# Sampurna 2026

## Determination of National Income (Unit – 2)  | Note

**The Keynesian Theory of
Determination at National Income
Introduction**

1. In 1936, who published the masterpiece "The General Theory of Employment, Interest and Money"?
   (a) John Maynard Keynes
   (b) John Milton Keynes
   (c) Jean Maynard Keynes
   (d) Jean Milton Keynes

2. Which of the following is not a part of "The Three-sector model" of Keynesian theory of income determination?
   (a) Household (b) Business
   (c) Government (d) Foreign

3. Which of the following is not a reason for leakages? [June 2024]
   (a) Part of an increment in income used for payment of debts
   (b) Distributed profits of corporation
   (c) High liquidity preference
   (d) Progressive rate of taxation

**Circular flow in a simple Two-Sector Model**

4. Which of the following Statements about Circular Flow is incorrect?
   (a) The circular Flow model demonstrates how money moves through society.
   (b) An economy is an endless circular flow of money
   (c) Money flows from producers to workers as wages and flows back to producers as payment for products.
   (d) All the Statements are correct.

5. In two sector model, what is the relationship between total Income produced (y) that accrues to the Households and the dis posable personal income ($Y_d$) of households?
   (a) $Y > Y_d$ (b) $Y < Y_d$
   (c) $Y = Y_d$ (d) Either (a) or (b)

6. Which of the following is true is "Circular Flow in a two sector Economy"?
   (a) Factor Payment = Household Income
   (b) Household Income = Household Expenditure
   (c) Total Receipts of Firms = Value of Output
   (d) All of the above

7. As regards "Circular Flow in a Two Sector Economy", _____refer to the flow of the actual goods or Services while_____ refer to the payment for the Services (wages) or consumption payments.
   (a) Real Flows, Money Flows
   (b) Money Flows, Real Flows
   (c) Real Flows, Circular Flows
   (d) Circular Flows, Money Flows

**Basic Concepts and Functions**

8. Which of the following is NOT TRUE about AD in a two-sector economy?
   (a) AD Consumption + Saving
   (b) AD = Consumption + Investment
   (c) AD = Curve has a positive Slope
   (d) AD = Curve Starts from same point about origin.

9. Keynes believed that an economy may attain equilibrium level of output:
   (a) only at the full-employment level of output
   (b) below the full-employment level of output
   (c) only if prices were inflexible
   (d) (a) and (c) above

**10.** As per consumption function, if the disposable income increases, consumers will_____ their planned expenditure but only by_____ than the increase in income.

(a) increase, less     (b) increase, more

(c) decrease, less     (d) decrease, more

**11.** In the Keynesian Consumption function C = a + by what may be the value of b?

(a) $b = 0$          (b) $b = 1$

(c) $b > 1$          (d) $0 < b < 1$

**12.** If 30% of income is not spent on consumption, then what will be the Average propensity to consume?

(a) 30%        (b) 70%

(c) 130%       (d) None of these

**13.** Which of the following is true for MPC?

[June 2024]

(a) It is always greater than one

(b) It is always less than unity but greater than zero

(c) It can be even less than zero

(d) It can attain any value depending upon the disposable income

**14.** What will be the value of Ave-rage Propensity to Save (APS) When C = 300 at Y = 1,000?

(a) 0.3        (b) 0.7

(c) 1.3        (d) 3.1

**15.** _____ is the total supply of goods and services which firms in a national economy plan on selling during a specific time period.

(a) *Ex ante* Aggregate Supply

(b) Planned Aggregate Supply

(c) Projected Aggregate Supply

(d) Both (a) and (b)

**16.** When income rises from ₹ 1,000 to ₹ 1,100, saving rises by ₹ 40. What are MPS and MPC?

(a) 0.40 and 0.60

(b) 0.60 and 0.40

(c) 1.40 and 1.60

(d) 1.60 and 1.40

**17.** The consumption expenditure and investment demand are ₹ 800 Crores and ₹ 350 Crores respectively, when income is ₹ 1,250 Crores. What will be the value of AD, AS and Saving?

