CUET 2026 May 15 Shift 1 Economics

Question Paper (Memory-Based) with Solutions

Conducted by National Testing Agency (NTA)

General Instructions

(i) The examination will be conducted in Computer-Based Test (CBT) mode.

(ii) Each question carries +5 marks for correct answer and -1 mark for wrong answer.

(iii) The total number of questions are 50.

(iv) Duration of the exam is 1 hour (60 minutes).

1. When does a firm experience normal profit?

(A) When total revenue equals total cost.

(B) When economic profit is zero.

(C) When price is equal to minimum AVC.

(D) When price is equal to ATC in the long run.

Choose the correct answer:

(A) (A), (B), and (D) only

(B) (A) and (C) only

(C) (B) and (C) only

(D) (A), (B), (C), and (D)

Correct Answer: (A) (A), (B), and (D) only

Solution:

Step 1: Understand normal profit.

Normal profit occurs when:

$$\text{Total Revenue} = \text{Total Cost}$$

Thus:

$$\text{Economic Profit} = 0$$

Hence statements (A) and (B) are correct.

Step 2: Analyze statement (C).

Price equal to minimum AVC represents shutdown point condition in short run.

It does not necessarily imply normal profit.

$$\Rightarrow \text{Incorrect}$$

Step 3: Analyze statement (D).

In long run equilibrium:

$$P = ATC$$

At this point firms earn:

$$\text{Normal Profit}$$

Hence:

$$\Rightarrow \text{Correct}$$

Step 4: Identify correct combination.

Correct statements are:

$$(A), \ (B), \ \text{and } (D)$$

Therefore, the correct answer is:

$$\boxed{\text{(A)}}$$

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Quick Tip: Normal Profit:

$$TR = TC$$

$$\text{Economic Profit} = 0$$

Long run equilibrium:

$$P = ATC$$

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2. The problem of "What to produce?" includes which of the following considerations?

(A) Whether to produce more of food, clothing, and housing or luxury goods.

(B) Whether to allocate more resources to education or military services.

(C) Whether to use labour-intensive or capital-intensive production methods.

(D) Whether to focus on consumption goods or investment goods.

Choose the correct answer from the options below:

(A) (A), (B), and (D) only

(B) (A), (C), and (D) only

(C) (B), (C), and (D) only

(D) (A), (B), (C), and (D)

Correct Answer: (A) (A), (B), and (D) only

Solution:

Step 1: Understand the problem of "What to produce?"

This central problem of an economy deals with:

- Choice among different goods and services
- Allocation of scarce resources
- Priority of production

Step 2: Analyze statement (A).

Choosing between:

$$\text{Necessities and Luxury Goods}$$

is part of deciding what goods should be produced.

$$\Rightarrow \text{Correct}$$

Step 3: Analyze statement (B).

Allocation of resources between:

$$\text{Education and Military Services}$$

is also related to what society wants to produce.

$$\Rightarrow \text{Correct}$$

Step 4: Analyze statement (C).

Choice between:

$$\text{Labour-Intensive and Capital-Intensive}$$

methods belongs to:

$$\text{How to Produce}$$

not what to produce.

$$\Rightarrow \text{Incorrect}$$

Step 5: Analyze statement (D).

Choosing between:

$$\text{Consumption Goods and Investment Goods}$$

is also a part of deciding what to produce.

$$\Rightarrow \text{Correct}$$

Step 6: Identify the correct combination.

Correct statements are:

$$(A),\ (B),\ \text{and } (D)$$

Hence, the correct answer is:

$$\boxed{\text{(A)}}$$

Quick Tip: Central problems of an economy:

What to Produce

How to Produce

For Whom to Produce

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3. The short-run supply curve of a firm is:

(A) The downward-sloping portion of the SMC curve

(B) The rising portion of the SMC curve above the minimum AVC

(C) The entire SMC curve

(D) The portion of the SMC curve below AVC

Correct Answer: (B) The rising portion of the SMC curve above the minimum AVC

Solution:

Step 1: Understand short-run supply curve.

In the short run, a firm will continue production only if:

$$P \geq AVC$$

If price falls below AVC, the firm shuts down.

Step 2: Relation between SMC and supply curve.

