

Macro Unit 3. PISA Like Questions

1. Observe the following picture and answer the following questions.



1.1- When Aggregate Demand is less than Aggregate Supply at full employment, which gap is arised?

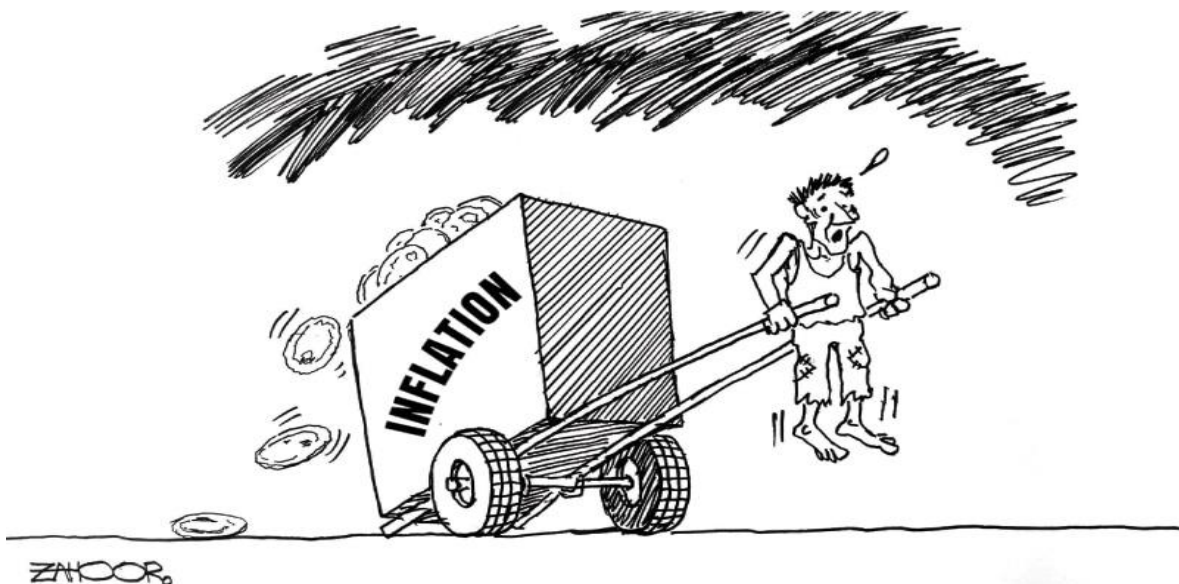
1.2- How can we correct the above gap using monetary policy.

1.3- Which type of unemployment will arise in this situation?

1.4- Will there be full or underemployment equilibrium? Comment.

Ans. Answers will vary based on students' understanding.

2. On the basis of following picture, answer the following question.



2.1- Excess money supply is necessary for rapid economic development but it creates inflationary situation. Comment.

Ans 2.2- Answer will be based on students' critical thinking.

2.2-Write any two fiscal measures to control inflationary situation.

Ans 2.2- Fiscal Measures 1. Increase in Tax rates 2. Reduce Public expenditure Value- Critical Thinking

3. Following picture is showing the impact of savings. Answer the following:



3.1- Saving provides economics security in future but why it is not good from the viewpoint of investment multiplier?

Ans 3.1- Money supply is reduced by increase in savings, which creates the situation of deficient demand in economy, consequently it reduces the functioning of investment multiplier. Value- Analytic

4. Why do the consumption expenditure of involuntary unemployed worker not zero, even at zero level of income?

Ans 4- A worker has to incur some expenditure to fulfill his basic needs even at zero level of income. Value- Empathy

5. What impacts will be on economy when there is planned investment is

less than planned saving? What steps should be taken by the govt to maintain equilibrium in the economy.

Ans 5- If there is planned investment is less than planned saving this will create the situation of deficient demand in the economy and it will result increase in the inventory stock of unsold goods. In this situation of Govt. should take fiscal & monetary measures to increase aggregate demand.

Value- Analytic

6. In India unemployment is a major problem, if aggregate demand is equal to aggregate supply, can it be called a situation of equilibrium?



Ans 6- No, because it is the situation of under-employment equilibrium.

Value- Problem Solving

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