(a) ₹ 1,250, ₹ 1150 and ₹ 450

(b) ₹ 1,150, ₹ 1,250 and ₹ 450

(c) ₹ 1,700, ₹ 2,050 and ₹ 350

(d) None of these

### The Two-Sector Model of National Income Determination

**18.** If the autonomous consumption equals ₹ 2,000 and the marginal propensity to consume equals 0.8. If disposable income equals ₹ 10,000, then total consumption will be

(a) 8,000       (b) 6,000

(c) 10,000      (d) None of the above

**19.** Under equation C = a + by, b= 0.8, what is the value of 2 sector expenditure multiplier?

(a) 4              (b) 2

(c) 5              (d) 1

**20.** As per Keynesian model of macro economy, if the aggregate demand is for an amount of output less than the full employment level of output, then we say there is deficient demand. This deficient demand gives rise to_____

(a) Deflationary Gap

(b) Recessionary Gap

(c) Contractionary Gap

(d) All of the above

**21.** If aggregate demand for an amount of output is less than the full employment level of output in the economy, then it gives rise to _____
[June 2024]
(a) Inflationary Gap   (b) Deflationary Gap
(c) Potential Gap   (d) Excess Demand

**22.** Under Keynesian Theory, _____ is the amount by which actual aggregate demand exceeds the level of aggregate demand required to establish the full employment equilibrium.
(a) Inflationary Gap
(b) Deflationary Gap
(c) Contractionary Gap
(d) None of these

**23.** Consider the following data relating to an economy in equilibrium:
Autonomous Consumption = 500
MPS = 0.3
Investment Expenditure = 1000
What is national income?
(a) 1,500   (b) 5,000
(c) 150   (d) 5,650

**24.** Given the empirical consumption function C = 100+ 0.75Y and I = 1000, what will be the equilibrium level of national income and also the consumption expenditure at this equilibrium level of national income?
(a) 4400; 3400   (b) 1100; 850
(c) 3300; 2150   (d) None of these

### The Investment Multiplier
**25.** Investment multiplier is the _____ [June 2024]
(a) Rate of change in investment due to increase in income
(b) Rate of increase in the national income due to increase in investment
(c) Rate of change in the investment due to increase in the savings
(d) Rate of change in savings due to increase in the investment

**26.** Higher the _____ more will be the value of multiplier, whereas, higher the _____, lower will be the value of multiplier.
(a) MPS, MPC   (b) MPC, MPS
(c) APS, APC   (d) APC, APS

**27.** The value of investment multi-plier is the reciprocal of _____.
(a) APC   (b) APS
(c) MPS   (d) MPC

**28.** In an economy investment expenditure is increased by ₹ 600 crores and Marginal Propensity to Consume (MPC) is 0.8. What will be the total increase in saving?
(a) 3000   (b) 4000
(c) 600   (d) 500

**29.** Suppose in a country investment increases by ₹ 320 Crores and consumption is given by C = 45 + 0.6Y (Where C = Consumption and Y = income). How much increases will there take place in income?
(a) ₹ 192   (b) ₹ 365
(c) ₹ 640   (d) ₹ 800

**30.** An increase in investment by ₹ 1000 Crores leads to increase in national income by ₹ 2500 Crore. What will be Marginal Propensity to Consume (MPC)?
(a) 2.5   (b) 0.6
(c) 0.4   (d) None of these

**31.** Which of the following formula can be used to find the value of Multiplier (K)?
(a) $K = \dfrac{\Delta Y}{\Delta I}$
(b) $K = \dfrac{1}{1 - MPC}$
(c) $K = \dfrac{1}{1 - MPS}$
(d) Any of the above

**32.** Consider the following data relating to an economy:

(a) increase in investment = ₹ 3,500 Crores

(b) 80% of the increase in income is spent on consumption.

What will be the total increase in income?