The firm's short-run supply curve is:

$$\text{That portion of SMC curve which lies above minimum AVC}$$

because:

- SMC determines output level
- AVC determines shutdown point

Step 3: Analyze the options.

Option (A)

Downward-sloping portion cannot be supply curve.

$$\Rightarrow \text{Incorrect}$$

Option (B)

Correct definition of short-run supply curve.

$$\Rightarrow \text{Correct}$$

Option (C)

Entire SMC curve includes portion below AVC.

$$\Rightarrow \text{Incorrect}$$

Option (D)

Below AVC firm shuts down.

$$\Rightarrow \text{Incorrect}$$

Step 4: Identify the correct option.

Therefore:

$$\boxed{\text{The rising portion of SMC above minimum AVC}}$$

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Hence, the correct answer is:

$$\boxed{(B)}$$

Quick Tip: Short-run supply curve:

$$\text{SMC above minimum AVC}$$

Shutdown condition:

$$P < AVC$$

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4. Which of the following statements are correct regarding firms in perfect competition?

(A) No single buyer or seller can influence the market price.

(B) Products sold by different firms are differentiated to attract customers.

(C) There are no barriers to entry or exit in the long run.

(D) Firms in a perfectly competitive market always make super-normal profit in the long run.

Choose the correct answer:

(A) (A) and (C) only

(B) (A), (B), and (D) only

(C) (B), (C), and (D) only

(D) (A), (B), (C), and (D)

Correct Answer: (A) (A) and (C) only

Solution:

Step 1: Analyze statement (A).

In perfect competition:

$$\text{No individual buyer or seller can influence market price}$$

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Firms are:

$$\text{Price Takers}$$

Hence:

$$\Rightarrow \text{Correct}$$

Step 2: Analyze statement (B).

In perfect competition:

$$\text{Products are homogeneous}$$

There is no product differentiation.

$$\Rightarrow \text{Incorrect}$$

Step 3: Analyze statement (C).

Perfect competition assumes:

$$\text{Free Entry and Exit}$$

Thus:

$$\Rightarrow \text{Correct}$$

Step 4: Analyze statement (D).

In long run equilibrium:

$$P = ATC$$

Firms earn only:

$$\text{Normal Profit}$$

not super-normal profit.

$$\Rightarrow \text{Incorrect}$$

Step 5: Identify correct combination.

Correct statements are:

$$(A) \text{ and } (C)$$

Hence, the correct answer is:

$$\boxed{(A)}$$

Quick Tip: Features of perfect competition:

Homogeneous Product

Free Entry and Exit

Price Taking Firms

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5. Which of the following is not included in inventory?

(A) Raw materials

(B) Semi-finished goods

(C) Sold finished goods

(D) Unsold finished goods

Correct Answer: (C) Sold finished goods

Solution:

Step 1: Understand the meaning of inventory.

Inventory refers to stock of goods held by a business for:

- Production
- Sale
- Future use

Step 2: Identify items included in inventory.

Inventory generally includes:

- Raw materials

- Work-in-progress or semi-finished goods
- Unsold finished goods

Step 3: Analyze the options.

Raw materials

Used for production.

$$\Rightarrow \text{Included}$$

Semi-finished goods

Partially completed goods.

$$\Rightarrow \text{Included}$$

Sold finished goods

Once sold, they are no longer part of stock.

$$\Rightarrow \text{Not Included}$$

Unsold finished goods

Available for sale and part of inventory.

$$\Rightarrow \text{Included}$$

Step 4: Identify the correct option.

Therefore:

$$\boxed{\text{Sold Finished Goods}}$$

Hence, the correct answer is:

$$\boxed{\text{(C)}}$$

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Quick Tip: Inventory includes:

Raw Materials

Work-in-Progress

Unsold Finished Goods

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6. Match List-I (Concepts) with List-II (Definitions/Examples):

List-I (Concepts)		List-II (Definitions/Examples)	
(A)	Intermediate Goods	(I)	Unexpected rise in sales leads to stock depletion
(B)	Unplanned Accumulation of Inventories	(II)	Production - Sales
(C)	Change in Inventories Formula	(III)	Completely used in the production process
(D)	Unplanned Decumulation of Inventories	(IV)	Unexpected fall in sales leads to unsold stock

Choose the correct answer from the options given below:

(A) (A)-(III), (B)-(IV), (C)-(II), (D)-(I)

(B) (A)-(IV), (B)-(I), (C)-(III), (D)-(II)

(C) (A)-(II), (B)-(III), (C)-(I), (D)-(IV)

(D) (A)-(I), (B)-(II), (C)-(III), (D)-(IV)

Correct Answer: (A) (A)-(III), (B)-(IV), (C)-(II), (D)-(I)

Solution:

Step 1: Match Intermediate Goods.

