

# CUET 2026 May 21 Economics Shift 1

## Question Paper (Memory-Based) with Solutions

Conducted by National Testing Agency (NTA)



### General Instructions

- ( The examination will be conducted in Computer-Based Test (CBT) mode.
- ( Each question carries +5 marks for correct answer and -1 mark for wrong answer.
- ( The total number of questions are 50.
- ( Duration of the exam is 1 hour (60 minutes).

1. Arrange the following major milestones of Indian and global economic development in the correct ascending chronological sequence:

1. Implementation of the Goods and Services Tax (GST) in India
2. Launch of the New Economic Policy (NEP) in India
3. Establishment of the World Trade Organization (WTO)
4. Enforcement of the General Agreement on Tariffs and Trade (GATT)

- (A) 4 → 2 → 3 → 1
- (B) 4 → 3 → 2 → 1
- (C) 2 → 4 → 3 → 1
- (D) 4 → 2 → 1 → 3

**Correct Answer:** (A) 4 → 2 → 3 → 1

### Solution:

**Concept:** Chronological ordering questions track your historical understanding of policy implementations and global treaties. Placing these major milestones sequentially requires mapping out their exact historical launch timelines.

**Step 1: Identify the precise enforcement year for each economic milestone.**

- Enforcement of GATT (4): Signed by 23 nations post-WWII, it came into official global effect on January 1, 1948.
- Launch of NEP in India (2): Introduced under Prime Minister P.V. Narasimha Rao to resolve a severe balance of payments crisis in July 1991.
- Establishment of the WTO (3): Created via the historic Marrakesh Agreement, officially replacing GATT on January 1, 1995.
- Implementation of GST in India (1): Rolled out nationally as a comprehensive, unified indirect tax regime on July 1, 2017.

**Step 2: Assemble the ascending chronological sequence.** Arranging the years sequentially from the earliest to the most recent: 1948 (4) → 1991 (2) → 1995 (3) → 2017 (1). This maps precisely to the pattern:

$$4 \rightarrow 2 \rightarrow 3 \rightarrow 1$$

**Quick Tip:** Remember that India's domestic LPG market opening in 1991 (NEP) directly prepared the country to become a founding member of the global WTO structure when it officially launched in 1995.

**2. Which of the following mathematical equations correctly represents the transformation route to derive Gross National Product at Factor Cost ( $GNP_{fc}$ ) from Gross Domestic Product at Market Prices ( $GDP_{mp}$ )?**

- (A)  $GNP_{fc} = GDP_{mp} + \text{Net Factor Income from Abroad (NFIA)} - \text{Net Indirect Taxes (NIT)}$
- (B)  $GNP_{fc} = GDP_{mp} - \text{Net Factor Income from Abroad (NFIA)} + \text{Net Indirect Taxes (NIT)}$
- (C)  $GNP_{fc} = GDP_{mp} + \text{Net Factor Income from Abroad (NFIA)} - \text{Depreciation}$
- (D)  $GNP_{fc} = GDP_{mp} - \text{Net Indirect Taxes (NIT)} - \text{Depreciation}$

**Correct Answer:** (A)  $GNP_{fc} = GDP_{mp} + \text{Net Factor Income from Abroad (NFIA)} - \text{Net Indirect Taxes (NIT)}$

**Solution:**

**Concept:** National Income aggregates are derived by systematically converting terms across three core levels:

1. Domestic to National: Adjusted using Net Factor Income from Abroad (National = Domestic + NFIA).
2. Market Price to Factor Cost: Adjusted using Net Indirect Taxes (Factor Cost = Market Price – NIT).
3. Gross to Net: Adjusted using Depreciation (Net = Gross – Depreciation).

**Step 1: Convert the geographic boundary from Domestic to National.** Starting with our base variable  $GDP_{mp}$ , we shift from a domestic production territory to a national concept by adding Net Factor Income from Abroad (NFIA):

$$GNP_{mp} = GDP_{mp} + NFIA$$

**Step 2: Convert the valuation base from Market Prices to Factor Cost.** Market prices include indirect product taxes and exclude government production subsidies. To evaluate the output at true factor cost, we subtract Net Indirect Taxes (NIT = Indirect Taxes - Subsidies):

$$GNP_{fc} = GNP_{mp} - NIT$$

**Step 3: Combine both transformation operations.** Merging the two individual adjustment steps yields the complete composite equation:

$$GNP_{fc} = GDP_{mp} + NFIA - NIT$$

**Quick Tip:** Keep your directional signs straight: Add foreign factor flows (+NFIA) to go from domestic to national, and Subtract product taxes (–NIT) to drop market prices down to factory cost.