(a) ₹ 2,800

(b) ₹ 7,000

(c) ₹ 17,500

(d) None of these

### Determination of equilibrium Income: Three Sector Model

**33.** Which of the following is not considered in three sector model of closed economy?

(a) Household Consumption

(b) Desired Business Investment Demand

(c) Government Sector's Demand for goods and Services

(d) Foreign Trade

**34.** Find the aggregate demand, when consumption is ₹ 2000 crores, investment is ₹ 700 crores, Government Spending is ₹ 750 crores, total exports is ₹ 150 crores and total expenditure on imports are 50 crores. [June 2024]

(a) 3550 Cr

(b) 3300 Cr

(c) 3600 Cr

(d) 3350 Cr

**35.** $C = 200 + 0.8Y_d$; $G = T = 150$ $I = 200$; $TR = 75$ Find equilibrium income. [June 2024]

(a) 625

(b) 2450

(c) 2250

(d) 800

**36.** The following Information is available regarding structure model of an economy:

$C = 40 + 0.8Y_d$

$I = 80$

$G = T = 40$

$TR = 15$

Where C = Consumption function

I = Investment

G = Government Expenditure

T = Lump Sum Tax

TR = Autonomous Transfer Payment.

What will be the equilibrium level of income?

(a) 700

(b) 610

(c) 175

(d) None of these

**37.** In an economy, the tax has been levied as a function of income with Government expenditure and transfer payments. The following data is available:

Consumption function (C) = 400+ 0.75 (Y − T + TR)

Investment (I) = 750
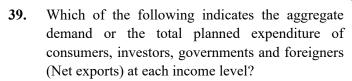
Government Expenditure (G) = 380

Tax (T) = 84 + 0.2Y

Autonomous Transfer Payment (TR) = 200

What is the equilibrium level of income?

(a) 4002.50     (b) 4042.50

(c) 4152.50     (d) 4582.50

### Determination of National Income: Four Sector Model

**38.** In the four sector model, which of the following additional flow is considered as compared with three sector model?

(a) Exports

(b) Imports

(c) Net Capital Inflow

(d) All of the above

**39.** Which of the following indicates the aggregate demand or the total planned expenditure of consumers, investors, governments and foreigners (Net exports) at each income level?

(a) $C + Y + G + (X + M)$

(b) $C + I + Tax + TR$

(c) $C + I + G + (X - M)$

(d) None of these

**40.** In the determination of equilibrium level of national income, which of the following is correct?

(a) $Y = C + I + G + (X - M)$

(b) $C = a + b (Y - T)$

(c) $M = \bar{M} + mY$

(d) All of the above.

**41.** In four sector model, which of the following formula is used to calculate Foreign Trade Multiplier, if b and m refer to marginal propensity to consume and Marginal propensity to import?

(a) $\dfrac{1}{1 - b - m}$  (b) $\dfrac{1}{1 + b - m}$

(c) $\dfrac{1}{1 - b + m}$  (d) $\dfrac{1}{1 + b + m}$

**42.** Consider the following:

Consumption function $(C) = 40 + 0.8Y_d$

$T = 0.1Y$

$I = 60$ crores

$G = 40$ Crores

$X = 58$

$M = 0.05Y$

What will be the equilibrium level of income?

(a) 800 crores  (b) 603 crores

(c) 545 crores  (d) None of these

**43.** $C = 60 + 0.9Y_d$

$I = 10$

$M = 10 + 0.05Y$

What is Foreign Trade Multiplier?

(a) 0.98  (b) 3.97

(c) 6.66  (d) None of these

**44.** Equilibrium income $(Y) = 600$

Exports $(\times) = 20$

Imports $(M) = 10 + 0.05Y$

Calculate Trade Balance.

(a) Surplus (20)  (b) Deficit (20)

(c) Surplus (30)  (d) Deficit (30)

**45.** Which of the following organization is responsible for the compilation of National accounts statistics? [May 2025]

(a) Central Statistical Organization (CSO)

(b) Directorate of Economic and Statistics (DES)

(c) Ministry of Finance of Central Government

(d) Reserve Bank of India (RBI)

**46.** Which of the following defines the Gross National Product (GNP) of a country under the concept of National Income? [May 2025]

(a) It is market value of all final economic goods and services produced within the domestic territory of a country including Net Factor Income from abroad.

(b) It is market value of all final economic goods and services produced within the domestic territory of a country excluding Net Factor Income from abroad.

(c) It is production cost of all final economic goods and services produced within the domestic territory including depreciation.

(d) It is production cost of all final economic goods and services produced within the domestic territory excluding depreciation.

