | |  |  | |

30. Psychological law of consumption has been given by-----

|  |  |
| --- | --- |
| a. J. M. Keynes | b. *J. S. Duesenberry* |
| c. *Ando A. Modigliani* | d. *Friedman* |

31. The absolute income theory of consumption has been given by-----

|  |  |
| --- | --- |
| a. J. M. Keynes | b. *J. S. Duesenberry* |
| c. *Ando A. Modigliani* | d. *Friedman* |

32. Relative income theory of consumption has been given by-----

|  |  |
| --- | --- |
| a. J. M. Keynes | b. *J. S. Duesenberry* |
| c. *Ando A. Modigliani* | d. *Friedman* |

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| Q. No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Ans. |  |  |  |  |  |  |  |  |  |  |

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| Q. No. | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| Ans. |  |  |  |  |  |  |  |  |  |  |

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| Q. No. | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 |
| Ans. |  |  |  |  |  |  |  |  |  |  |  |  |

**Write *T* for True and *F* for False against each of the following statements:**

1. The concept of consumption function is given by Prof. J. M. Keynes.
2. The *General Theory of Employment, Interest and Money* was written by Prof. J. N. Keynes in 1936.
3. Consumption function shows the relationship between consumption expenditure and various level of disposable income.
4. Marginal propensity to consume varies between zero and infinity.
5. Average propensity to consume is the addition in consumption to the addition in disposable income.
6. The sum of average propensity to consume and marginal propensity to consume is always equal to one.
7. The sum of average propensity to consume and average propensity to save is always equal to one.
8. Autonomous consumption depends on level of income.
9. Friedman has given the famous psychological law of consumption.
10. *“a*” is autonomous consumption and “*b*” is the marginal propensity to consume in the consumption equation, C= a + bY.
11. Marginal propensity to consume is the slope of consumption curve.
12. When saving is equal to zero, consumption is equal to disposable income.
13. In the equation C = 500 + 0.80Y, marginal propensity to save is equal to 30 per cent.
14. In the equation C = 500 + 0.80Y, the marginal propensity to save is equal to 20 per cent.
15. In the equation C = 500 + 0.80Y, autonomous consumption is equal to 500.

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| **Q** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| **A** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. **Matching Test:**

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| 1. Average Propensity to Consume (APC) |  |
| 1. Marginal Propensity to Consume (MPC) |  |
| 1. Average Propensity to Save (APS) |  |
| 1. Marginal Propensity to Save (MPS) |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D |
| **Match- II** |  |  |  |  |

1. **Matching Test:**

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| 1. The absolute income theory of consumption | 1. Friedman |
| 1. Relative income theory of consumption | 1. J. S. Duesenberry |
| 1. Life cycle theory of consumption | 1. J. M. Keynes |
| 1. Permanent income theory of consumption | 1. Ando and Modigliani |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D |
| **Match- II** |  |  |  |  |

1. **Match the following after studying the above table:**

**Table- Relationship among Disposable income, consumption and saving:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  | | --- | --- | --- | | Disposable  income | Consumption | Saving | | 0 | 100 | -100 | | 100 | 175 | -75 | | 200 | 250 | -50 | | 300 | 325 | -25 | | 400 | 400 | 0 | | 500 | 475 | 25 | | 600 | 550 | 50 | |  | |
| **Match- I** | | **Match- II** |
| 1. Autonomous Consumption | | 1. 100 |
| 1. MPC at income level 500 | | 1. 0.25 |
| 1. APS at income level 600 | | 1. 0.75 |
| 1. MPS at income level 200 | | 1. 0.08 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D |
| **Match- II** |  |  |  |  |

**Practice Set- 5**

**Multiple Choice Questions:**

**1. Who developed the concept of IS- LM model?**

a. Hicks and Hansen

b. J. M. Keynes

c. Adam Smith

d. None of the above.