**3. In the measurement of money supply aggregates, which of the following components is explicitly included in the definition of the  $M_1$  money aggregate?**

- (A) Currency held by the public + Demand deposits with commercial banks + 'Other' deposits with the RBI
- (B) Currency held by the public + Total post office savings bank deposits
- (C) Demand deposits with commercial banks + Net time deposits with the banking system

(D) Total deposits held by all non-banking financial companies (NBFCs)

**Correct Answer:** (A) Currency held by the public + Demand deposits with commercial banks + 'Other' deposits with the RBI

**Solution:**

**Concept:** The Reserve Bank of India calculates four alternative measures of money supply ( $M_1, M_2, M_3,$  and  $M_4$ ) that reflect varying degrees of liquidity. The aggregate  $M_1$  represents "Narrow Money" and measures the most highly liquid assets directly available for public transaction use.

**Step 1:** Break down the core components of the  $M_1$  equation. The narrow money supply aggregate is mathematically defined as:

$$M_1 = C + DD + OD$$

Where each component represents:

- C (Currency held by the public): All paper notes and metallic coins circulating outside the banking system.
- DD (Demand Deposits): Funds held in current and savings accounts with commercial banks that can be withdrawn on demand via checks or digital transfers.
- OD ('Other' Deposits): Specific deposits held with the RBI by foreign central banks, quasi-government bodies, and international financial institutions.

**Step 2:** Contrast with less liquid components. Time deposits (fixed deposits) and post office savings involve lock-in windows and cannot be used directly for regular marketplace transactions. This places them in broader definitions like  $M_2, M_3,$  or  $M_4$ .

**Quick Tip:**  $M_1$  is the most highly liquid measure of money supply, while  $M_4$  is the least liquid. In terms of overall usage volume across the economy,  $M_3$  is the aggregate most commonly referred to as "Broad Money."

---

4. If the value of the Marginal Propensity to Save (MPS) in an economy is exactly 0.2, what is the magnitude of the investment multiplier ( $K$ )?

- (A) 5
- (B) 2
- (C) 4
- (D) 0.8

**Correct Answer:** (A) 5

**Solution:**

**Concept:** The investment multiplier ( $K$ ) measures the total change in aggregate income that results from an initial injection of autonomous investment. It shares an inverse mathematical relationship with the leakage rate of savings inside the circular flow model:

$$K = \frac{1}{MPS} = \frac{1}{1 - MPC}$$

**Step 1:** Identify the given saving propensity parameter. The problem provides our core leakage variable:

$$MPS = 0.2$$

**Step 2:** Calculate the multiplier using the direct reciprocal relationship. Substitute the value of MPS into our multiplier equation:

$$K = \frac{1}{MPS} = \frac{1}{0.2}$$

Multiply both the numerator and the denominator by 10 to clear the decimal fraction:

$$K = \frac{10}{2} = 5$$

This indicates that an initial investment injection of \$100 crore will expand total national output and income by \$500 crore.

**Quick Tip:** The multiplier value has a direct relationship with the Marginal Propensity to Consume (MPC) and an inverse relationship with the Marginal Propensity to Save (MPS). A lower savings rate leaves more income circulating as consumer demand, generating a larger multiplier effect.

---

**5. Under perfect competition, the short-run supply curve of an individual profit-maximizing**

**firm corresponds to which of the following segments?**

- (A) The rising portion of the Short-run Marginal Cost (SMC) curve at and above the minimum point of the Average Variable Cost (AVC) curve.
- (B) The entire upward-sloping region of the Short-run Average Cost (SAC) curve.
- (C) The downward-sloping portion of the Short-run Marginal Cost (SMC) curve.
- (D) The rising portion of the SMC curve above the minimum point of the Average Fixed Cost (AFC) curve.

**Correct Answer:** (A) The rising portion of the Short-run Marginal Cost (SMC) curve at and above the minimum point of the Average Variable Cost (AVC) curve.

**Solution:**

**Concept:** Under perfect competition, a firm is a price taker and maximizes profit where:

$$P = MC$$

provided the marginal cost curve is rising.

In the short run, the firm continues production only if price is sufficient to cover the Average Variable Cost (AVC). Therefore, the short-run supply curve is closely related to the rising part of the Marginal Cost (MC) curve above the shutdown point.

**Step 1: Understand the profit-maximization condition.**

A perfectly competitive firm chooses output where:

$$P = SMC$$

where  $P$  is market price and  $SMC$  is Short-run Marginal Cost.

However, only the upward-sloping part of the SMC curve is considered because the marginal cost curve must be rising at equilibrium for profit maximization.

**Step 2: Apply the short-run shutdown condition.**

In the short run, fixed costs are unavoidable. Therefore, the firm will continue production only

if:

$$P \geq AVC$$

If:

$$P < \min(AVC)$$

the firm shuts down because it cannot even recover its variable costs.

Thus, the minimum point of the AVC curve is called the shutdown point.

