CUET 2026 May 23 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. Identify the incorrect option related to a perfectly competitive market:

1. A firm's average revenue is equal to the market price.
2. The price line represents the relationship between market price and the firm's output level.
3. Marginal revenue is equal to the market price.
4. The firm's total revenue curve is a horizontal straight line.

(A) Statement 1
(B) Statement 2
(C) Statement 3
(D) Statement 4

Correct Answer: (D) Statement 4

Solution:

Concept: In a perfectly competitive market:

$$\text{Price} = \text{Average Revenue} = \text{Marginal Revenue}$$

A firm is a price taker and sells its product at the market price.

Step 1: Examine Statement 1.

Average Revenue:

$$AR = \frac{TR}{Q}$$

Under perfect competition:

$$AR = \text{Price}$$

Therefore:

Statement 1 is correct.

Step 2: Examine Statement 2.

The price line shows the relationship between:

Market Price and Output

In perfect competition, it is a horizontal line because price remains constant.

Therefore:

Statement 2 is correct.

Step 3: Examine Statement 3.

Marginal Revenue under perfect competition is:

$$MR = \text{Price}$$

Therefore:

Statement 3 is correct.

Step 4: Examine Statement 4.

Total Revenue:

$$TR = P \times Q$$

As output increases, total revenue also increases.

Hence, the total revenue curve is:

an upward sloping straight line

and not a horizontal straight line.

Therefore:

Statement 4 is incorrect.

Thus, the incorrect option is:

Statement 4

Quick Tip: Remember:

- In perfect competition:

$$P = AR = MR$$

- Price line:

Horizontal

- Total Revenue curve:

Upward sloping straight line

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2. Match the following:

List-I		List-II	
(A)	Leftward shift in both demand and supply curves	**(I)**	Equilibrium price remains unchanged
(B)	Rightward shift in both demand and supply curves	**(II)**	Equilibrium quantity increases
(C)	Equal percentage increase in both demand and supply curves	**(III)**	Equilibrium quantity decreases
(D)	Supply curve shifts right and demand curve shifts left	**(IV)**	Equilibrium quantity remains unchanged

Choose the correct answer from the options given below:

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

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

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

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

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

Solution:

Concept: Equilibrium price and quantity in a market are determined by the interaction of demand and supply.

A shift in demand or supply curves changes equilibrium conditions.

Step 1: Match (A): Leftward shift in both demand and supply curves.

A leftward shift means:

- Demand decreases
- Supply decreases

This generally reduces equilibrium quantity.

Thus:

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

Step 2: Match (B): Rightward shift in both demand and supply curves.

A rightward shift means:

- Demand increases
- Supply increases

This increases equilibrium quantity.

Thus:

$$(B) \rightarrow (II)$$

Step 3: Match (C): Equal percentage increase in demand and supply curves.

When both demand and supply increase proportionately:

Equilibrium price remains unchanged

Thus:

$$(C) \rightarrow (I)$$

Step 4: Match (D): Supply shifts right and demand shifts left.

An increase in supply and decrease in demand may offset each other, causing equilibrium quantity to remain unchanged.

Thus:

$$(D) \rightarrow (IV)$$

Hence, the correct matching is:

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

Therefore,

$$\boxed{(A)-(III),\ (B)-(II),\ (C)-(I),\ (D)-(IV)}$$

Quick Tip: Remember:

- Demand & Supply both decrease → Quantity decreases
- Demand & Supply both increase → Quantity increases
- Equal proportional shifts may keep price unchanged

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3. Arrange the following statements in the context of calculating Gross National Product (GNP) at Market Price:

(A) Add Net Factor Income from Abroad

(B) Calculate value of output

(C) Determine total sales in the country

(D) Deduct intermediate consumption

(A) BDCA

(B) DCBA

(C) BCDA

(D) ABCD

Correct Answer: (C) BCDA

Solution:

Concept: Gross National Product (GNP) at Market Price is calculated by first determining domestic production and then adding net factor income from abroad.
The sequence follows the value added method.

Step 1: Calculate value of output.
First, we estimate:

Value of Output

This includes the total value of goods and services produced.
Thus:

(B) comes first

Step 2: Determine total sales in the country.
Next, total sales or gross value generated in the economy is determined.
Thus:

(C) comes after (B)

Step 3: Deduct intermediate consumption.
To avoid double counting:

Intermediate Consumption

is deducted to obtain value added.
Thus:

(D) comes next

Step 4: Add Net Factor Income from Abroad.
Finally:

Net Factor Income from Abroad (NFIA)

is added to convert domestic product into national product.

Thus:

$$(A) \text{ comes last}$$

Hence, the correct order is:

$$B \rightarrow C \rightarrow D \rightarrow A$$

Therefore,

$$\boxed{BCDA}$$

Quick Tip: Remember:

- Value Added:

$$\text{Output} - \text{Intermediate Consumption}$$

- GNP at Market Price:

$$GDP + \text{Net Factor Income from Abroad}$$

- NFIA converts:

$$\text{Domestic Product} \rightarrow \text{National Product}$$

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4. The price of a bag increased from $8 to $12 in the US and from Rs. 400 to Rs. 480 in India. What is the effect on the dollar in terms of exchange rate?