**2. When rate of interest falls, level of investment will—**

a. increase

b. decrease

c. no effect on investment

d. both a & b

**3. The curve which shows different equilibrium levels of national income with various rates of interest is called-**

a. LM curve,

b. IS curve

c. Income curve

d. None of the above

**4. IS curve slopes—**

a. upward

b. downward

c. horizontal

d. vertical

**5. The steepness of IS curve depends on---**

a. the elasticity of investment demand curve;

b. the size of the multiplier;

c. demand for money

d. both a & b

**6. The position of IS curve depends on---**

a. rate of interest,

b. rate of investment,

c. autonomous expenditure

d. none of the above

**7. The curve which relates the level of income with the rate of interest which is determined by money- market equilibrium corresponding to different levels of demand for money is known as-**

a. IS curve

b. LM curve

c. Income curve

d. None of the above.

**8. LM curve slopes—**

a. downward to the right

b. upward to the right

c. vertical

d. horizontal.

**9. The LM curve is flatter if the interest elasticity of demand for money-**

a. high

b. low

c. both may be possible

d. none of the above

**10. The LM curve shifts to the right when the stock of money is-**

a. decreased

b. increased

c. constant

d. none of the above.

**11. Which of the following is the correct definition of the IS curve?**

a. The IS curve represents the single level of output where financial markets are in equilibrium.

b. The IS curve represents the combinations of output and the interest rate where the money market is in equilibrium.

c. The IS curve represents the single level of output where the goods market is in equilibrium.

d. The IS curve represents the combinations of output and the interest rate where the goods market is in equilibrium.

**12. Suppose the economy is operating on the LM curve but not on the IS curve. Given this information, we know that:**

a. the money market and bond markets are in equilibrium and the goods market is not in equilibrium.

b. the money, bond and goods markets are all in equilibrium.

c. neither the money, bond, nor goods markets are in equilibrium.

d. the goods market is in equilibrium and the money market is not in equilibrium.

**13. Which of the following statements is consistent with a given (i.e., fixed) LM curve?**

a. A reduction in the interest rate causes investment spending to increase.

b. A reduction in the interest rate causes money demand to decrease.

c. An increase in output causes an increase in demand for goods

d. An increase in output causes an increase in money demand.

**14. A reduction in government spending will cause:**

a. an upward shift in the LM curve.

b. a leftward shift in the IS curve.

c. a downward shift in the LM curve.

d. a rightward shift in the IS curve.

**15. Suppose investment spending is NOT very sensitive to the interest rate. Given this information, we know that:**

a. the IS curve should be relatively steep.

b. the IS curve should be relatively flat.

c. the LM curve should be relatively flat.

d. the LM curve should be relatively steep.

**16. An increase in the aggregate price level, P, will most likely have which of the following effects?**

a. a rightward shift in the IS curve.

b. a leftward shift in the IS curve.

c. an upward shift in the LM curve.

d. a downward shift in the LM curve.

**17. Which of the following will occur if there is an increase in taxes?**

a. The IS curve shifts and the economy moves along the LM curve.

b. The LM curve shifts and the economy moves along the IS curve.

c. Output will change causing a change in money demand and a shift of the LM curve.

d. Neither the IS nor the LM curve shifts.

e. Both the IS and LM curves shift.

**18. Suppose the current level of output and the interest rate are such that the economy is operating on neither the IS nor LM curve. Which of the following is true for this economy?**

a. Production does not equal demand.

b. The quantity supplied of bonds does not equal the quantity demanded of bonds.

c. The money supply does not equal money demand.

d. Financial markets are not in equilibrium.

e. all of the above.

**19. Suppose the economy is currently operating on both the LM curve and the IS curve. Which of the following is true for this economy?**

a. Financial markets are in equilibrium.

b. The quantity supplied of bonds equals the quantity demanded of bonds.

c. Production equals demand.

d. The money supply equals money demand.

e. all of the above.

**20. The IS curve will NOT shift when which of the following occurs?**

a. a reduction in government spending.

b. a reduction in consumer confidence.

c. a reduction in the interest rate.

d. all of the above.

e. none of the above.

