

CUET-UG Economics Sample Paper-13

Duration: 1 Hour

Maximum Marks: 250

Instructions

- This paper contains a total of 50 Multiple Choice Questions.
- Each correct answer carries **+5 marks**.
- Each incorrect answer carries **-1 mark**.
- No negative marking for unattempted questions.

- Q1.** Which of the following is a reason for the rightward shift in the PPC?
- (A) Use of inefficient technology
(B) Destruction of resources due to a natural calamity
(C) Skill India Mission increasing labor productivity
(D) High unemployment rate in the country
- Q2.** A consumer is in equilibrium consuming two goods X and Y. If the price of Good X falls, what must the consumer do to reach a new equilibrium?
- (A) Increase consumption of Good Y
(B) Decrease consumption of Good X
(C) Increase consumption of Good X until $MU_x/P_x = MU_y/P_y$
(D) Decrease consumption of both goods
- Q3.** When the price of a good rises from 20 to 30, the quantity demanded falls by 20%. The price elasticity of demand is:
- (A) 0.4
(B) 0.5
(C) 0.8
(D) 1.2



- Q4.** If the Marginal Rate of Substitution (MRS_{xy}) is constant, the Indifference Curve will be:
- (A) Convex to the origin
 - (B) A straight line
 - (C) Concave to the origin
 - (D) L-shaped
- Q5.** Which of the following statements is true regarding the relationship between TP and MP?
- (A) When TP is maximum, MP is also maximum
 - (B) When TP decreases, MP becomes negative
 - (C) When MP increases, TP increases at a diminishing rate
 - (D) When MP is zero, TP is at its minimum
- Q6.** The vertical distance between Total Cost (TC) and Total Variable Cost (TVC) is:
- (A) Marginal Cost
 - (B) Average Fixed Cost
 - (C) Total Fixed Cost
 - (D) Average Variable Cost
- Q7.** In the short run, a firm continues to produce even if it is incurring losses, provided:
- (A) $P = MC$
 - (B) $P \geq \text{Minimum AVC}$
 - (C) $P \geq \text{Minimum AC}$
 - (D) MC is rising
- Q8.** A rectangular hyperbola is the shape of:
- (A) TFC curve



- (B) AFC curve
- (C) AVC curve
- (D) MC curve

Q9. In a perfectly competitive market, if $AR > MC$ at the current level of output, the firm should:

- (A) Decrease production
- (B) Increase production
- (C) Maintain the same level
- (D) Shut down immediately

Q10. A firm in perfect competition is a "Price Taker." This is due to:

- (A) Large number of buyers and sellers
- (B) Homogeneous product
- (C) Perfect knowledge
- (D) Both (a) and (b)

Q11. What happens to the supply curve of a product when the price of a substitute in production increases?

- (A) Shift to the right
- (B) Shift to the left
- (C) Upward movement along the curve
- (D) Downward movement along the curve

Q12. If the government imposes a "Price Floor" above the equilibrium price, it will lead to:

- (A) Excess Demand
- (B) Excess Supply
- (C) No change in the market



(D) Black marketing

Q13. Market equilibrium price will definitely decrease if:

(A) Demand increases and supply decreases

(B) Demand decreases and supply increases

(C) Both demand and supply increase

(D) Both demand and supply decrease

Q14. "Price Ceiling" is generally applied on:

(A) Luxury goods to prevent overconsumption

(B) Essential goods to protect the interest of consumers

(C) Agricultural goods to protect farmers

(D) Capital goods to boost industry

Q15. In a situation of "Excess Demand," the price of a commodity tends to:

(A) Remain stable

(B) Decrease

(C) Increase

(D) Drop to zero

Q16. Which of the following is an example of a "Stock" variable?

