

National Institute of Open Schooling
Senior Secondary – Economics (318)
Lesson 27: Theory of income and Determination
Work Sheet -27

1. The entire economy is classified in four sectors and each sector makes expenditure either on consumption or on investment. In the light of the statement explain the concept of aggregate demand with its components and graphical presentation.
2. The value of output produced during the period of an accounting year in an economy provides the basis of the concept of aggregate supply. On the basis of the statement discuss the components of aggregate supply and its behaviour with the help of graphical presentation.
3. In an economy, investment is increased by Rs. 2000 crore. Calculate the change in total income, if Marginal Propensity to Save is 0.25.
4. The equilibrium of income of an economy is determined where $AD = AS$ and $S = I$. Explain it with the help of graphical presentation.
5. As a result of an increase in investment, National Income rises by Rs. 600 crore. If Marginal Propensity to Consume is 0.75, calculate increase in investment.
6. “Higher the MPC, the value of multiplier and vice versa”. Prove that statement by calculating multiplier if the value of MPC is 0.8 and 0.2.
7. As we know that the economy is operating at full employment level. The availability of the resources is limited so the economy is not able to produce output beyond the full employment level of the economy but still the demand increases beyond the full employment level. Explain how does this situation create an inflationary gap in the economy.
8. The Government of Brazil has decided to reduce the rate of taxes and increase in the extent of developmental work in the economy to increase the level of aggregate demand to tackle the situation of sudden fall in demand. How does government policy contribute to control the situation? Explain it with the help of graphical presentation.
9. The monetary policy is an instrument in the hands of RBI to correct the inflationary and deflationary situation in the economy. Discuss the role of instruments like bank rate, open market operations and cash reserve ratio to control both the situations of economy.
10. The economy has decided to make 100 crores investment to increase the level of the income of the economy. Discuss the working multiplier effect of the economy, if the level of MPC is .80.