1. Revaluated
2. Appreciated
3. Depreciated
4. Devaluated

(A) Revaluated
(B) Appreciated
(C) Depreciated
(D) Devaluated

Correct Answer: (C) Depreciated

Solution:

Concept: Exchange rate changes can be understood using the Purchasing Power Parity (PPP) concept.
If prices rise faster in one country compared to another, the currency of that country tends to lose purchasing power and depreciate.

Step 1: Calculate percentage increase in price in the US.
Initial price:

$$\$8$$

New price:

$$\$12$$

Increase:

$$12 - 8 = 4$$

Percentage increase:

$$\frac{4}{8} \times 100 = 50\%$$

Step 2: Calculate percentage increase in price in India.
Initial price:

$$Rs.400$$

New price:

$$Rs.480$$

Increase:

$$480 - 400 = 80$$

Percentage increase:

$$\frac{80}{400} \times 100 = 20\%$$

Step 3: Compare inflation rates.
Prices increased:

$$50\% \text{ in the US}$$

and

$$20\% \text{ in India}$$

Thus, inflation is higher in the US.

Higher inflation reduces the purchasing power of the dollar.

Therefore:

Dollar depreciates

Hence, the correct answer is:

Depreciated

Quick Tip: Remember:

- Higher inflation → Currency loses value
- Lower purchasing power → Currency depreciates
- Appreciation means increase in currency value

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5. Choose the correct statements regarding the exchange rate system:

(A) In a floating exchange rate system, the exchange rate is determined by market forces of demand and supply.

(B) In a fixed exchange rate system, making the domestic currency cheaper is called devaluation.

(C) An increase in the exchange rate implies that the price of foreign currency has increased, which is called depreciation.

(D) Exchange rates between two currencies adjust to reflect differences in price levels in the two countries.

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

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

Solution:

Concept: Exchange rate systems determine how the value of one currency is measured against another currency in international trade and finance.

Step 1: Examine Statement (A).

In a:

Floating Exchange Rate System

exchange rates are determined by:

Demand and Supply forces

Thus:

(A) is correct

Step 2: Examine Statement (B).

Under a:

Fixed Exchange Rate System

if the government officially reduces the value of domestic currency, it is called:

Devaluation

Thus:

(B) is correct

Step 3: Examine Statement (C).

If the exchange rate rises:

More domestic currency is required to buy foreign currency

This means domestic currency loses value, which is called:

Depreciation

Thus:

$$(C) \text{ is correct}$$

Step 4: Examine Statement (D).

According to:

Purchasing Power Parity (PPP)

exchange rates adjust based on:

Differences in price levels between countries

Thus:

$$(D) \text{ is correct}$$

Hence, all statements are correct.

Therefore,

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

Quick Tip: Remember:

- Floating exchange rate → Market determined
- Fixed exchange rate → Government intervention
- Devaluation → Official reduction in currency value
- Depreciation → Market-driven fall in currency value

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6. If Rs. 150 is required to buy 2 dollars instead of Rs. 100 earlier, then:

(A) Domestic currency has depreciated

(B) Domestic currency has appreciated

(C) The rupee value of the import bill will increase

(D) Selling foreign exchange from its reserves by the Reserve Bank of India

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

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

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

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

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

Solution:

Concept: When more domestic currency is needed to buy the same amount of foreign currency, the domestic currency is said to depreciate.
Currency depreciation also increases the cost of imports.

Step 1: Compare the exchange rates.
Earlier:

$$2 \text{ dollars} = Rs.100$$

Thus:

$$1 \text{ dollar} = Rs.50$$

Now:

$$2 \text{ dollars} = Rs.150$$

Thus:

$$1 \text{ dollar} = Rs.75$$

Step 2: Identify the effect on domestic currency.
Previously:

$$Rs.50$$

was needed for one dollar.
Now:

$$Rs.75$$

is needed for one dollar.
Hence, the rupee has lost value.
Therefore:

Domestic currency has depreciated

So:

(A) is correct

Step 3: Examine the import bill effect.

When the domestic currency depreciates:

Imports become more expensive

Thus:

(C) is correct

Step 4: Examine RBI intervention.

To control excessive depreciation, the:

Reserve Bank of India

may sell foreign exchange reserves in the market.

Thus:

(D) is correct

Step 5: Examine Statement (B).

Appreciation means:

Domestic currency gains value

But here rupee lost value.

Thus:

(B) is incorrect

Hence, the correct statements are:

(A), (C) and (D)

Therefore,

$\boxed{(A),\ (C) \text{ and } (D) \text{ only}}$

Quick Tip: Remember:

- More rupees needed per dollar → Rupee depreciates
- Depreciation → Imports become costly
- RBI may sell foreign exchange reserves to stabilize currency

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7. If the marginal propensity to consume (MPC) is 0.6, find the value of the tax multiplier.