(A) National Income

(B) Wealth

(C) Exports

(D) Consumption Expenditure

Q17. If NDP_{FC} is ₹ 2,000 crore and Net Factor Income from Abroad (NFIA) is (-) ₹ 50 crore, then NNP_{FC} will be:

(A) ₹ 2,050 crore



- (B) ₹ 1,950 crore
- (C) ₹ 2,000 crore
- (D) ₹ 2,100 crore

Q18. Domestic Territory of a country includes:

- (A) Foreign embassies located in India
- (B) Indian embassies located abroad
- (C) Offices of International Organizations (WHO, UN) in India
- (D) Branches of foreign banks in India

Q19. Real GDP is considered a better indicator of economic growth than Nominal GDP because:

- (A) It is measured at current prices
- (B) It accounts for changes in the price level (inflation)
- (C) It includes non-monetary transactions
- (D) It is always higher than Nominal GDP

Q20. The "Value Added" method of calculating National Income is also known as:

- (A) Expenditure Method
- (B) Income Method
- (C) Product Method
- (D) Disposal Method

Q21. The value of Money Multiplier _____ with an increase in the Cash Reserve Ratio (CRR).

- (A) Increases
- (B) Decreases
- (C) Remains constant
- (D) Becomes zero



- Q22.** Which of the following is a "Qualitative" tool of the Central Bank?
- (A) Bank Rate
 - (B) Open Market Operations
 - (C) Margin Requirements
 - (D) Variable Reserve Ratio
- Q23.** "Lender of Last Resort" refers to the function of the Central Bank where it provides liquidity to:
- (A) The general public
 - (B) The Central Government
 - (C) Commercial Banks in times of financial crisis
 - (D) Foreign investors
- Q24.** If the Marginal Propensity to Consume (MPC) is 0.75, the value of the Investment Multiplier (k) is:
- (A) 3
 - (B) 4
 - (C) 5
 - (D) 2
- Q25.** In a two-sector economy, Aggregate Demand (AD) is the sum of:
- (A) $C + I$
 - (B) $C + S$
 - (C) $I + G$
 - (D) $C + I + G$
- Q26.** To correct "Deficient Demand," the Central Bank should:
- (A) Increase the Repo Rate
 - (B) Sell government securities in the Open Market



- (C) Decrease the Bank Rate
- (D) Increase the SLR

Q27. At the "Break-even point":

- (A) Consumption is equal to Investment
- (B) Savings are equal to Income
- (C) Consumption is equal to Income
- (D) Savings are positive

Q28. Which of the following is a "Capital Receipt" in the Government Budget?

- (A) Income Tax
- (B) Interest Receipts
- (C) Disinvestment
- (D) Dividends from PSUs

Q29. Fiscal Deficit is equivalent to:

- (A) Total Expenditure - Total Receipts
- (B) Total Borrowings of the Government
- (C) Revenue Expenditure - Revenue Receipts
- (D) Interest Payments

Q30. A "Primary Deficit" of zero implies that:

- (A) The government has no interest payments
- (B) Fiscal Deficit is equal to interest payments
- (C) Revenue Deficit is zero
- (D) Total expenditure is equal to total revenue

Q31. Balance of Trade (BOT) includes:

- (A) Export and Import of services



- (B) Export and Import of goods (Visible items)
- (C) Unilateral transfers
- (D) Capital transfers

Q32. If ₹ 80 = 1 USD changes to ₹ 85 = 1 USD, it is a case of:

- (A) Appreciation of Indian Rupee
- (B) Depreciation of Indian Rupee
- (C) Revaluation of Indian Rupee
- (D) No change in value

Q33. "Autonomous Transactions" in the Balance of Payments are those that:

- (A) Are done to cover the gap in BOP
- (B) Take place due to profit motive
- (C) Are determined by the Central Bank
- (D) Are always equal to zero

Q34. A "Dirty Floating" exchange rate system is one where:

- (A) The rate is fixed by the IMF
- (B) The rate is determined by market forces with occasional Central Bank intervention
- (C) The rate is fixed to the price of gold
- (D) The rate never changes

Q35. The main objective of the Zamindari System introduced by the British was:

- (A) To improve agricultural productivity
- (B) To collect maximum land revenue for the British
- (C) To provide incentives to the tillers
- (D) To modernize Indian villages