**47.** The Gross Domestic Product at Factor Cost ($GDP_{FC}$) is calculated by which of the following formula (Here $GDP_{MP}$ is Gross Domestic Product at market prices): [May 2025]

(A) $GDP_{FC} = GDP_{MP} +$ Net Factor Income from Abroad

(B) $GDP_{FC} = GDP_{MP} +$ Net Factor Income from Abroad - Depreciation

(C) $GDP_{FC} = GDP_{MP}$ Indirect Taxes + Subsidies

(D) $GDP_{FC} = GDP_{MP} +$ Indirect Taxes - Subsidies

**48.** Considering the data given in the table below calculate the Inflation rate of year 3 : [May 2025]

| Year | Nominal GDP | Real GDP | GDP Deflator |
|------|-------------|----------|--------------|
| 0 | 900 | 900 | 100 |
| 1 | 1200 | 1000 | 120 |
| 2 | 1500 | 1200 | 125 |
| 3 | 1800 | 1250 | 144 |
| 4 | 2000 | 1600 | 125 |

(a)   13.19%

(b)   15.20%

(c)   19%

(d)   −19%

**49.** Which of the following is an indicator of the standard of living of a country under the concept of National Income? [May 2025]

(a)   Personal Income

(b)   Disposable Personal Income

(c)   Per Capita Income

(d)   GDP at factor cost

**50.** The amount of money in the hands of the individual that is available for their consumption or savings is known as _____. [May 2025]

(a)   Private Income

(b)   Per Capita Income

(c)   Disposable Personal Income

(d)   Personal Income

**51.** Which of the following is included in the calculation of Personal Income under the concept of National Income? [May 2025]

(a)   Unemployment Compensation

(b)   Retained Earnings

(c)   Indirect Business Taxes

(d)   Contribution towards Social Security

**52.** Which of the following is true in relation with Private Income under the concept of National Income? [May 2025]

(a)   It is personal income adjusted by inflation rate.

(b)   It is personal income less personal income tax.

(c)   It is the income (both factor & transfer income) accrued to private sector from all sources within the country only.

(d)   It is income (both factor and transfer income) accrued to the private sector from all sources within and outside the country.

**53.** Which of the following is true about the basic price in the determination of National Income? [May 2025]

(a)   Basic Price = Factor Cost − Manufacturing Taxes + Manufacturing Subsidy

(b)   Basic Price = Factor Cost − Depreciation

(c)   Basic Price = Factor Cost + Net Factor Income from Abroad

(d)   Basic Price = Factor Cost + Production Tax + Production Subsidy

**54.** Which of the following is not a sector to be included in the three sector model of Keynesian theory of Income determination? [May 2025]

(a)   Household Sector

(b)   Business Sector

(c)   Foreign Sector

(d)   Government Sector

**55.** Under the Keynesian theory of National Income determination, which of the following term is given to the demand for money? [May 2025]

(a)   Investment multiplier

(b)   Liquidity preference

(c)   Aggregate demand

(d)   Marginal Propensity

**56.** Under the Keynesian theory of determination of national income, the assumption is that the consumption increases with an increase in disposable income but the increase in consumption will be _____ the increase in disposable income. [May 2025]

(a) Equal to

(b) Opposite to

(c) Greater than

(d) Less than

**57.** Which of the following is true in respect of relation of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) as per the Keynesian theory of determination of National Income? [May 2025]

(a) MPC + MPS

(b) MPC + MPS = 1

(c) MPC + MPS = 0

(d) No relation exists between MPC and MPS

**58.** In the preparation of state income estimates, certain activities like railways, banking, insurance etc. that cut across state boundaries, and thus their economic contribution assigned to more than one state are known as _____. [May 2025]

