

Con Func & Sav - Reason-Based (Comp. of Sub)

Q.1. When income is zero, consumption is also zero.

Ans. False. When income is zero, consumption is not zero. Because, there is always some minimum level of consumption in the economy even when income = 0 (zero).

Q.2. Consumption depends on investment in the economy.

Ans. False. Consumption (C) depends on income (Y) in the economy. Higher level of Y often leads to higher level of C.

Q.3. When consumption function is: $C = 50 + 0.6Y$, C-line starts from the point of origin

Ans. False. When consumption function is: $C = 50 + 0.6Y$, C-line starts from the Y-axis because 50 in the equation points to minimum level of consumption even when income (Y) = 0.

Q.4. When consumption function is: $C = 40 + 0.7Y$, saving will be equal to -40 when $Y = 0$.

Ans.

True. When $Y = 0$, autonomous consumption ($\bar{C}$) is 40. At zero level of Y, saving ($\bar{S}$) is equal to the negative expression of $\bar{C}$. Hence, when $\bar{C} = 40$, $\bar{S}$ will be equal to -40.

Q.5. Saving function would be linear in case MPS is found to be constant.

Ans. True. Saving function would be linear in case MPS is constant. This is because a linear saving function is a straight line saving function. The slope of a straight line is constant. And the slope is indicated by MPS. Constant MPS implies constant slope and therefore, a straight line linear saving function.

Q.6. MPC is the ratio between total consumption (C) and total income (Y).

Ans. False. MPC is the ratio between change in total consumption (DC) and change in total income (DY).

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

Q.7. Value of average propensity to consume can be one.

Ans.

True. Value of average propensity to consume (APC) can be one. It happens when consumption is equal to income. Thus, $\frac{C}{Y} = 1$ when $C = Y$.

Q.8. MPC + MPS = 1.

Ans.

True. We know that,

$$\begin{aligned} MPC &= \frac{\Delta C}{\Delta Y} \text{ and } MPS = \frac{\Delta S}{\Delta Y} \\ MPC + MPS &= \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y} \\ &= \frac{\Delta C + \Delta S}{\Delta Y} \\ &= \frac{\Delta Y}{\Delta Y} \quad (\because \Delta Y = \Delta C + \Delta S) \end{aligned}$$

Or, $MPC + MPS = 1$

Q.9. The value of marginal propensity to consume can be greater than one.

Ans. False. The value of marginal propensity to consume cannot be greater than one. It is because change in consumption cannot be greater than change in income.

Q.10. The value of average propensity to save can be negative.

Ans. True. The value of average propensity to save (APS) can be negative. It happens when: Consumption > Income Or, when: $APC > 1$.

Q.11. APS can be greater than one.

Ans. False. Because APS is the ratio between total saving and total

income $(APS = \frac{S}{Y})$. And, total saving cannot be greater than total income during an accounting year. Saving is just a part of income. Putting differently, we can say that if $APS > 1$ then S must be greater than Y , in which case C must be negative. This can never ever happen.

Q.12. MPC or MPS can be negative.

Ans. False. Neither MPC nor MPS can ever be negative. This is because MPC is the ratio between additional consumption (ΔC) and additional income (ΔY). Likewise, MPS is the ratio between additional saving (ΔS) and additional

income (ΔY). The ratio $\frac{\Delta C}{\Delta Y}$ refers to slope of C-function which is always positive (because of positive relationship between C and Y). Likewise, the ratio $\frac{\Delta S}{\Delta Y}$ refers to slope of S-function which is always positive (because of positive relationship between S and Y).

Q.13. The value of marginal propensity to save can never be negative.

Ans. True. Marginal propensity to save is the ratio between additional saving and additional income which is always positive because of positive relationship between saving and income.

Q.14. Average propensity to save is always greater than zero.

Ans. False. Average propensity to save is not always greater than zero. It can be negative in situations when saving is negative or when consumption is greater than income.

Q.15. When the value of average propensity to save is negative, the value of marginal propensity to save will also be negative.

Ans. False. The value of average propensity to save (APS) is negative when consumption is greater than income but this does not mean that marginal propensity to save (MPS) will also be negative. In fact, MPS is never negative. Because it is the ratio between ΔS and ΔY and ΔS can never be negative, as a component of ΔY .