**Step 3: Identify the short-run supply curve.**

Since the firm supplies output according to:

$$P = SMC$$

and production occurs only when:

$$P \geq \min(AVC)$$

the firm's short-run supply curve is:

The rising portion of the SMC curve above the minimum AVC point

Hence, the correct answer is:

(A)

**Quick Tip:** The portion of the MC curve above the minimum AVC point represents the short-run supply curve of a perfectly competitive firm.

**6. Which of the following options correctly defines the geometric relationship between the Short-run Marginal Cost (SMC) curve and the Average Variable Cost (AVC) curve?**

- (A) The SMC curve intersects the AVC curve from below at its lowest (minimum) point.
- (B) The SMC curve remains completely parallel and sits strictly above the AVC curve at all output levels.
- (C) The SMC curve cuts the AVC curve at its highest maximum point during early production phases.
- (D) The SMC curve always intersects the AVC curve at the exact same output level where Average Fixed Cost

**Correct Answer:** (A) The SMC curve intersects the AVC curve from below at its lowest (minimum) point.

**Solution:**

**Concept:** The relationship between marginal and average cost values follows basic mathematical averaging rules:

- When marginal cost is less than average cost ( $SMC < AVC$ ), the average value must fall.
- When marginal cost exceeds average cost ( $SMC > AVC$ ), the average value must rise.
- Consequently, when average cost is neither falling nor rising (at its flat minimum point), the marginal value must equal the average value ( $SMC = AVC$ ).

**Step 1:** Trace the early phases of the cost curve curves. During early stages of production, increasing returns to variable inputs cause the marginal cost of additional units to drop quickly, dragging the average variable cost down behind it. In this phase, the SMC curve sits fully below the AVC curve.

**Step 2:** Locate the exact intersection point under diminishing returns. Eventually, diminishing marginal returns set in, causing the SMC curve to turn upward and rise rapidly. As it climbs, it passes through the absolute lowest (minimum) point of the U-shaped AVC curve. Past this intersection point, each additional unit costs more than the current average, pulling the AVC curve upward.

**Quick Tip:** The marginal cost curve always passes through the lowest points of both the Average Variable Cost (AVC) and the total Average Cost (AC) curves.

---

**7. In macroeconomic analysis, how does an economy behave when it enters a state known as a 'Liquidity Trap'?**

- (A) The interest rate drops to an extremely low level, making the speculative demand for money infinitely elastic as people prefer to hoard cash.
- (B) The transactional demand for money drops to zero because economic activity stops completely.
- (C) Commercial banks experience an acute shortage of liquid cash reserves, causing lending to drop sharply.
- (D) The central bank loses its legal authority to issue new currency notes into circulation.

**Correct Answer:** (A) The interest rate drops to an extremely low level, making the speculative demand for money infinitely elastic as people prefer to hoard cash.

**Solution:**

**Concept:** According to Keynesian theory, the speculative demand for money depends inversely on the rate of interest.

When interest rates are high, people prefer to invest in bonds and securities. When interest rates become extremely low, people expect them to rise in the future, which may reduce bond prices and create capital losses. Therefore, individuals prefer to hold cash instead of purchasing bonds.

**Step 1: Understand the behavior of interest rates in a liquidity trap.**

A liquidity trap occurs when the rate of interest falls to a very low level.

At this stage:

Interest Rate ↓

and people believe that interest rates cannot fall further.

Because bond prices and interest rates move inversely, people expect bond prices to fall in the future. Hence, they avoid investing in bonds and prefer to hold liquid cash balances.

**Step 2: Analyze the speculative demand for money.**

In a liquidity trap, the speculative demand for money becomes highly elastic or infinitely elastic. This means that any additional money supplied by the central bank is simply hoarded by the public rather than being invested or spent.

Thus:

Additional Money Supply → Cash Hoarding

As a result, expansionary monetary policy becomes ineffective in stimulating investment and economic activity.

**Step 3: Evaluate the options.**

(A) Correct — This accurately describes a liquidity trap situation.

- (B) Incorrect — Transactional demand for money never becomes zero.
- (C) Incorrect — A liquidity trap is related to interest rates and speculative demand, not shortage of bank reserves.
- (D) Incorrect — The central bank does not lose its legal authority to issue currency.

Hence, the correct answer is:

(A)

**Quick Tip:** In a liquidity trap, the opportunity cost of holding money becomes almost zero, so people prefer to hoard cash instead of investing in bonds or securities.