(a) Central Sectors of economy

(b) Supra Regional Sectors of economy

(c) Tertiary Sectors of economy

(d) Secondary Sectors of economy

# Answer Key

| | | | | |
|---|---|---|---|---|
| 1. | (a) | | 30. | (b) |
| 2. | (d) | | 31. | (d) |
| 3. | (b) | | 32. | (c) |
| 4. | (d) | | 33. | (d) |
| 5. | (c) | | 34. | (a) |
| 6. | (d) | | 35. | (b) |
| 7. | (a) | | 36. | (a) |
| 8. | (a) | | 37. | (b) |
| 9. | (b) | | 38. | (d) |
| 10. | (a) | | 39. | (c) |
| 11. | (d) | | 40. | (d) |
| 12. | (b) | | 41. | (c) |
| 13. | (b) | | 42. | (b) |
| 14. | (b) | | 43. | (c) |
| 15. | (d) | | 44. | (b) |
| 16. | (a) | | 45. | (a) |
| 17. | (b) | | 46. | (a) |
| 18. | (c) | | 47. | (c) |
| 19. | (c) | | 48. | (b) |
| 20. | (d) | | 49. | (c) |
| 21. | (b) | | 50. | (c) |
| 22. | (a) | | 51. | (a) |
| 23. | (b) | | 52. | (d) |
| 24. | (a) | | 53. | (d) |
| 25. | (b) | | 54. | (c) |
| 26. | (b) | | 55. | (b) |
| 27. | (c) | | 56. | (d) |
| 28. | (c) | | 57. | (b) |
| 29. | (d) | | 58. | (b) |

# Hints and Solution

1. (a)

2. (d)

3. (b)

4. (d)

5. (c)

6. (d)

7. (a)

8. (a)

9. (b)

10. (a)

11. (d)

12. (b)

13. (b)

14. (b)
$S = Y-C = 1000 - 300 = 700$
$APS = \dfrac{S}{Y} = \dfrac{700}{1000} = 0.7$

15. (d)

16. (a)
$MPS = \dfrac{\text{Change in Saving}}{\text{Change in Income}}$
$= \dfrac{40}{1100-1000} = \dfrac{40}{100} = 0.40$
$MPC = 1 - MPS = 1 - 0.40 = 0.60$

17. (b)
(i) AD = C + I = ₹ 800 + ₹ 350, = ₹ 1.150 Crores
(ii) AS = national Income (Y) = ₹ 1,250 Crores.
(iii) Saving (s) = Y – C = ₹ 1,250 – ₹ 800 = ₹ 450 Crores

18. (c)

19. (c)

20. (d)

21. (b)

22. (a)

23. (b)
$C = \bar{C} + MPC\ (y)$
$= \bar{C} + (1 - MPS)\ (y)$
$= 500 + (1 - 0.3)y$
$y = C + I$
$= 500 + (0.7)(y) + 1000$
$= 1500 + 0.7y$
$0.3Y = 1500$
$Y = \dfrac{1500}{0.3} = 5000$

24. (a)
$C = 100 + 0.75y$
$I = 1000$
In Equilibrium, Y = C + I
$Y = 100 + 0.75Y + 1000$
$Y = 1100 + 0.75Y$
$Y - 0.75Y = 1100$
$0.25Y = 1100$
$Y = \dfrac{1100}{0.25} = 4400$
Also, $Y = C + I$
$C = Y - I$
$= 4400 - 1000$
$= 3400$

**25.** **(b)**

**26.** **(b)**

**27.** **(c)**

Multiplier = $\frac{1}{MPS}$ or $\frac{1}{1-MPC}$

**28.** **(c)**

MPC = 0.8

MPS = 1 – 0.8 = 0.2

Multiplier (k) = $\frac{1}{MPS} = \frac{1}{0.2} = 5$

Increase in Income ($\Delta Y$) = K × $\Delta I$ = 5 × 600 = 3000 Crores

Increase in Saving ($\Delta Y$) = $\Delta Y$ × MPS

$\qquad$ = 3000 × 0.2

$\qquad$ = 600 Crores

**29.** **(d)**

MPC = 0.6 [From Consumption Function]

Multiplier (K) = $\frac{1}{1-MPC} = \frac{1}{1-0.6} = 2.5$

Change in Income ($\Delta Y$) = Multiplier (K) × Change in Investment ($\Delta I$)

$\Delta Y$ = 2.5 × 320 = ₹ 800 Crores.

Thus, increase in investment by ₹ 320 Crores will cause equilibrium income to rise by ₹ 800 Crores.

