CUET 2026 May 21 Shift 2 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. If the price elasticity of demand for a commodity is greater than 1, then a fall in price will lead to:

(A) Fall in total expenditure

(B) No change in total expenditure

(C) Rise in total expenditure

(D) Zero expenditure

Correct Answer: (C) Rise in total expenditure

Solution:

Concept: Price Elasticity of Demand measures the responsiveness of quantity demanded due to a change in price.

$$E_d = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

When elasticity is greater than 1, demand is said to be elastic.

Step 1: Understanding elastic demand.

In elastic demand, quantity demanded changes proportionately more than the change in price.

Step 2: Effect of fall in price.

When price falls:

- Quantity demanded rises sharply.

- Total expenditure of consumers increases.

Step 3: Applying the concept.

Since demand is elastic ($E_d > 1$), the increase in quantity demanded outweighs the fall in price.

Step 4: Final conclusion.

Hence, total expenditure rises.

$$\boxed{\text{(C) Rise in total expenditure}}$$

Quick Tip: Elastic Demand:

$$\text{Price} \downarrow \Rightarrow \text{Total Expenditure} \uparrow$$

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2. Which of the following situations indicates "excess demand" in an economy?

(A) Aggregate demand equals aggregate supply

(B) Aggregate demand is less than aggregate supply

(C) Aggregate demand exceeds aggregate supply at full employment

(D) Aggregate supply exceeds planned expenditure

Correct Answer: (C) Aggregate demand exceeds aggregate supply at full employment

Solution:

Concept: Excess demand refers to a situation where aggregate demand exceeds aggregate supply at the full employment level of output.

Step 1: Understanding excess demand.

At full employment, resources are already fully utilized.

Step 2: Effect of higher aggregate demand.

If aggregate demand rises beyond aggregate supply:

- Prices rise.
- Inflationary gap emerges.
- Economy faces demand-pull inflation.

Step 3: Evaluating options.

(A) Represents equilibrium.

(B) Indicates deficient demand.

(C) Correct definition of excess demand.

(D) Indicates underemployment situation.

Step 4: Final conclusion.

Therefore:

$$\boxed{\text{(C) Aggregate demand exceeds aggregate supply at full employment}}$$

Quick Tip: Excess Demand $\Rightarrow$ Inflationary Gap.

Deficient Demand $\Rightarrow$ Deflationary Gap.

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3. In national income accounting, depreciation is deducted from gross domestic product to obtain:

(A) Net Domestic Product

(B) Gross National Product

(C) Personal Income

(D) National Disposable Income

Correct Answer: (A) Net Domestic Product

Solution:

Concept: Depreciation refers to the loss in value of fixed capital assets due to wear and tear.

Step 1: Formula relation.

$$\text{NDP} = \text{GDP} - \text{Depreciation}$$

Step 2: Understanding GDP and NDP.

GDP measures total production within domestic territory.

NDP adjusts GDP after accounting for depreciation.

Step 3: Evaluating options.

(A) Correct because depreciation is deducted from GDP.

(B) GNP includes net factor income from abroad.

(C) Personal income is different from production measures.

(D) Disposable income refers to income available for spending.

Step 4: Final conclusion.

Hence:

$$\boxed{\text{(A) Net Domestic Product}}$$

Quick Tip: Gross → Includes depreciation.

Net → Excludes depreciation.

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4. The central problem of an economy arises mainly because:

(A) Human wants are limited

(B) Resources are unlimited

(C) Resources are scarce relative to wants

(D) Government controls all resources

Correct Answer: (C) Resources are scarce relative to wants

Solution:

Concept: Economics studies how scarce resources are allocated among alternative uses.

Step 1: Understanding scarcity.

Human wants are unlimited, but resources such as land, labour, and capital are limited.

Step 2: Implication of scarcity.

Because resources are scarce:

- Choices must be made.
- Priorities are necessary.
- Opportunity cost arises.

Step 3: Evaluating options.

(A) Incorrect because wants are unlimited.

(B) Incorrect because resources are scarce.

(C) Correct statement explaining economic problem.

(D) Government control is unrelated to the basic problem.

Step 4: Final conclusion.

Thus:

$$\boxed{\text{(C) Resources are scarce relative to wants}}$$

Quick Tip: Unlimited Wants + Limited Resources = Central Problem of Economics.

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5. If Marginal Propensity to Consume (MPC) is 0.8, the value of investment multiplier will be:

(A) 2

(B) 4

(C) 5

(D) 10

Correct Answer: (C) 5

Solution:

Concept: Investment multiplier shows how much national income changes due to a change in investment.

$$k = \frac{1}{1 - MPC}$$

Step 1: Substituting the value of MPC.

Given:

$$MPC = 0.8$$

$$k = \frac{1}{1 - 0.8}$$

Step 2: Simplifying the expression.

$$k = \frac{1}{0.2}$$

$$k = 5$$

Step 3: Final conclusion.

