

# QB365 Question Bank Software Study Materials

## Consumption and Investment Functions 50 Important 1 Marks Questions With Answers (Book Back and Creative)

12th Standard

Economics

Total Marks : 50

### Multiple Choice Question

50 x 1 = 50

- 1) The average propensity to consume is measured by \_\_\_\_\_.  
**(a) C/Y** (b) CxY (c) Y/C (d) C+Y
- 2) An increase in the marginal propensity to consume will:  
**(a) Lead to consumption function becoming steeper** (b) Shift the consumption function upwards  
(c) Shift the consumption function downwards (d) Shift savings function upwards
- 3) If the Keynesian consumption function is  $C=10+0.8 Y$  then, if disposable income is Rs 1000, what is amount of total consumption?  
(a) 0.8 (b) 800 **(c) 810** (d) 0.81
- 4) If the Keynesian consumption function is  $C=10+0.8Y$  then, when disposable income is Rs 100, what is the marginal propensity to consume?  
**(a) 0.8** (b) 800 (c) 810 (d) 0.81
- 5) If the Keynesian consumption function is  $C=10+0.8 Y$  then, and disposable income is 100, what is the average propensity to consume?  
(a) 0.8 (b) 800 (c) 810 **(d) 0.9**
- 6) As national income increases  
**(a) The APC falls and gets nearer in value to the MPC** (b) The APC increases and diverges in value from the MPC.  
(c) The APC stays constant (d) The APC always approaches infinity
- 7) As increase in consumption at any given level of income is likely to lead  
**(a) Higher aggregate demand** (b) An increase in exports (c) A fall in taxation revenue  
(d) A decrease in import spending
- 8) Lower interest rates are likely to :  
(a) Decrease in consumption (b) increase cost of borrowing (c) Encourage saving  
**(d) increase borrowing and spending**
- 9) The MPC is equal to :  
(a) Total spending / total consumption (b) Total consumption / total income  
**(c) Change in consumption / change in income** (d) none of the above
- 10) The relationship between total spending on consumption and the total income is the\_\_\_\_\_.  
**(a) Consumption function** (b) Savings function (c) Investment function (d) aggregate demand function
- 11) The sum of the MPC and MPS is\_\_\_\_\_.  
**(a) 1** (b) 2 (c) 0.1 (d) 1.1
- 12) As income increases, consumption will\_\_\_\_\_

- (a) fall (b) not change (c) fluctuate **(d) increase**
- 13) When investment is assumed autonomous the slope of the AD schedule is determined by the\_\_\_\_\_.
- (a) marginal propensity to invest (b) disposable income **(c) marginal propensity to consume**  
(d) average propensity to consume
- 14) The multiplier tells us how much \_\_\_\_\_ changes after a shift in \_\_\_\_\_.
- (a) Consumption, income (b) investment, output (c) savings, investment **(d) output, aggregate demand**
- 15) The multiplier is calculated as
- (a)  $1/(1-MPC)$  (b)  $1/MPS$  (c)  $1/MPC$  **(d) a and b**
- 16) If the MPC is 0.5, the multiplier is \_\_\_\_\_.
- (a) 2** (b)  $1/2$  (c) 0.2 (d) 20
- 17) In an open economy import \_\_\_\_\_ the value of the multiplier
- (a) Reduces** (b) increase (c) does not change (d) changes
- 18) According to Keynes, investment is a function of the MEC and \_\_\_\_\_.
- (a) Demand (b) Supply (c) Income **(d) Rate of interest**
- 19) The term super multiplier was first used by
- (a) J.R.Hicks** (b) R.G.D. Allen (c) Kahn (d) Keynes
- 20) The term MEC was introduced by
- (a) Adam Smith **(b) J.M. Keynes** (c) Ricardo (d) Malthus
- 21) If the Keynesian consumption function is  $C = 10 + 0.5Y$  then, and disposable income is 100, what is the average propensity to consume?
- (a) 0.5 **(b) 0.6** (c) 0.7 (d) 0.8
- 22) Consumption function is the relationship \_\_\_\_\_ between \_\_\_\_\_ and the national income.
- (a) Consumption expenditure** (b) Government expenditure (c) Distribution expenditure (d) Investment expenditure
- 23) \_\_\_\_\_ principle explains the relationship between consumption expenditure and capital expenditure
- (a) Multiplier **(b) Accelerator** (c) Super Multiplier (d) All the above
- 24) Investment is the addition to real \_\_\_\_\_
- (a) Input (b) Output Asset **(c) Capital Assets** (d) None of these
- 25) The term consumption function explains the relationship between \_\_\_\_\_ and \_\_\_\_\_
- (a) Labour and Consumer **(b) Income and Consumption** (c) Consumer and Consumption  
(d) Organisation and Consumption
- 26) The Great Depression of 1930s was also caused by a \_\_\_\_\_
- (a) Fall in investment** (b) Income and consumption (c) Income and employment (d) Interest and money
- 27) Accelerator ( $\beta$ ) = \_\_\_\_\_
- (a)  $C + I$  (b)  $1/1 - MPC$  **(c)  $\frac{\Delta C}{\Delta Y}$**  (d)  $\Delta C/\Delta Y$
- 28) Ratio of change in aggregate income due to a change in investment is called \_\_\_\_\_
- (a) Multiplier** (b) Classical (c) Supply (d) None

