



**AND DEFICIT DEMAND**

**ASSERTION- REASON QUESTIONS**

Question Question Content

No

- Q1 Assertion (A): Inflationary gap is the result of excess demand.  
Reasoning(R): When aggregate demand is more than aggregate supply, inflationary gap is occurred.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q2 Assertion (A): Due to excess demand, employment increases in the economy.  
Reasoning(R): Output level increases in the economy due to excess demand.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q3 Assertion (A): Bank rate increases in order to control excess demand.  
Reasoning(R): Bank rate helps to control the money supply in the economy.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q4 Assertion (A): Monetary measures are adopted by the central bank to control deficient demand.

Reasoning(R): Fiscal measures are adopted by the government through budget to control excess demand.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Q5

Assertion (A): RBI is the apex bank in the country.

Reasoning(R): Commercial banks want to maximize their profits.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of

- Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q6 Assertion: Fiscal policy and monetary policy are contradictory to each other.  
 Reason: Fiscal policy and monetary policy are complementary to each other. Both the policies simultaneously target to stabilize the economy.  
 Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q7 Assertion: There is underemployment of resources in the economy during Deficient Demand situations.  
 Reason: To correct the excess demand situation, Govt. must cut down unproductive expenditure.  
 Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q8 Assertion: In a situation of excess demand at the full employment level, there is inflation in the economy.  
 Reason: At the full employment level, even if there is more demand for goods and service, the output cannot be increased.  
 Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q9 Assertion: Reduction in taxation can correct the problem of deficient demand.  
 Reason: Reduction in taxation leaves the people with more disposable income.  
 Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q10 Assertion: Deficient demand causes inflation and full employment.  
 Reason: when the actual AD falls short of the AS at full employment, the output produced in the economy cannot be sold.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Q11

Assertion (A) During deflationary gap, actual aggregate demand is more than potential aggregate demand to maintain full employment.

Reason(R) Recession in an economy leads to fall in demand as compared with supply.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Q12

Assertion (A) Deflationary gaps reflects presence of unemployment in an economy.

Reason(R) Full employment doesn't ensure zero unemployment during a period of time.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Q13

Assertion (A) Excess demand refers to the situation when aggregate demand is in excess of aggregate supply corresponding to full employment in the economy i.e.,  $AD > AS$ , corresponding to full employment.

Reason(R) To correct inflationary gap, Bank rate, Repo rate, Reverse Repo rate and legal reserve ratio is increased by the Central Bank to reduce supply of money so that purchasing power of people can be curtailed and inflationary gap can be controlled.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Q14

Assertion (A) Fiscal policy refers to the budgetary policy of the government with a view to correct the situation of excess demand or deficient demand.

Reason(R) Government uses low Bank rate to control excess supply of money.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false.

- (d) Assertion (A) is false but Reason (R) is true.
- Q15 Assertion (A) Deficient demand leads to fall in output.  
Reason(R) Due to fall in investment and employment in the economy, the output also tends to fall.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q16 Assertion: In a situation of excess demand at the full employment level, there is inflation in the economy.  
Reason: At the full employment level, even if there is more demand for goods and service, the output cannot be increased.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q17 Assertion (A): General price level tends to rise in a situation of inflationary gap.  
Reason (R): Excess demand implies pressure of demand on the existing resource.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q18 Assertion (A): Wage-price spiral is the consequence of deficient demand.  
Reason (R): In this situation, wages catch prices and prices catch wages  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q19 Assertion (A): Underemployment equilibrium indicates excess capacity in the economy.  
Reason (R): Aggregate demand is less than what is needed for full employment of the factors.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.