Intermediate goods are:

Goods completely used in production

Thus:

$$(A) \rightarrow (III)$$

Step 2: Match Unplanned Accumulation of Inventories.

When sales unexpectedly fall:

$$\text{Unsold stock increases}$$

This leads to:

$$\text{Unplanned Accumulation}$$

Thus:

$$(B) \rightarrow (IV)$$

Step 3: Match Change in Inventories Formula.

Change in inventories is:

$$\text{Production} - \text{Sales}$$

Thus:

$$(C) \rightarrow (II)$$

Step 4: Match Unplanned Decumulation of Inventories.

Unexpected rise in sales causes:

$$\text{Stock depletion}$$

Thus:

$$(D) \rightarrow (I)$$

Step 5: Identify correct option.

Correct matching is:

$$(A) \rightarrow (III)$$

$$(B) \rightarrow (IV)$$

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$$(C) \rightarrow (II)$$

$$(D) \rightarrow (I)$$

Hence, the correct answer is:

$$\boxed{\text{(A)}}$$

Quick Tip: Inventory Change:

$$\text{Production} - \text{Sales}$$

Unplanned accumulation:

$$\text{Sales} < \text{Production}$$

Unplanned decumulation:

$$\text{Sales} > \text{Production}$$

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7. What is a liquidity trap?

(A) A situation where money supply has no impact on interest rates and demand for bonds

(B) A condition where interest rates keep increasing indefinitely

(C) A state where money is not needed in an economy

(D) A phase of high inflation due to excess money supply

Correct Answer: (A) A situation where money supply has no impact on interest rates and demand for bonds

Solution:

Step 1: Understand liquidity trap.

Liquidity trap is a situation where:

$$\text{Interest rates become extremely low}$$

and people prefer holding cash instead of bonds.

Step 2: Effect of increasing money supply.

In liquidity trap:

$$\text{Increase in money supply}$$

does not reduce interest rate further.

Thus monetary policy becomes ineffective.

$$\Rightarrow \text{Money supply has little or no impact}$$

on:

- Interest rates
- Demand for bonds

Step 3: Analyze remaining options.

Option (B)

Liquidity trap occurs at very low interest rates, not indefinitely increasing rates.

$$\Rightarrow \text{Incorrect}$$

Option (C)

Money continues to be important in the economy.

$$\Rightarrow \text{Incorrect}$$

Option (D)

Liquidity trap is related to recession and low interest rates, not high inflation.

$$\Rightarrow \text{Incorrect}$$

Step 4: Identify the correct option.

Therefore:

$$\boxed{\text{Money supply has no significant impact on interest rates}}$$

Hence, the correct answer is:

$$\boxed{(A)}$$

Quick Tip: Liquidity trap occurs when:

$$\text{Interest Rates are Extremely Low}$$

People prefer:

$$\text{Holding Cash instead of Bonds}$$

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8. The concept of market equilibrium assumes that:

(A) Market forces of supply and demand determine prices

(B) Government intervention is necessary to set prices

(C) Firms individually decide market prices

(D) Consumers control the supply

Correct Answer: (A) Market forces of supply and demand determine prices

Solution:

Step 1: Understand market equilibrium.

Market equilibrium occurs when:

$$\text{Quantity Demanded} = \text{Quantity Supplied}$$

At this point:

$$\text{Market Price}$$

is determined through interaction of:

$$\text{Demand and Supply}$$

Step 2: Analyze the options.