Therefore:

$$\boxed{\text{(C) 5}}$$

Quick Tip: Higher MPC $\Rightarrow$ Higher Multiplier.

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6. Which of the following is a direct tax?

(A) GST

(B) Customs Duty

(C) Income Tax

(D) Excise Duty

Correct Answer: (C) Income Tax

Solution:

Concept: Taxes are classified into:

- Direct Taxes
- Indirect Taxes

Step 1: Understanding direct tax.

Direct tax is imposed directly on income or wealth and cannot be shifted to another person.

Step 2: Examples of direct taxes.

Income tax and corporate tax are direct taxes.

Step 3: Evaluating options.

(A) GST is indirect tax.

(B) Customs duty is indirect tax.

(C) Income tax is direct tax.

(D) Excise duty is indirect tax.

Step 4: Final conclusion.

Hence:

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

Quick Tip: Direct tax burden cannot be shifted to others.

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7. When average revenue equals marginal revenue at all levels of output, the market structure is:

(A) Monopoly

(B) Oligopoly

(C) Perfect Competition

(D) Monopolistic Competition

Correct Answer: (C) Perfect Competition

Solution:

Concept: Under perfect competition:

$$AR = MR = Price$$

Step 1: Understanding perfect competition.

A perfectly competitive firm is a price taker.

Step 2: Revenue behavior.

Since the firm sells each additional unit at the same price:

$$MR = AR$$

Step 3: Evaluating options.

(A) Monopoly has downward sloping AR and MR.

(B) Oligopoly does not satisfy AR = MR always.

(C) Perfect competition satisfies AR = MR.

(D) Monopolistic competition also has downward sloping AR.

Step 4: Final conclusion.

Therefore:

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

Quick Tip: Perfect Competition:

$$P = AR = MR$$

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8. Which of the following causes a rightward shift in the demand curve of a normal good?

(A) Fall in consumer income

(B) Rise in price of substitute good

(C) Rise in price of complementary good

(D) Increase in production cost

Correct Answer: (B) Rise in price of substitute good

Solution:

Concept: Demand curve shifts due to changes in determinants other than the commodity's own price.

Step 1: Understanding substitute goods.

Substitute goods can replace each other, such as tea and coffee.

Step 2: Effect of rise in substitute price.

If the price of substitute good rises:

- Consumers switch to the given good.
- Demand for the given good increases.
- Demand curve shifts rightward.

Step 3: Evaluating options.

(A) Fall in income reduces demand for normal goods.

(B) Correct because substitute becomes expensive.

(C) Complement price rise decreases demand.

(D) Production cost affects supply, not demand.

Step 4: Final conclusion.

Hence:

$$\boxed{\text{(B) Rise in price of substitute good}}$$

Quick Tip: Price of Substitute $\uparrow \Rightarrow$ Demand for given good $\uparrow$

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9. If an economy is operating below full employment equilibrium, the government should:

(A) Increase taxes and reduce expenditure

(B) Reduce money supply

(C) Increase government expenditure

(D) Increase repo rate

Correct Answer: (C) Increase government expenditure

Solution:

Concept: Below full employment equilibrium indicates deficient demand in the economy.

Step 1: Understanding deficient demand.

Deficient demand causes:

- Unemployment
- Lower production
- Idle resources

Step 2: Government corrective measures.

To increase aggregate demand, government should:

- Increase expenditure
- Reduce taxes
- Encourage investment

Step 3: Evaluating options.

(A) Would reduce demand further.

(B) Would contract economy.

(C) Correct expansionary fiscal policy.

(D) Higher repo rate reduces borrowing.

Step 4: Final conclusion.

Therefore:

$$\boxed{\text{(C) Increase government expenditure}}$$

Quick Tip: Deficient Demand $\Rightarrow$ Expansionary Fiscal Policy.

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10. Which of the following correctly explains "opportunity cost"?

(A) Monetary cost of production

(B) Cost incurred on raw materials

(C) Value of next best alternative foregone

(D) Cost of fixed capital

Correct Answer: (C) Value of next best alternative foregone

Solution:

Concept: Opportunity cost arises because resources are scarce and have alternative uses.

Step 1: Understanding opportunity cost.

When one choice is made, another alternative is sacrificed.

Step 2: Definition.

Opportunity cost is:

$$\text{Value of next best alternative foregone}$$

Step 3: Example.

Suppose a student spends time preparing for Economics instead of Mathematics. The marks that could have been scored in Mathematics represent opportunity cost.

Step 4: Evaluating options.

(A) Refers to accounting cost.

(B) Specific production expense only.

(C) Correct definition.

(D) Refers to capital expenditure.

Step 5: Final conclusion.

Hence:

$$\boxed{\text{(C) Value of next best alternative foregone}}$$

Quick Tip: Every choice has a sacrifice attached to it — that sacrifice is opportunity cost.