**21. Based on our understanding of the IS-LM model that takes into account dynamics, we know that a reduction in the money supply will cause:**

a. a gradual increase in r and gradual reduction in Y.

b. an immediate increase in r and no initial change in Y.

c. an immediate drop in Y and immediate increase in r.

d. none of the above.

**22. Which of the following best defines the LM curve?**

a. illustrates the effects of changes in r on desired money holdings by individuals.

b. illustrates the effects of changes in r on investment.

c. the combinations of r and Y that maintain equilibrium in the goods market.

d. the combinations of r and Y that maintain equilibrium in financial markets.

**23. A reduction in consumer confidence will likely have which of the following effects?**

a. a rightward shift in the IS curve.

b. a leftward shift in the IS curve.

c. an upward shift in the LM curve.

d. a downward shift in the LM curve.

**24. For this question, assume that investment spending depends only on output and no longer depends on the interest rate. Given this information, an increase in the money supply:**

a. will cause investment to increase.

b. will cause an increase in output and have no effect on the interest rate.

c. will cause a reduction in the interest rate.

d. will cause investment to decrease.

e. will have no effect on output or the interest rate.

**25. Which of the following statements is consistent with a given (i.e., fixed) IS curve?**

a. An increase in government spending causes an increase in demand for goods.

b. A reduction in the interest rate causes investment spending to increase.

c. A reduction in the interest rate causes money demand to decrease.

d. A reduction in the interest rate causes an increase in the money supply.

e. An increase in taxes causes a reduction in demand for goods.

**26. Which of the following best defines the IS curve?**

a. the combinations of i and Y that maintain equilibrium in the goods market.

b. illustrates the effects of changes in i on investment.

c. the combinations of i and Y that maintain equilibrium in financial markets.

d. illustrates the effects of changes in i on desired money holdings by individuals.

**27. Which of the following is the definition for the real supply of money?**

a. the stock of money measured in terms of goods, not dollars.

b. the stock of high powered money only.

c. the actual quantity of money, rather than the officially reported quantity.

d. the ratio of the real GDP to the nominal money supply.

e. the real value of currency in circulation only.

**28. Which of the following is true for a given point on the LM curve?**

a. The goods market is in equilibrium.

b. Production is equal to demand.

c. No inventory investment equals zero.

d. all of the above.

e. none of the above.

**29. Based on our understanding of the IS-LM model that takes into account dynamics, we know that a reduction in government spending will cause:**

a. a gradual reduction in r and an immediate reduction in Y.

b. an immediate reduction in r and no initial change in Y.

c. an immediate drop in Y and immediate increase in r.

d. a gradual reduction in r and gradual reduction in Y.

**30. Assume that investment does NOT depend on the interest rate. A reduction in the money supply will cause which of the following for this economy?**

a. an increase in investment.

b. no change in the interest rate.

c. no change in output.

d. a reduction in investment.

**Answer:**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |
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**Write down *T* for true statement and *F* for false statement for the following statements:-**

1. Prof. J. M. Keynes developed the concept of IS- LM model in economics.

2. According to Prof. J. M. Keynes, national income is determined at the level where aggregate demand equals aggregate supply.

3. According to Prof. Keynes, rate of interest is determined in the money market equilibrium by the demand for money and the supply of money.

4. By goods market, we mean the interaction between demand for money and the supply of money.

5. The money market is in equilibrium when aggregate demand is equal to income.

6. When the rate of interest falls the level of investment increases and vice versa.

7. The increase in investment demand will bring about increase in aggregate demand which in turn will raise the equilibrium level of income.

8. The LM curve seeks to find out the equilibrium level of national income as determined by the equilibrium in goods market by a level of investment determined by a given rate of interest.

9. The IS curve shows different equilibrium levels of national income with various rates of interest.

10. The lower the rate of interest, lower will be the equilibrium level of income.

11. The LM curve is the locus of those combinations of rate of interest and the level of national income at which goods market is in equilibrium.