**8. During the first phase of the Green Revolution in India (spanning the mid-1960s to mid-1970s), the introduction of High Yielding Variety (HYV) seeds was largely concentrated in which specific regions?**

- (A) Punjab, Haryana, and western Uttar Pradesh
- (B) The arid regions of Rajasthan and Gujarat
- (C) The eastern states of Bihar, Odisha, and West Bengal
- (D) The rain-dependent semi-arid areas of the Deccan Plateau

**Correct Answer:** (A) Punjab, Haryana, and western Uttar Pradesh

**Solution:**

**Concept:** The introduction of High Yielding Variety (HYV) seed packages required strict agricultural preconditions—including reliable, controlled irrigation networks and heavy chemical fertilizer inputs—to successfully increase crop yields.

**Step 1: Identify regional infrastructure advantages during Phase 1.** When the program launched in the mid-1960s, the union government chose to concentrate its limited supplies of HYV wheat seeds and financial subsidies in regions that already had reliable, well-developed irrigation canals and groundwater pumping infrastructure.

**Step 2: Map the specific target states.** This requirement led to the program being concentrated in Punjab, Haryana, and western Uttar Pradesh. These regions experienced a dramatic surge in

agricultural output (the wheat revolution), while rain-dependent or less developed agricultural areas across eastern and southern India saw little initial impact until subsequent expansion phases in the late 1970s.

**Quick Tip:** The Green Revolution was split into two separate phases: Phase 1 (mid-60s to mid-70s) was highly concentrated in affluent wheat-growing northern states, while Phase 2 (mid-70s to mid-80s) expanded to a broader range of states and crop varieties like rice.

---

**9. If the real Gross Domestic Product (GDP) of an economy is \$500 billion and the nominal GDP stands at \$600 billion, what is the value of the GDP Deflator?**

- (A) 120
- (B) 83.33
- (C) 110
- (D) 200

**Correct Answer:** (A) 120

**Solution:**

**Concept:** The GDP Deflator is a comprehensive price index used to track changes in the general price level of all domestically produced goods and services in an economy. It is calculated by finding the ratio between current-price output (Nominal GDP) and constant-price output (Real GDP):

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

**Step 1:** **Extract the given output and price metrics.** From the problem statement, we isolate our core values:

- Nominal GDP = \$600 billion
- Real GDP = \$500 billion

**Step 2:** **Substitute values into the price index equation.** Plug these values directly into the GDP deflator formula:

$$\text{GDP Deflator} = \frac{600}{500} \times 100$$

Simplify the base fraction component:

$$\frac{600}{500} = \frac{6}{5} = 1.2$$

Complete the index calculation by multiplying by 100:

$$\text{GDP Deflator} = 1.2 \times 100 = 120$$

A deflator value of 120 indicates that the general price level has increased by exactly 20% relative to the base year.

**Quick Tip:** Keep your variables in the correct position: Nominal GDP (current prices) always sits in the numerator, and Real GDP (inflation-adjusted constant prices) always sits in the denominator.

---

**10. The pre-independence agrarian economy of India under British colonial rule was characterized by stagnation, largely due to the introduction of which land tenure system in Eastern India?**

- (A) The Zamindari (Permanent Settlement) System
- (B) The Mahalwari System
- (C) The Ryotwari System
- (D) The Cooperative Farming Directive

**Correct Answer:** (A) The Zamindari (Permanent Settlement) System

**Solution:**

**Concept:** During British rule in India, different land revenue systems were introduced to collect taxes from agriculture. These systems greatly affected the condition of farmers and agricultural productivity.

The major land revenue systems were:

- Zamindari System
- Ryotwari System
- Mahalwari System

Among these, the Zamindari System became a major cause of agricultural stagnation in Eastern India.

**Step 1: Understand the Zamindari System.**

The Zamindari System, also known as the Permanent Settlement, was introduced by Lord Cornwallis in 1793 mainly in Bengal, Bihar, and parts of Eastern India.

Under this system:

- Zamindars were recognized as landowners.
- Farmers worked as tenants under the zamindars.
- Zamindars collected revenue from cultivators and paid a fixed amount to the British government.

**Step 2: Analyze the reason for agricultural stagnation.**

The zamindars were mainly interested in collecting maximum rent from farmers rather than improving agriculture.

As a result:

- Farmers faced exploitation and high rents.
- Little investment was made in irrigation or technology.
- Agricultural productivity remained very low.
- Peasants lived in poor economic conditions.

Therefore, the agrarian economy remained stagnant during British rule.

**Step 3: Evaluate the options.**

- (A) Correct — The Zamindari System was mainly responsible for agrarian stagnation in Eastern India.
- (B) Incorrect — Mahalwari System was introduced mainly in North-Western India.
- (C) Incorrect — Ryotwari System operated mainly in Madras and Bombay Presidencies.

(D) Incorrect — Cooperative farming was not a British colonial land tenure system.

Hence, the correct answer is:

(A)

**Quick Tip:** Remember the regional distribution of land revenue systems:

- Zamindari → Bengal and Eastern India
- Ryotwari → Madras and Bombay
- Mahalwari → North-Western Provinces