

Question 1. What is marginal propensity to consume? How is it related to marginal propensity to save?

Answer Marginal propensity to consume is the ratio of change in consumption expenditure to change in total income.

$$MPC = \frac{\Delta C}{\Delta Y}$$

Marginal propensity to save refers to the ratio of change in saving to change in income

$$MPS = \frac{\Delta S}{\Delta Y}$$

Marginal propensity to consume and marginal propensity to save IS equal to one or
 $MPC = 1 - MPS$, $MPS = 1 - MPC$

$$MPC + MPS = 1$$

there $MPS =$ Marginal propensity to save

$MPC =$ Marginal propensity to consume

$\Delta C =$ Change In consumption expenditure

$\Delta Y =$ Change in total Income

$\Delta S =$ Change in saving

Question 2. What is difference between ex-ante investment and Ex-post investment?

Answer Ex-ante investment is the amount of Investment which firms plan to invest at different level of Income in the economy Where as Ex-post Investment is the amount realised or actual investment in an economy during a year.

Question 3. What do you understand by parametric shift of a line? How does a line shift when its (i) slope decreases (ii) its intercept increases?

Answer Parametric shift is a graph due to change in the value of a parameter.

(i) A positively sloping straight line swings upwards at its slope is decreases.

(ii) A positively sloping straight line shifts upwards in parallel as its Intercept is increased.

Question 4. What is effective demand? How will you derive the autonomous expenditure multiplier when price of final goods and the rate of interest are given?

Answer It in an economy as people become more thrifty they end up saving less or same as before in aggregate. This theory produced by Keynes "When people start saving money Instead of spending it. In response to growing concerns about a recession. they actually make the recession worse." Rise in MPS means a fall in MPC. When MPC falls. aggregate consumption expenditure In the economy falls It leads to rise Ininventory leve producers and firms would plan to reduce the production It will reduce the demand tor factor servies and factor incomes. As a result the total volume of saving generated in the economy would fall or remain unchanged

Question 5. Measure the level of ex-ante aggregate demand when autonomous investment and consumption expenditure (A) is Rs. 50 crores, and MPS is 0.2 and level of income (Y) is Rs. 4000 crores. State whether the economy is in equilibrium or not (cite reasons).

Answer Aggregate demand is given as

$$AD = \bar{A} + b (y)$$

$$\bar{A} = 50, \text{MPC } (b) = 1 - \text{MPS} = 1 - 0.2 = 0.8$$

After putting values

$$AD = 50 + 0.8 \times 4000 = 3250 \text{ crores}$$

Result AD of ₹ 3250 crores in less then Y (income) of ₹ 4000 crores. Hence, the economy is not at equilibrium.

Question 6. Explain 'paradox of thrift'.

Answer Effective Demand Effective demand refers to that level of aggregate demand which is 'effective' because it is equal to aggregate supply.

We assume a constant price of final goods and constant rate of Interest over short run to determine the level of aggregate demand for final goods in the economy and also assume that the aggregate supply is perfectly elastic at this price.