12. It is the autonomous expenditure which determines the position of the IS curve and changes in the autonomous expenditure causes a shift in it.

13. The IS curve can be derived from the Keynesian theory from its analysis of money market equilibrium.

14. According to Keynes, demand for money to hold depends on transactions motive and speculative motive.

15. The LM curve relates the level of income with the rate of interest which is determined by money- market equilibrium corresponding to different levels of demand for money.

16. The IS curve tells what the various rates of interest will be (given the quantity of money and the family of demand curves for money) at different levels of income.

17. The LM curve slopes upward to the right.

18. The IS curve slopes upward to the right.

19. The LM curve is flatter if the interest elasticity of demand for money is high.

20. The LM curve is steep if the interest elasticity demand for money is low.

21. The LM curve shifts to the right when the stock of money is decreased.

22. The LM curve shifts to the right when the stock of money is increased.

23. The LM curve shifts to the right if there is a decrease in the money demand function.

24. The LM curve shifts to the left if there is an increase in the money demand function.

25. The IS- LM curves relate the two variables: income and the rate of interest.

**Answer:**

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| 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |
|  |  |  |  |  |  |  |  |  |  |

**Match the following:**

|  |  |
| --- | --- |
| **Match - I** | **Match- II** |
| A. The LM curve shifts to the right | 1. when the stock of money is increased. |
| B. The LM curve shifts to the left | 2. when the stock of money supply is reduced. |
| C. The LM curve shifts to the left if | 3. there is an increase in the money demand function. |
| D. The LM curve shifts to the right if | 4. there is an decrease in the money demand function. |

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| **Match - I** | A | B | C | D |
| **Match - II** |  |  |  |  |

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| **Match - I** | **Match- II** |
| A. IS curve shows | 1. goods market equilibrium. |
| B. LM curve shows | 2. money market equilibrium. |
| C. IS curve shifts to the right | 3. when autonomous expenditure increases. |
| D. IS curve shifts to the left | 4. when autonomous expenditure decreases. |

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| **Match - I** | A | B | C | D |
| **Match - II** |  |  |  |  |

