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## CLASS: XII- ECONOMICS

### Q.I) Define the following concepts

- |  |   |
|--|---|
| 1. Stock and flow variables                    | 2. National income                          |
| 3. Domestic territory of a country             | 4. Circular flow of income                  |
| 5. Consumption goods and capital goods         | 6. Double coincidence of wants              |
| 7. High powered money                          | 8. Open market operations                   |
| 9. Demand deposits and time deposits           | 10. Output multiplier/investment multiplier |
| 11. Average and marginal propensity to consume | 12. CRR and SLR                             |
| 13. Voluntary and involuntary unemployment     | 14. Monetary policy and fiscal policy       |

### Q II ) Defend or refute the following statements. Write 'yes' or 'no' with reason

1. National income is always greater than domestic income.
2. National income is a stock concept.
3. National income at market price is always greater than national income at factor cost.
4. Salaries to Indian employees working in Indian embassies abroad are a part of net factor income from abroad

### Q III ) Write your comment on each of the following statements in a sentence or two:

1. Net factor income from abroad is zero in case exports = imports
2. Final goods must finally be consumed by the households.
3. The market value of both final and intermediate goods is included in the estimation of national income
4. Imputed rent on owner occupied houses does not involve any payment to others. Accordingly, it should not be included in the estimation of national income
5. Expenditure by the households on the construction of residential buildings should not be treated as investment expenditure.
6. If the commercial banks buy government securities, their capacity to create credit is reduced
7. Higher bank rate implies higher credit creation capacity of the banks
8. The sum total of APC and APS is always equal to one, even when  $APC > 1$ .
9. There is no medium of exchange in the barter system
10. All financial institutions are not banking institutions.
11. Consumption never exceeds income
12. Average propensity to consume can never be greater than one
13. The rate at which C increases always tends to be lower than the rate at which Y increase
14. Increase in MPC implies increase in the slope of C-function
15. When CRR is raised, flow of credit is enhanced in the economy
16. In a situation of inflationary gap, general price level tends to rise.

17. There is a direct relationship between MPC and value of investment multiplier.
18. Higher saving induces greater investment.
19. In a situation of deflationary gap, low level of AD causes low level of AS.
20. In a situation of inflationary gap, low level of AS causes low level of AD.
21. Deflationary gap can be corrected by increasing the level of AD.
22. Bank rate should be lowered in a situation of inflationary gap.
23. CRR should be raised to combat deflationary gap.
24. SLR needs to be raised to combat deflationary gap.
25. It is not possible to combat inflationary gap without causing unemployment in the economy.
26. When deflationary gap is combated, the level of employment tends to rise in the economy.
27. Investment multiplier runs its full course only on the assumption that there is excess capacity in the economy.
28. If  $MPC = 0$ , output multiplier is also equal to zero.

**Q IV) Complete the following sentences**

1. Domestic income = National income – \_\_\_\_\_.
2. Value of output – Change in stock = \_\_\_\_\_.
3. Sales + Change in stock – Intermediate consumption = \_\_\_\_\_.
4. National income at market price = National income  $\pm$  \_\_\_\_\_.
5. Four important functions of the central bank are (i) \_\_\_\_\_, (ii) \_\_\_\_\_, \_\_\_\_\_ (iii) \_\_\_\_\_, and (iv) \_\_\_\_\_.
6. As a lender of last resort, the central bank \_\_\_\_\_  
\_\_\_\_\_.
- 7 Five instruments of monetary policy are (i) \_\_\_\_\_, (ii) \_\_\_\_\_, (iii) \_\_\_\_\_, (iv) \_\_\_\_\_, and (v) \_\_\_\_\_.
8. When bank rate is raised, supply of money in the economy is expected to \_\_\_\_\_.
9. In the equation  $C = a + aY$ ,  $a$  shows \_\_\_\_\_.
- 10 In the equation  $S = -a + bY$ ,  $-a$  shows \_\_\_\_\_.
- 11 If  $C = a + aY$  and  $S = -a + bY$ , then  $a + b =$  \_\_\_\_\_.
12.  $MPS \cdot \Delta Y =$  \_\_\_\_\_.
- 13  $MPC \cdot \Delta Y =$  \_\_\_\_\_.
- 14  $MPC + MPS =$  \_\_\_\_\_.
- 15  $APC + APS =$  \_\_\_\_\_.
16. Output multiplier may be estimated as the reciprocal of \_\_\_\_\_.
- 17 A situation of inflationary gap arises when \_\_\_\_\_.
18. A situation of equilibrium beyond full employment arises when \_\_\_\_\_.
19.  $S$  and  $I$  are always equal when \_\_\_\_\_.
20. In a situation when saving exceeds planned investment \_\_\_\_\_.