Option (A)

Prices are determined by:

$$\text{Market Forces of Demand and Supply}$$

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$$\Rightarrow \text{Correct}$$

Option (B)

Government intervention is not necessary in free market equilibrium.

$$\Rightarrow \text{Incorrect}$$

Option (C)

Individual firms are price takers in competitive markets.

$$\Rightarrow \text{Incorrect}$$

Option (D)

Consumers influence demand, not supply directly.

$$\Rightarrow \text{Incorrect}$$

Step 3: Identify the correct option.

Therefore:

$$\boxed{\text{Market Forces of Supply and Demand Determine Prices}}$$

Hence, the correct answer is:

$$\boxed{\text{(A)}}$$

Quick Tip: Market equilibrium:

$$Q_d = Q_s$$

Price is determined by:

$$\text{Demand and Supply}$$

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9. If excess demand exists in the market, what should happen to restore equilibrium?

(A) Prices should increase

(B) Prices should decrease

(C) Government should set a price cap

(D) Firms should stop production

Correct Answer: (A) Prices should increase

Solution:

Step 1: Understand excess demand.

Excess demand occurs when:

$$Q_d > Q_s$$

that is:

$$\text{Quantity Demanded} > \text{Quantity Supplied}$$

This creates shortage in the market.

Step 2: Effect on price.

Due to shortage:

$$\text{Buyers compete for limited goods}$$

As a result:

$$\text{Price rises}$$

Step 3: How equilibrium is restored.

Increase in price:

- Reduces demand
- Increases supply

Eventually:

$$Q_d = Q_s$$

and equilibrium is restored.

Step 4: Analyze remaining options.

Option (B)

Price decrease would increase excess demand further.

$$\Rightarrow \text{Incorrect}$$

Option (C)

Price cap may worsen shortage.

$$\Rightarrow \text{Incorrect}$$

Option (D)

Stopping production reduces supply further.

$$\Rightarrow \text{Incorrect}$$

Step 5: Identify the correct option.

Therefore:

$$\boxed{\text{Prices should increase}}$$

Hence, the correct answer is:

$$\boxed{(A)}$$

Quick Tip: Excess demand:

$$Q_d > Q_s$$

Leads to:

Rise in Price

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10. Match List-I (Concepts) with List-II (Meanings):

List-I (Concepts)		List-II (Meanings)	
(A)	Effective Demand Principle	(I)	Planned investment before actual execution
(B)	Autonomous Change	(II)	Expected consumption expenditure before the actual occurrence
(C)	Ex-ante Consumption	(III)	Change occurring independently of other factors in the economy
(D)	Ex-ante Investment	(IV)	Demand determines the level of employment and output

Choose the correct answer from the options given below:

(A) (A)-(IV), (B)-(III), (C)-(II), (D)-(I)

(B) (A)-(II), (B)-(I), (C)-(IV), (D)-(III)

(C) (A)-(I), (B)-(IV), (C)-(III), (D)-(II)

(D) (A)-(III), (B)-(IV), (C)-(I), (D)-(II)

Correct Answer: (A) (A)-(IV), (B)-(III), (C)-(II), (D)-(I)

Solution:

Step 1: Match Effective Demand Principle.

According to Keynes:

$$\text{Demand determines employment and output}$$

Thus:

$$(A) \rightarrow (IV)$$

Step 2: Match Autonomous Change.

Autonomous change means:

$$\text{Change independent of other economic factors}$$

Thus:

$$(B) \rightarrow (III)$$

Step 3: Match Ex-ante Consumption.

Ex-ante consumption means:

$$\text{Planned or expected consumption expenditure}$$

before actual occurrence.

Thus:

$$(C) \rightarrow (II)$$

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Step 4: Match Ex-ante Investment.

Ex-ante investment means:

$$\text{Planned investment}$$

before actual execution.

Thus:

$$(D) \rightarrow (I)$$

Step 5: Identify correct combination.

Correct matching is:

$$(A) \rightarrow (IV)$$

$$(B) \rightarrow (III)$$

$$(C) \rightarrow (II)$$

$$(D) \rightarrow (I)$$

Hence, the correct answer is:

$$\boxed{\text{(A)}}$$

Quick Tip: Ex-ante:

$$\text{Planned Values}$$

Ex-post:

$$\text{Actual Values}$$