



NCERT Solutions for 12th Class Economics (Macroeconomics): Chapter 4-Determination Of Income And Employment



indCareer



indCareer



indCareer

NCERT Solutions for 12th Class Economics (Macroeconomics): Chapter 4-Determination Of Income And Employment

Class 12: Economics (Macroeconomics) Chapter 4 solutions. Complete Class 12 Economics (Macroeconomics) Chapter 4 Notes.

NCERT Solutions for 12th Class Economics (Macroeconomics): Chapter 4-Determination Of Income And Employment

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

NCERT 12th Economics (Macroeconomics) Chapter 4, class 12 Economics (Macroeconomics) chapter 4 solutions

Page No 65

Question 1:

What is marginal propensity to consume? How is it related to marginal propensity to save?

ANSWER:

Marginal propensity to consume refers to the ratio of change in the consumer's expenditure due to the change in disposable income (income after deducting taxes). In other words, MPC measures how consumption will vary with the change in income.

So,

MPC

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

Where,

ΔC = Change in consumption

ΔY = Change in income

For example, if income increases from Rs 200 crores to Rs 250 crores and consumption increases from Rs 20 crores to Rs 40 crores, it implies that 0.4 is the MPC or 40% increase in the income is being consumed.

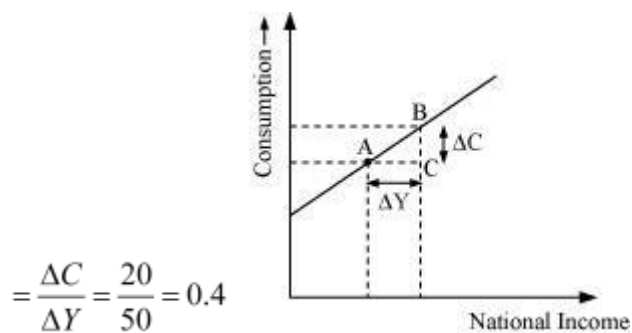
This can further be explained with the help of a table and a diagram.

If income and consumption are:

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

Income in Rs (Y)	Consumption Expenditure in Rs (C)
200	20
250	40

Then MPC



Also, MPC can be explained with the given diagram.

In the diagram, x-axis represents national income and y-axis represents consumption level.

So, MPC

$$= \frac{BC}{AC}$$

The relationship between MPC and MPS can be explained as –

$Y = C + S$ (Assuming that the income earned is either consumed or saved)

Or, $\Delta Y = \Delta C + \Delta S$

Dividing both sides by ΔY

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

$$\frac{\Delta Y}{\Delta Y} = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y} \quad \left[\frac{\Delta S}{\Delta Y} = \text{MPS} \right]$$

Or, $1 = \text{MPC} + \text{MPS}$

Or, $\text{MPC} = 1 - \text{MPS}$

Or, $\text{MPS} = 1 - \text{MPC}$

So, the sum of MPC and MPS is always equal to unity.

Page No 65:

Question 2:

What is the difference between ex ante investment and ex post investment?

ANSWER:

S.	Ex-ante Investment	Ex-post Investment
No		
.		
1.	It refers to the planned or intended investment during a particular period of time.	It refers to the actual level of investment during a particular period of time.
2.	It is imaginary (intended), in which a firm assumes the level of investment on its own.	It is factual or original that signifies the existing investment of a particular time.
3.	It is planned on the basis of future expectations.	It is the actual result of variables.

Page No 65:

Question 3:

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

What do you understand by ‘parametric shift of a line’? How does a line shift when its (i) slope decreases, and (ii) its intercept increases?

ANSWER:

Considering the equation of a straight line as

$$b = ma + \varepsilon$$

Where m = slope of straight line, $m > 0$

ε = intercept on vertical axis, $\varepsilon > 0$

Also, when a increases by 1 unit, the value of b increases by m units.

The parameters ε and m are parameters of a graph.

As the value of m increases, the straight line rotates upward around the same vertical intercept. This movement is an example of parametric shift of the graph.

(i) A straight line rotates downward around the same vertical intercept as its slope decreases.

(ii) A straight line shifts parallelly upward when its intercept increases.