- Q20 Assertion (A): CRR should be raised to combat inflationary gap.  
Reason (R): CRR is controlled by commercial bank.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q21 Assertion (A): Bank rate should be lowered in a situation of inflationary gap.  
Reason (R): Bank rate is controlled by central bank.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q22 Assertion (A): Deflationary gap can be corrected by increasing the level of aggregate demand.  
Reason (R): it is the deficiency of aggregate demand that causes deflationary gap.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q23 Assertion (A) inflationary pressure takes place when the economy is in full employment.  
Reason (R) due to the rise in demand and rigid supply, price of the goods tends to rise  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q24 Assertion (A) if aggregate demand exceeds aggregate supply income rises.  
Reason (R) excess of aggregate demand will reduce planned inventory and firm would tend to increase the employment and output.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q25 Assertion (A) the point at which consumption intersect the 45 degree line, APS is zero  
Reason (R) it happens because at this point consumption is equal to income and saving is zero.

- Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q26 Assertion (A) full employment implies zero unemployment where nobody is ever unemployed in the economy  
 Reason (R) there is always some minimum level of unemployment for natural unemployment or voluntary unemployment.  
 Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q27 Assertion (A) increase in public expenditure will improve AD.  
 Reason (R) Public expenditure incurred by government will increase the money supply in the hands of public.  
 Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q28 ASSERTION (A):  
 Inflationary pressure takes place when the economy is in full employment.  
 REASONING (R):  
 Due to the rise in demand and rigid supply, price of the goods tends to rise.  
 Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.  
 (d) Assertion (A) is false but Reason (R) is true.
- Q29 ASSERTION (A):  
 In a situation of deficient demand, there is underemployment in the economy.  
 REASONING (R):  
 Excess demand raises the real value of the output. Alternatives:  
 (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false.

- (d) Assertion (A) is false but Reason (R) is true.
- Q30      ASSERTION (A):  
Tax increases by state governments during recessions often reduce the expansionary impact of fiscal policy by the central government.  
REASONING (R):  
Tax increases lead to decrease in disposable income due to which consumption expenditure in the economy falls. Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q31      ASSERTION (A):  
Increase in public expenditure will improve AD.  
REASONING (R):  
Public expenditure incurred by government will increase the money supply in the hands of public.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.
- Q32      ASSERTION (A):  
During deficient demand, central bank advises the commercial banks to advance loan at easy terms in order to minimize the condition of deficient demand in the country.  
REASONING (R):  
Recently the Reserve Bank of India has announced the policy of Demonetization in order to reduce the excess demand and to absorb the excess and unauthorized money from the market.  
Alternatives:  
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true but Reason (R) is false.  
(d) Assertion (A) is false but Reason (R) is true.



## ANSWER

Question No	Answer
Q1	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q2	(b) Assertion and reason both are true but reason is not the correct explanation of assertion.
Q3	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q4	(b) Assertion and reason both are true but reason is not the correct explanation of assertion.
Q5	(b) Assertion and reason both are true but reason is not the correct explanation of assertion.
Q6	(d) Assertion is false, reason is true.
Q7	(b) Assertion and reason both are true but reason is not the correct explanation of assertion.
Q8	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q9	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion
Q10	(d) Assertion is false, reason is true.
Q11	(b) Assertion and reason both are true but reason is not the correct explanation of assertion.
Q12	(b) Assertion and reason both are true but reason is not the correct explanation of assertion.
Q13	(b) Assertion and reason both are true but reason is not the correct explanation of assertion.
Q14	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q15	(c) Assertion (A) is true but Reason (R) is false.
Q16	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q17	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q18	(d) Assertion is false, reason is true.
Q19	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q20	(d) Assertion is false, reason is true.
Q21	(d) Assertion is false, reason is true.
Q22	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q23	(d) Assertion is false, reason is true.
Q24	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q25	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q26	(d) Assertion is false, reason is true.

Q27	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q28	(d) Assertion is false, reason is true.
Q29	(c) Assertion (A) is true but Reason (R) is false.
Q30	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q31	(a) Both Assertion and reason are true and reason is the correct explanation of the assertion.
Q32	(b) Assertion and reason both are true but reason is not the correct explanation of assertion.

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