[Frequently Asked Questions]

Aggregate Supply and Aggregate Demand Model - II

Subject:	Business Economics
Course:	B. A. (Hons.), 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 301 Macroeconomics - I
Unit No. & Title:	Unit – 3 Aggregate Supply and Aggregate Demand Model
Lecture No. & Title:	Lecture – 2 Aggregate Supply and Aggregate Demand Model - II

Frequently Asked Questions

Q1. Define consumption function.

A1. The consumption function or propensity to consume refers to income consumption relationship. It is a "functional relationship between two aggregates, i.e., total consumption and gross national income."

Q2. State the two propositions of consumption function.

A2.

- As income increases consumption expenditure increases but less proportionately.

- Rate of Increase or decrease in savings will depend on the increase or decrease of income.

Q3. Explain APC.

A3. The average propensity to consume refers to the percentage of income that is spent on goods and services rather than on savings

Q4. Define MPC.

A4. The concept that the increase in personal consumer spending (consumption) occurs with an increase in disposable income.

Q5. Relationship between APC and MPC.

A5.

- As income rises, the MPC also falls, but it falls to greater extent than the APC.

- As income falls, the MPC rises. The APC will also rise but at a slower rate.

Q6. What does APC and APS tell us?

A6. APC is required to tell us what proportion of the total cost of a given output from planned employment may be expected to be recovered from selling consumer goods.

Where in APS, tells us what proportion of the total cost of a given output will have to be recovered by the sale of capital good.

Q7. What are the characteristics according to Fisher that an individual's impatience depends?

A7. There are four characteristics and they are:

- the size,
- the time shape,
- the composition and
- risk

Q8. If the consumer is a saver what will he do according to Fisher's Theory?

A8. If the consumer is a net saver, he will save more in the current period due to the substitution effect and consume more in the current period due to the income effect.

Q9. What do mean by saving function?

A9. The saving function is just disposable income minus the consumption function. It is also equal to the amount of induced saving minus autonomous consumption.

Q10. List down few assumptions of Keynes' law.

A10. Keynes' law is limited by the following assumptions:

- Constancy of Psychological and Institutional Factors

- Normal Economic conditions

- Laissez-faire Policy