- Q36.** Which industry was adversely affected due to the partition of India in 1947?
- (A) Iron and Steel
 - (B) Jute and Cotton
 - (C) Sugar
 - (D) Information Technology
- Q37.** The "Great Leap Forward" campaign in China (1958) aimed at:
- (A) Modernizing agriculture
 - (B) Industrializing the country on a massive scale
 - (C) Reducing population growth
 - (D) Expanding the service sector
- Q38.** The "Karve Committee" (1955) was set up for:
- (A) Land reforms
 - (B) Small-scale industries
 - (C) Financial sector reforms
 - (D) Tax reforms
- Q39.** As a result of the Green Revolution, India achieved:
- (A) Self-sufficiency in food grains
 - (B) Decrease in regional disparities
 - (C) Reduction in the use of fertilizers
 - (D) Complete elimination of poverty
- Q40.** Which of the following was the immediate reason for the Economic Reforms of 1991?
- (A) High rate of inflation
 - (B) Foreign exchange crisis
 - (C) Poor performance of PSUs



(D) All of the above

Q41. "Navratnas" refers to:

- (A) High-performing Private companies
- (B) Nine specific Public Sector Enterprises given greater autonomy
- (C) Financial reforms in 1991
- (D) Trade agreements with neighboring countries

Q42. Globalisation does NOT involve:

- (A) Reduction in tariff barriers
- (B) Free flow of capital
- (C) Increase in import licensing
- (D) Outward orientation of the economy

Q43. Human Capital Formation includes expenditure on:

- (A) Education and Health
- (B) Migration and Information
- (C) On-the-job training
- (D) All of the above

Q44. Which of the following is a "Non-Institutional" source of rural credit?

- (A) Regional Rural Banks
- (B) Moneylenders
- (C) Self Help Groups (SHGs)
- (D) NABARD

Q45. Organic farming is considered beneficial because:

- (A) It uses expensive chemical fertilizers
- (B) It is eco-friendly and sustainable



- (C) It requires less labor
- (D) It provides instant high yields

Q46. "Casualisation of workforce" refers to:

- (A) Movement of workers from formal to informal sector
- (B) Increase in the proportion of casual wage laborers in the total workforce
- (C) Decrease in unemployment
- (D) Increase in self-employment

Q47. The "Appiko Movement" was started in which state of India?

- (A) Uttarakhand
- (B) Karnataka
- (C) Kerala
- (D) Rajasthan

Q48. Which country has the highest density of population among India, China, and Pakistan?

- (A) India
- (B) China
- (C) Pakistan
- (D) They are all equal

Q49. India and Pakistan adopted their First Five Year Plans in:

- (A) 1951 and 1953
- (B) 1951 and 1956
- (C) 1947 and 1948
- (D) 1950 and 1955

Q50. The "Special Economic Zones" (SEZ) policy was first introduced by which country to attract FDI?



- (A) India
- (B) Pakistan
- (C) China
- (D) Sri Lanka



Detailed Solutions**Q1.****Solution**

Concept: The Production Possibility Curve (PPC) represents the maximum possible combinations of two goods that an economy can produce given its resources and technology. A rightward (outward) shift in the PPC indicates economic growth, which occurs due to an increase in resources, improvement in technology, or enhancement in productivity.

Solution: Let us analyze each option:

- (a) Use of inefficient technology → This reduces productivity and shifts the PPC leftward, not rightward.
- (b) Destruction of resources due to a natural calamity → This decreases available resources, leading to a leftward shift of the PPC.
- (c) Skill India Mission increasing labor productivity → This improves the efficiency and productivity of labor, enabling the economy to produce more output with the same resources. Hence, it causes a rightward shift of the PPC.
- (d) High unemployment rate in the country → This indicates underutilization of resources and does not shift the PPC; it represents a point inside the curve.

Final Answer: Skill India Mission increasing labor productivity

Answer: (C)



Q2.

Solution

Concept: A consumer is in equilibrium when the marginal utility per unit of money spent on each good is equal, i.e.,

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

If the price of a good falls, the marginal utility per rupee spent on that good rises, disturbing equilibrium.