- 29) The expected rate of profit technically means \_\_\_\_\_  
**(a) Marginal efficiency of capital** (b) Aggregate Demand (c) The principle of effective demand  
 (d) Consumption function
- 30) Investment depends upon \_\_\_\_\_ and rates of interest.  
**(a) MEC** (b) AD (c) Both (d) None
- 31) The value of multiplier itself depends on \_\_\_\_\_ or marginal propensity to consume.  
 (a) savings function (b) investment function **(c) consumption function** (d) interest function
- 32) What is not the nature of other variables such as income distribution, tastes, habits, social customs, price movements, population growth, etc. in the context of consumption function?  
 (a) other things being constant (b) ceteris paribus (c) constant extraneous variables **(d) dynamic variables postulate**
- 33) What is not a proposition of the Law:  
 (a) When income increases, consumption expenditure also increases but by a smaller amount.  
 (b) The increased income will be divided in some proportion between consumption expenditure and saving.  
**(c) Excess capacity in capital goods industries is assumed**  
 (d) Increase in income always leads to an increase in both consumption and saving
- 34) Find the odd one out with context of objective factor of Consumption function  
 (a) Price level (b) Wage level (c) The motive of pride **(d) Interest rate**
- 35) Which is not a Determinants of Investment Function  
 (a) Rate of interest (b) Level of uncertainty (c) Political environment **(d) Taste and preferences**
- 36) Who was first developed the concept of multiplier?  
 (a) J.A. Schumpeter (b) J.M. Keynes **(c) R.F. Khan** (d) Learner
- 37) Psychological law of consumption states that the value of MPC is lies between zero and  
**(a) 1** (b) 2 (c) 3 (d) 4
- 38) In the linear consumption function  $C = a + bY$ , coefficient 'a' denotes  
 (a) MPC (b) APC **(c) Autonomous consumption** (d) Induced consumption
- 39) When  $MPC = 0.5$ , the value of multiplier is  
 (a) 5 (b) 0.5 **(c) 2** (d) 4
- 40) Autonomous investment is  
**(a) Income inelastic** (b) Instable (c) Interest elastic (d) Income elastic
- 41) According to Keynes the most important determinant of investment  
**(a) MEC** (b) Effective demand (c) Aggregate demand (d) Rate of interest
- 42) Which of the following is Keynesian saving function?  
 (a)  $S = f(i)$  (b)  $S = f(P)$  **(c)  $S = f(Y)$**  (d)  $S = f(W)$
- 43) **Assertion:** The multiplier is directly related to MPC and inversely related to MPS.  
**Reason:** The accelerator principle explains the effect of changing consumption expenditure upon volume of investment.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)  
**(b) Both (A) and (R) are true, but (R) is not the correct explanation of (A)** (c) (A) is true, but (R) is false  
 (d) (A) is false, but (R) is true

44) Match the items in the List – I with items in List – II. Select the correct answer from the code given below:

List - I	List - II
I. Y	1. $C + IA + IP$
II. $(\beta)$	2. $\Delta I / \Delta C$
III. K	3. $1 / 1 - MPC$
IV. MPS	4. $\Delta S / \Delta Y$

- (a) 

I	II	III	IV
3	2	1	4

 (b) 

I	II	III	IV
2	4	1	3

 (c) 

I	II	III	IV
2	4	1	3

**(d) 

I	II	III	IV
2	3	4	1

45) **Assertion:** The progressive tax system increases the propensity to consume of the people by altering the income distribution in favour of poor.

**Reason:** When government reduces the tax the disposable income rises and the propensity to consume of community increases.

- (a) Both A and R are true and R is the correct explanation of A**  
 (b) Both A and R are true but R is not the correct explanation of A (c) A is true but R is false (d) A is false but R is true

46) The marginal propensity to consume is:

- (a) increasing if the marginal propensity to save is increasing  
 (b) the proportion of total disposable income that the average family consumes  
**(c) the change in consumer spending divided by the change in aggregate disposable income**  
 (d) the change in consumer spending minus the change in aggregate disposable income

47) A high marginal propensity to consume implies which of the following

- (a) A small change in consumption when income changes (b) A high savings rate (c) A high marginal tax rate  
**(d) A low marginal propensity to save**

48) Autonomous investment curve is

- (a) parallel to X axis** (b) positively sloped (c) parallel to Y axis (d) none

49) MEC was first introduced by \_\_\_\_\_.

- (a) Dusenberry **(b) Keynes** (c) Khan (d) Rao

50) If there is excess capacity in \_\_\_\_\_ goods industry accelerator principle would not operate

- (a) capital **(b) consumer** (c) agricultural (d) durable