

Aggregate Demand/Aggregate Supply**TIME 60 MIN****TEST****MARKS 20**

- Q.1**
- I.** What is fiscal policy?
 - II.** How should repo rate be changed to check inflation?
 - III.** Give the meaning of underemployment equilibrium.
 - IV.** In a situation of excess demand employment will not increase. (True/False)
 - V.** Draw a single diagram showing underemployment and full employment equilibrium.
- 5**
- Q.2** In an economy planned saving is greater than planned investment. Explain how the economy achieves equilibrium level of national income. **3**
- Q.3** In an economy the autonomous investment is 100 and the consumption is $C=80+0.4Y$. Is the economy in equilibrium at an income level of 400? Justify your answer. **2½**
- Q.4** From the data given below about the economy, calculate (a) investment expenditure and (b) consumption expenditure:
- | | | |
|-----------------------------------|-------|-----------|
| 1. Equilibrium level of income | 5,000 | |
| 2. Autonomous consumption | 500 | |
| 3. Marginal propensity to consume | 0.4 | 2½ |
- Q.5** What is the meaning of excess demand. Explain the concept of inflationary gap with the help of a diagram. **3**
- Q.6** What is the meaning of excess demand. Explain the concept of inflationary gap with the help of a diagram **3**
- Q.7** Explain Open Market Operation as tool of monetary policy to control the situation of excess/deficient demand. **3**
- Q.8** Explain the theory of determination of equilibrium of output and income with the help of aggregate demand and aggregate supply curves. **3**
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