**Practice Set- 6**

**Multiple Choice Questions:**

1. Investment means the purchase of-
2. Old machines, old buildings and other capital goods
3. New machines, new buildings and other capital goods that add to the existing stocks of capital.
4. Both
5. None of the above.
6. Net investment is equal to-
7. Gross investment plus replacement or depreciation;
8. Gross investment less replacement or depreciation;
9. Gross investment multiply by replacement or depreciation;
10. None of the above.
11. Which is/are the determinant/s of private investment-
12. Prospective income from the capital asset;
13. Supply price of the capital asset;
14. The rate of interest;
15. All of the above.
16. Expected revenues from the use of the capital asset minus variable cost is called-
17. Prospective income
18. Supply price
19. Prospective yield
20. None of the above.
21. The future return on the asset is called-
22. Prospective income
23. Supply price
24. Prospective yield
25. None of the above.
26. After *t* years, at a rate of interest of *r* per cent, the present value will be-
27. A =
28. P =
29. P =
30. P =
31. What will be the future value of SR 100 at 5 % rate of interest after 2 years?
32. SR 110.00;
33. SR 110.25;
34. SR 90.00;
35. None of the above.
36. What is the present value of SR 100 at 5 % rate of interest in two year?
37. SR 110.00;
38. SR 110.25;
39. SR 90.70;
40. SR 90.00.
41. The rate of discount (r) which equalizes the present value of the prospective yield of an asset with its supply price is known as-
42. Prospective income
43. Supply price
44. Prospective yield
45. Marginal Efficiency of Capital (MEC).
46. With increase in investment, MEC-
47. Increases;
48. Decreases;
49. Constant;
50. All of the above
51. The change in income due to change in investment is known as-
52. Consumption;
53. Multiplier;
54. Accelerator;
55. IS curve
56. Higher the value of MPC,
57. Lower will be the value of multiplier;
58. Higher will be the value of multiplier;
59. No effect will be on multiplier;
60. All is possible.
61. Higher the value of MPS,
62. Lower will be the value of multiplier;
63. Higher will be the value of multiplier;
64. No effect will be on multiplier;
65. All is possible.
66. If the marginal propensity to consume is 0.8 (80 %) then the multiplier will be-
67. 2.5;
68. 5.0;
69. 0.2;
70. None of the above.
71. If the marginal propensity to save is 0.2 then the multiplier will be-
72. 2.5;
73. 5.0;
74. 0.2;
75. None of the above.
76. If the Saudi economy plans to generate SR 100 billion of additional income, how much additional investment will be required when marginal propensity to consume (mpc) is equal to 80 per cent of disposable income?
77. SR 100 billion;
78. SR 50 billion;
79. SR 20 billion;
80. SR 40 billion.
81. An additional investment of SR 50 billion in the Saudi economy creates how much additional income if the marginal propensity to consume (mpc) is equal to 0.5?
82. SR 25 billion;
83. SR 50 billion;
84. SR 100 billion;
85. SR 150 billion.
86. The change in investment due to change in income is known as-
87. Consumption;
88. Multiplier;
89. Accelerator;
90. IS curve
91. The concepts of investment multiplier and accelerator are given by-
92. Prof. J. M. Keynes and Prof. J. M. Clark respectively;
93. Prof. R. H. Kahn and Prof. J. M. Keynes respectively;
94. Prof. J. M. Keynes has given these two concepts;
95. None of the above.
96. In trade/ business cycle, the cycles follow these sequence-
97. Prosperity or boom → recession → depression or slump and then → Recovery;
98. Prosperity or boom → depression or slump → recession and then → Recovery.
99. Recession → depression or slump → Recovery and then → Prosperity or boom
100. Recovery → recession → depression or slump and then → Prosperity or boom.

**Answer:**

|  |  |  |  |  |  |  |  |  |  |  |
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| Ques. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Ans. |  |  |  |  |  |  |  |  |  |  |

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| Ques. | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| Ans. |  |  |  |  |  |  |  |  |  |  |

**Write *T* for true and *F* for false statement given below:**

1. Investment means the purchase of new machines, new buildings and other capital goods that add to the existing stocks of capital.
2. Expected profitability is the main motive for investment in private sector of the economy.
3. In public sector, these decisions are motivated by profitability in terms of surplus of social benefits over social costs.
4. If the MEC < the rate of interest, the investors will be inclined to carry out investment.
5. Accelerator shows the relationship between change in investment and the resulting change in income.
6. Multiplier shows the relationship between change in investment and the resulting change in income.
7. Accelerator shows the relationship between changes in investment due to change in income.
8. The multiplier coefficient (K) measures the change in income due to change in investment.
9. K = = =
10. Higher the value of MPC, lower will be the value of multiplier.
11. Higher the value of MPS, lower will be the value of multiplier.
12. Prof. R.H. Kahn has developed the concept of investment multiplier.
13. Prof. J.M. Keynes has developed the concept of accelerator.
14. The sequence of business or trade cycles are prosperity, recession, depression and then recovery.
15. The sequence of business or trade cycles are recovery, depression, recession, and then prosperity.

**Answer:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Ques. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| Ans. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Matching Test:**

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| --- | --- | --- | --- | --- |
| **Match- I** | | | **Match- II** | |
| 1. If the MEC > the rate of interest, | | | 1. Investment should be done. | |
| 1. If the MEC < the rate of interest, | | | 1. Investment should not be done. | |
| 1. If the MEC = the rate of interest, | | | 1. Investors will be neutral. | |
|  | | |  | |
| Match- I | 1 | 2 | | 3 |
| Match- II |  |  | |  |

