

Con of In & Mul - R & U - Very Short (Info & Con)

Q.1. What is investment?

Ans. Investment is an addition to capital stock of the producers. It is also called capital formation.

Q.2. What is ex-ante investment?

Ans. Ex-ante investment refers to desired (or planned) investment corresponding to different income levels in the economy.

Q.3. Define ex-post investment.

Ans. Ex-post investment refers to actual investment in the economy during the period of one year.

Q.4. What is autonomous investment?

Ans. Autonomous investment refers to investment which is independent of the level of income in the economy.

Q.5. Define induced investment.

Ans. Induced investment refers to that investment which changes as the rate of interest changes or as the level of income changes in the economy.

Q.6. What is demand for private investment?

Ans. Demand for private investment refers to planned investment expenditure by the private sector in the economy.

Q.7. What are the components of demand for private investment?

Ans. Components of demand for private investment are: (i) desired or planned private fixed investment (like purchase of machinery), and (ii) desired increase in inventory stocks of the firms in private sector.

Q.8. If in an economy investment is greater than saving, what is the effect on the national income?

Ans. If investment is greater than saving, the level of income will rise so long as full employment is not reached.

Q.9. What happens to aggregate income in an economy in which intended saving exceeds intended investment?

Ans. If intended saving is greater than intended investment, aggregate income will tend to fall.

Q.10. What is investment multiplier?

Ans. Investment multiplier is the ratio of a change in income to a given change in investment.

Q.11. Give a formula of multiplier.

Ans.

$$\text{Multiplier (K)} = \frac{\Delta Y}{\Delta I} = \frac{1}{1 - \text{MPC}} = \frac{1}{\text{MPS}}.$$

(Here, DY = Change in income; DI = Change in investment; MPC = Marginal propensity to consume; MPS = Marginal propensity to save.)

Q.12. What is the minimum value of investment multiplier?

Ans. The minimum value of investment multiplier is equal to ONE.

Q.13. What is the relationship between marginal propensity to save and multiplier?

Ans. There is an inverse relation between multiplier and marginal propensity to save (MPS). Higher is the value of MPS, lower is the value of multiplier and vice versa

$$[\text{Multiplier} = \frac{1}{\text{MPS}}].$$