Solution: When the price of Good X falls, $P_x \downarrow$, so:

$$\frac{MU_x}{P_x} \uparrow$$

Now,

$$\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$$

To restore equilibrium, the consumer must increase consumption of Good X. As more units of X are consumed, its marginal utility (MU_x) diminishes due to the law of diminishing marginal utility. This continues until:

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

Final Answer: Increase consumption of Good X until $MU_x/P_x = MU_y/P_y$

Answer: (C)



Q3.

Solution

Concept: Price Elasticity of Demand (PED) measures the responsiveness of quantity demanded to a change in price. It is calculated as:

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

Solution: Given: Initial Price (P_1) = 20, New Price (P_2) = 30

$$\% \text{ change in price} = \frac{30 - 20}{20} \times 100 = 50\%$$

Also given:

$$\% \text{ change in quantity demanded} = -20\%$$

Now,

$$E_d = \frac{-20\%}{50\%} = -0.4$$

Ignoring the negative sign (as elasticity is taken in absolute terms):

$$E_d = 0.4$$

Final Answer: 0.4

Answer: (A)

Q4.

Solution

Concept: The Marginal Rate of Substitution (MRS_{xy}) represents the rate at which a consumer is willing to substitute Good X for Good Y while maintaining the same level of satisfaction. It is given by:

$$MRS_{xy} = \frac{MU_x}{MU_y}$$

Typically, due to the law of diminishing marginal rate of substitution, MRS_{xy} decreases as more of X is consumed, making the indifference curve convex to the origin.

Solution: If MRS_{xy} is constant, it means the consumer is willing to substitute between the two goods at a fixed rate, regardless of how much of each good is consumed.

This situation implies: - Marginal utilities of the goods maintain a constant ratio. - There is no diminishing marginal rate of substitution.

Graphically, this results in a **straight-line indifference curve**, which indicates perfect substitutability between the two goods.

Thus: - Convex curve → diminishing MRS (not constant) - Concave curve → increasing MRS (not typical) - L-shaped curve → perfect complements

Final Answer: A straight line

Answer: (B)



Q5.

Solution

Concept: Total Product (TP) and Marginal Product (MP) are closely related:

- MP is the addition to TP from employing one more unit of a factor.
- When MP is positive, TP increases.
- When MP is zero, TP is maximum.
- When MP becomes negative, TP starts decreasing.

Solution: Let us examine each option:

(a) When TP is maximum, MP is also maximum → Incorrect. When TP is maximum, MP is **zero**, not maximum.

(b) When TP decreases, MP becomes negative → Correct. TP falls only when the addition from an extra unit (MP) is negative.

(c) When MP increases, TP increases at a diminishing rate → Incorrect. If MP increases, TP increases at an **increasing rate**.

(d) When MP is zero, TP is at its minimum → Incorrect. When MP is zero, TP is at its **maximum**.

Final Answer: When TP decreases, MP becomes negative

Answer: (B)

Q6.

Solution

Concept: Total Cost (TC) is the sum of fixed and variable costs. Total Fixed Cost (TFC) does not change with output, while Total Variable Cost (TVC) increases as output increases.

Solution: The relationship is defined by the equation $TC = TFC + TVC$. The vertical distance between the TC curve and the TVC curve represents the amount of TFC. Since TFC is a constant value in the short run, the TC and TVC curves are parallel, and the distance between them remains the same at all levels of output.

Final Answer: Total Fixed Cost

Answer: (C)



Q7.

Solution

Concept: The shut-down rule in economics states that in the short run, a firm should continue operations as long as the price is at least equal to the average variable cost.

Solution: A firm incurs fixed costs even if production is zero. Therefore, as long as the Price (P) is greater than or equal to the Average Variable Cost (AVC), the firm is covering its variable expenses and contributing toward its fixed costs. If the price falls below the minimum AVC, the firm minimizes its losses by shutting down.

Final Answer: $P \geq \text{Minimum AVC}$

Answer: (B)

Q8.