**30.** **(b)**

Multiplier (K) $= \frac{\Delta Y}{\Delta I}$

$\qquad = \frac{₹\ 2500}{₹\ 1000} = 2.5$

We know that,

Multiplier (K) $= \frac{1}{MPS}$

$\qquad 2.5 = \frac{1}{MPS}$

$\qquad MPS = \frac{1}{2.5}$

$\qquad = 0.4$

$\qquad MPC = 1 - MPS$

$\qquad = 1 - 0.4$

$\qquad = 0.6$

**31.** **(d)**

**32.** **(c)**

80% of Increase in income is spent on Consumption.

MPC = 0.80

Multiplier (K) = $\frac{1}{1-MPC} = \frac{1}{1-08} = \frac{1}{0.2} = 5$

Multiplier (K) = $\frac{\text{Change in Income } (\Delta Y)}{\text{Change in Investment } (\Delta I)}$

$\Delta I$ = (K) ($\Delta I$)

= 5 × 3500

= ₹ 17,500 crores

**33.** **(d)**

**34.** **(a)**

**35.** **(b)**

**Equilibrium condition:**

Y = C + I + G $\qquad\qquad$ (1)

C = 200 + 0.8 $Y_d$ $\qquad\qquad$ (2)

$Y_d$ = Y – T + TR $\qquad\qquad$ (3)

Substituting the value of $Y_d$ from eq. (3) in eq.(2)

C = 200 + 0.8 (Y – T + TR)

= 200 + 0.8 (Y – 150 + 75) = 140 + 0.8Y

Putting this value of C in eq (1)

Y = 140 + 0.8Y + I + G

= 140 + 0.8Y + 200 + 150

0.2Y = 490

Y = 490 / 02 = 2450

**36.** **(a)**

Y $\quad$ = C + I + G

$\qquad$ = 40 + 0.8$Y_d$ + 80 + 40

$\qquad$ = 160 + 0.8 $Y_d$

$\qquad$ = 160 + 0.8 [Y – T + TR]

$\qquad$ = 160 + 0.8 [Y – 40 + 15]

$\qquad$ = 160 + 0.8 [Y – 25]

$\qquad$ = 160 – 20 + 0.8Y

$\qquad$ = 140 + 0.8Y

Y $\quad = \frac{140}{0.2} = 700$

**37.** **(b)**

$C = a + b\ (Y - \overline{T} - tY + TR)$

$= 400 + 0.75\ [Y - (84 + 0.2Y) + 200]$

$= 400 + 0.75\ [\ Y - 84 - 0.2Y + 200]$

$= 400 + 0.75\ [0.8Y + 116]$

$= 400 + 0.6Y + 87$

$= 487 + 0.6Y$

$Y = C + I + G$

$= 487 + 0.6Y + 750 + 380$

$= 1617 + 0.6Y$

$0.4Y = 1617$

$Y = \dfrac{1617}{0.4} = 4042.50$

**38.** **(d)**

**39.** **(c)**

**40.** **(d)**

**41.** **(c)**

**42.** **(b)**

$C = 40 + 0.8Y_d$

$= 40 + 0.8\ (Y - 0.1Y)$

$= 40 + 0.8\ (0.9Y)$

$I = 60$

$G = 40$

$X = 58$

$M = 0.05Y$

$(X - M) = 58 - 0.05Y$

Equilibrium level of Income (Y) will be:

$Y = C + I + G + (X - M)\ Y$

$= 40 + 0.8\ (0.9Y) + 60 + 40 + (58 - 0.05Y)$

$= 198 + 0.72Y - 0.05Y$

$= 198 + 0.67\ Y$

$Y - 0.67Y = 198$

$0.33Y = 198$

$Y = \dfrac{198}{0.33} = 603$

**43.** **(c)**

Foreign Trade multiplier

$= \dfrac{1}{1 - b + m}$

$= \dfrac{1}{1 - 0.9 + 0.05} = \dfrac{1}{0.15}$

$= 6.66$

**44.** **(b)**

Trade Balance = X – M = 20 – 10 – 0.05 (600) = – 20

Thus, trade balance is in deficit (20).

**45.** **(a)**

**46.** **(a)**

**47.** **(c)**

**48.** **(b)**

**49.** **(c)**

**50.** **(c)**

**51.** **(a)**

**52.** **(d)**

**53.** **(d)**

**54.** **(c)**

**55.** **(b)**

**56.** **(d)**

**57.** **(b)**

**58.** **(b)**