NCERT 12th Economics (Macroeconomics) Chapter 4, class 12 Economics (Macroeconomics) chapter 4 solutions

Page No 65:

Question 4:

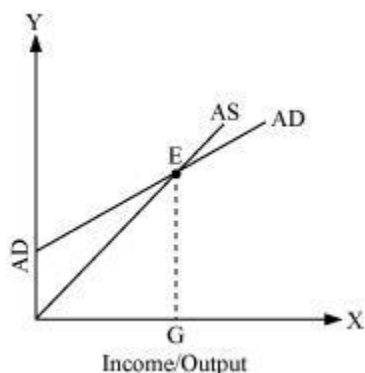
What is ‘effective demand’? How will you derive the autonomous expenditure multiplier when price of final goods and the rate of interest are given?

ANSWER:

Effective demand refers to a situation in which equilibrium output is determined solely by the level of aggregate demand. This is because of the

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

assumption that the supply is infinitely elastic and if there exists any inequality between the Aggregate Demand (AD) and the Aggregate Supply (AS), then the equilibrium output will only be influenced by AD. The concept of effective demand can be explained with the help of the given diagram.



The x -axis represents income/output level and y -axis represents the level of aggregate demand. E is the equilibrium point where the curves AS and AD meet. EG is the effective demand and output level is determined by AD (assuming the elasticity of supply to be perfectly elastic).

Autonomous expenditure multiplier is derived as

$$Y = AD \text{ (at equilibrium)}$$

$$Y = A + cY \text{ [Where } AD = A + cY]$$

$$Y - cY = A$$

$$Y(1 - c) = A$$

$$Y = \frac{A}{1 - c}$$

Where

A = Autonomous expenditure

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

$$c = \text{MPC}$$

Y = level of income

$$\frac{1}{1-c}$$

= autonomous expenditure multiplier

So, the autonomous expenditure multiplier is dependent on the income and MPC.

NCERT 12th Economics (Macroeconomics) Chapter 4, class 12 Economics (Macroeconomics) chapter 4 solutions

Page No 65:

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:

Consumption expenditure (A) = Rs 50 Crores

$$\text{MPS} = 0.2$$

$$\text{So, MPC} = 1 - \text{MPS}$$

$$= 1 - 0.2$$

$$= 0.8$$

$$Y = 4000 \text{ Crores}$$

$$\text{We know that } AD = A + cY (1)$$

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

Putting the values in equation (1)

$$AD = 50 + 0.8 \times 4000$$

$$= 50 + 3200$$

$$= \text{Rs } 3250 \text{ Crores}$$

But, $\text{Rs } 3250 < \text{Rs } 4000$

Implies that $AD < Y$

Hence, the economy is not in equilibrium.

Page No 65:

Question 6:

Explain 'Paradox of Thrift'.

ANSWER:

Paradox of thrift refers to a situation in which people tend to save more money, thereby leading to a fall in the savings of the economy as a whole. In other words, when everyone increases his/her saving-income proportion i.e. MPS (s), then, the aggregate demand will fall as consumption decreases. This will further lead to a decrease in employment and income level and finally this will reduce the total savings for the economy. This concept was suggested by Keynes wherein increased saving at individual levels will gradually lead to the slowdown of economy in terms of circular flow of income.

NCERT 12th Economics Chapter 4



<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

Chapterwise NCERT Solutions for Class 12 Economics (Macroeconomics):

- Chapter 1 - Introduction to Macro Economics
- Chapter 2 - National Income
- Chapter 3 - Money and Banking
- Chapter 4 - Determination of Income and Employment
- Chapter 5 - Government Budget and the Economy
- Chapter 6 - Open Economy

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>

About NCERT

The National Council of Educational Research and Training is an autonomous organization of the Government of India which was established in 1961 as a literary, scientific, and charitable Society under the Societies Registration Act. The major objectives of NCERT and its constituent units are to: undertake, promote and coordinate research in areas related to school education; prepare and publish model textbooks, supplementary material, newsletters, journals and develop educational kits, multimedia digital materials, etc.

Organise pre-service and in-service training of teachers; develop and disseminate innovative educational techniques and practices; collaborate and network with state educational departments, universities, NGOs and other educational institutions; act as a clearing house for ideas and information in matters related to school education; and act as a nodal agency for achieving the goals of Universalisation of Elementary Education.

Its headquarters are located at Sri Aurobindo Marg in New Delhi.

[Visit the Official NCERT website](https://www.ncert.nic.in/) to learn more.

<https://www.indcareer.com/schools/ncert-solutions-for-12th-class-economics-macroeconomics-chapter-4-determination-of-income-and-employment/>