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Income Determination Revised Notes

Q1. In a two sector economy Aggregate Demand equals

- a) Consumption + Private consumption expenditure. b) Consumption + Exports
c) Consumption + Investments. d) Consumption + Government Expenditure

Ans. (c)

Q2. APS=

- a) S/Y
b) None of the these
c) S/D
d) C/S

Ans. (a)

Q3. APC + APS should always be equal to 1

- a) False
b) Depends on their values
c) None of these
d) True

Ans. (d)

Q4. Consumption changes in the same direction as income. It is

- a) True
b) False
c) Can't say
d) Insufficient information

Ans. (a)

Q5. The law of Psychological consumption states

- a) Consumption does not change in the same direction as income
- b) Consumption changes in the same direction as investment
- c) Consumption changes in the opposite direction as income
- d) Consumption changes in the same direction as income but APC remains less than unity

Ans. (d)

Q6. What is the relation between APC and APS?

Ans. The relationship between Average Propensity to Consume (APC) and Average Propensity to Save (APS) is always equal to unity (1), i.e. $APC + APS = 1$. It is so because the money income can either be spent on consumption or it can be saved.

Q7. State the important factor influencing the propensity to consume in an economy.

Ans. It is always the level of income (I) influences the propensity to consume (C) of an economy.