(A) 0.25

(B) −0.25

(C) 1.5

(D) −1.5

Correct Answer: (D) −1.5

Solution:

Concept: The tax multiplier measures the change in national income resulting from a change in taxes.

The formula for the tax multiplier is:

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Step 1: Substitute the given value of MPC.

Given:

$$MPC = 0.6$$

Using the formula:

$$k_T = -\frac{0.6}{1-0.6}$$

Step 2: Simplify the denominator.

$$1-0.6 = 0.4$$

Therefore:

$$k_T = -\frac{0.6}{0.4}$$

Step 3: Calculate the value.

$$k_T = -1.5$$

Hence, the value of the tax multiplier is:

$$\boxed{-1.5}$$

Quick Tip: Remember:

- Tax Multiplier:

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

- Tax multiplier is always negative because:

Increase in tax → Decrease in income

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8. Arrange the following statements in the correct chronological order with respect to open market operations:

(A) Payment for bonds increases total reserves in the economy

(B) RBI buys government bonds from the market

(C) RBI sells bonds when there is excess money supply

(D) Higher reserves increase money supply in the economy

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

Correct Answer: (C) (B), (A), (D), (C)

Solution:

Concept: Open Market Operations (OMO) are monetary policy tools used by the Reserve Bank

of India (RBI) to regulate money supply through buying and selling government securities.

Step 1: Identify the first action by RBI.

The process begins when:

RBI buys government bonds from the market

Thus:

(B) comes first

Step 2: Understand the effect of bond purchase.

When RBI purchases bonds:

Payment is made to sellers

This increases:

Total reserves in the banking system

Thus:

(A) comes next

Step 3: Effect of higher reserves.

Higher reserves enable banks to:

- Give more loans
- Create more credit

Hence:

Money supply increases

Thus:

(D) follows

Step 4: Control excess money supply.

If money supply becomes excessive:

RBI sells government bonds

This absorbs liquidity from the economy.

Thus:

$$(C) \text{ comes last}$$

Therefore, the correct chronological order is:

$$(B) \rightarrow (A) \rightarrow (D) \rightarrow (C)$$

Hence,

$$\boxed{(B),\ (A),\ (D),\ (C)}$$

Quick Tip: Remember:

- RBI buys bonds → Money supply increases
- RBI sells bonds → Money supply decreases
- Open Market Operations regulate liquidity in the economy

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9. What is the shape of the Average Fixed Cost (AFC) curve?

(A) Upward sloping

(B) Rectangular hyperbola

(C) Vertical

(D) Horizontal

Correct Answer: (B) Rectangular hyperbola

Solution:

Concept: Average Fixed Cost (AFC) is the fixed cost per unit of output.

It is calculated as:

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where:

$$TFC = \text{Total Fixed Cost}$$

and

$$Q = \text{Quantity of output}$$

Step 1: Understand the behavior of fixed cost.

Fixed cost remains constant irrespective of output.

Thus:

$$TFC = \text{Constant}$$

Step 2: Analyze what happens when output increases.

As:

$$Q \uparrow$$

Average fixed cost:

$$AFC = \frac{TFC}{Q}$$

keeps decreasing.

However, it never becomes zero.

Step 3: Identify the shape of the curve.

The AFC curve:

- Slopes downward continuously
- Approaches both axes but never touches them

Such a curve is called a:

Rectangular Hyperbola

Therefore, the correct answer is:

Rectangular hyperbola

Quick Tip: Remember:

- AFC decreases continuously as output increases
- Shape of AFC curve:

  Rectangular Hyperbola

- Fixed cost spreads over more units of output

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10. The decision of whether to produce more consumption goods or more investment goods (to boost future production and consumption) relates to which central problem of an economy?

(A) Why are these goods produced?

(B) For whom are these goods produced?

(C) How are these goods produced?

(D) What to produce and in what quantities?

Correct Answer: (D) What to produce and in what quantities?

Solution:

Concept: Every economy faces the problem of scarcity of resources. Therefore, it must decide:

- Which goods should be produced
- How much of each good should be produced

This is known as the central problem of:

What to produce and in what quantities

Step 1: Understand the issue mentioned in the question.

The question asks whether an economy should produce:

- More consumption goods, or
- More investment goods

This is a choice regarding:

Allocation of resources among different goods

Step 2: Identify the related central problem.

Choosing between consumption goods and capital goods directly concerns:

What goods should be produced and in what quantities

Thus:

(D) is correct

Step 3: Eliminate the incorrect options.

- **For whom to produce** deals with distribution of goods among people.
- **How to produce** concerns production techniques.
- **Why are these goods produced** is not considered a central economic problem.

Therefore, the correct answer is:

What to produce and in what quantities

Quick Tip: Remember:

- Central problems of an economy:
  - What to produce?
  - How to produce?
  - For whom to produce?
- Choice between consumption and capital goods:

What to produce problem