**Practice Set- 7**

**Multiple Choice Questions:**

1. An annual statement of the revenue and expenditure by the government is known as-
2. Revenue budget;
3. Budget;
4. Capital budget;
5. None of these.
6. Those inflows of money to the government account against which no liability of repayment is created, is called-
7. Revenue receipts;
8. Capital receipts;
9. Revenue expenditure;
10. Capital expenditure.
11. Those inflows of money to the government against which a liability of repayment devolves upon the government, is known as-
12. Revenue receipts;
13. Capital receipts;
14. Revenue expenditure;
15. Capital expenditure.
16. A statement relating to the revenue expenditure and revenue receipts of the government is known as-
17. Revenue budget;
18. Budget;
19. Capital budget;
20. None of these.
21. A statement relating to the capital receipts and capital expenditure of the government is known as-
22. Revenue budget;
23. Budget;
24. Capital budget;
25. None of these.
26. A budget in which the receipts of the government exceed its expenditure is called-
27. Surplus budget;
28. Deficit budget;
29. Balanced budget;
30. None of the above.
31. A budget in which the receipts of the government fall short of its expenditure is known as-
32. Surplus budget;
33. Deficit budget;
34. Balanced budget;
35. None of the above.
36. A budget in which the receipts of the government are matched by its expenditure is known as-
37. Surplus budget;
38. Deficit budget;
39. Balanced budget;
40. None of the above.
41. When revenue expenditure of the government is greater than the revenue receipts, it is called-
42. Budget deficit;
43. Revenue deficit;
44. Fiscal deficit;
45. Monetized deficit.
46. When overall expenditure of the government is greater than the overall receipts, it is called-
47. Budget deficit;
48. Revenue deficit;
49. Fiscal deficit;
50. Monetized deficit.
51. The excess of overall expenditure over the sum of revenue receipts, and recoveries of loans is called-
52. Budget deficit;
53. Revenue deficit;
54. Fiscal deficit;
55. Monetized deficit.
56. When interest payment is deducted from fiscal deficit, it is called-
57. Budget deficit;
58. Revenue deficit;
59. Fiscal deficit;
60. Primary deficit.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques.** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** |
| **Ans.** |  |  |  |  |  |  |  |  |  |  |  |  |

**Write *T* for true and *F* for false statement given below:**

1. An annual statement of the revenue and expenditure by the government is called budget.
2. In surplus budget, the receipts of the government fall short of its expenditure.
3. Recoveries of loans, market borrowings and other loans, external assistance, disinvestment of PSU equity are capital receipts of the government.
4. Interest receipts, dividend and profits, external grants are non- tax revenues of the government.
5. Corporation tax, income tax, custom duty and excise duty are tax revenue of the government.
6. Interest payments, defense, subsidies, economic, social and other services are example of government’s revenue expenditure.
7. Loans to public enterprises, states, and foreign governments are examples of capital expenditure of the government.
8. If the receipts of the government are more than its expenditure, it is called surplus budget.
9. If the receipts of the government are less than its expenditure, then the budget is called deficit budget.
10. When revenue expenditure of the government is less than the revenue receipts, it is called revenue deficit.

**Matching Test:**

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| 1. If the receipts of the government are more than its expenditure | 1. Balanced budget |
| 1. If the receipts of the government are equal to its expenditure | 1. Surplus budget |
| 1. If the receipts of the government are less than its expenditure | 1. Deficit budget |

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| --- | --- | --- | --- |
| **Match- I** | A | B | C |
| **Match- II** |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Match- I** | | **Match- II** | | | |
| 1. **Revenue Deficit** | | 1. When interest payment is deducted from fiscal deficit. | | | |
| 1. **Fiscal deficit** | | 1. The excess of overall expenditure over the sum of revenue receipts, and recoveries of loans | | | |
| 1. **Budgetary deficit** | | 1. When overall expenditure of the government is greater than the overall receipts. | | | |
| 1. **Primary deficit** | | 1. When revenue expenditure of the government is greater than the revenue receipts. | | | |
|  | |  | | | |
| **Match- I** | A | | B | C | D |
| **Match- II** |  | |  |  |  |