Solution

Concept: A rectangular hyperbola is a curve under which the area of all rectangles formed by any point on the curve and the axes remains constant.

Solution: Average Fixed Cost (AFC) is obtained by dividing Total Fixed Cost (TFC) by the quantity produced ($AFC = TFC/Q$). Because TFC is constant, the product of AFC and Output ($AFC \times Q$) is always equal to TFC. This geometric property results in a curve shaped as a rectangular hyperbola.

Final Answer: AFC curve

Answer: (B)

Q9.

Solution

Concept: In perfect competition, a firm maximizes profit where Marginal Revenue (MR) equals Marginal Cost (MC). Since Price (P) = Average Revenue (AR) = Marginal Revenue (MR), the equilibrium condition is $P = MC$.

Solution: If at the current level of output $AR > MC$, it implies that $MR > MC$ (since $AR = MR$ in perfect competition). This means that the addition to total revenue from producing one more unit is greater than the addition to total cost. Consequently, the firm can increase its total profit by expanding production. The firm will continue to increase output until the marginal cost rises to meet the marginal revenue ($MR = MC$).

Final Answer: Increase production

Answer: (B)



Q10.

Solution

Concept: A "Price Taker" is a firm that must accept the prevailing market price as given. In perfect competition, the market price is determined by the intersection of industry-wide demand and supply, and the firm faces a perfectly elastic (horizontal) demand curve.

Solution: The price-taking behavior is caused by two main factors: 1. **Large number of sellers:** The contribution of an individual firm to the total market supply is so small that its actions cannot shift the market supply curve or affect the price. 2. **Homogeneous products:** Since all firms sell identical goods, there is no reason for a buyer to pay a higher price to one seller over another. Therefore, the firm has no choice but to sell at the market-determined price.

Final Answer: Both (a) and (b)

Answer: (D)

Q11.

Solution

Concept: Substitutes in production are goods that compete for the same productive resources. A change in the price of these related goods affects the supply of the original product, leading to a shift in the supply curve rather than a movement along it.

Solution: When the price of a substitute in production increases, it becomes relatively more attractive for firms to produce that substitute to earn higher profits. Consequently, firms shift their resources away from the current product and toward the production of the substitute. This reduction in the availability of resources for the original product leads to a decrease in its supply, represented by a leftward shift of the supply curve.

Final Answer: Shift to the left

Answer: (B)



Q12.

Solution

Concept: A Price Floor is a government-imposed minimum price set above the equilibrium price. It prevents the price from falling below a certain level. When the price floor is binding (i.e., above equilibrium), it disrupts the natural market equilibrium.

Solution: When a price floor is imposed above the equilibrium price:

- The price becomes higher than the market-clearing level.
- At this higher price, quantity supplied increases (producers are willing to sell more).
- At the same time, quantity demanded decreases (consumers buy less).

Thus,

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

This situation leads to **excess supply** (also known as surplus) in the market.

Option (d) Black marketing may occur as a secondary effect in some cases, but the direct and primary outcome is excess supply.

Final Answer: Excess Supply

Answer: (B)

Q13.

Solution

Concept: Market equilibrium price is determined by the interaction of demand and supply.

- Increase in demand → raises price
- Decrease in demand → lowers price
- Increase in supply → lowers price
- Decrease in supply → raises price

Solution: Let us analyze each option:

(a) Demand increases and supply decreases → Both factors increase price ⇒ Price will rise, not fall.

(b) Demand decreases and supply increases → Demand decrease lowers price and supply increase also lowers price ⇒ Both forces work in the same direction, ensuring price **definitely decreases**.

(c) Both demand and supply increase → Demand pushes price up, supply pushes price down ⇒ Effect is uncertain.

(d) Both demand and supply decrease → Demand lowers price, supply raises price ⇒ Effect is uncertain.

Final Answer: Demand decreases and supply increases

Answer: (B)



Q14.

Solution

Concept: A Price Ceiling is a government-imposed maximum price set below the equilibrium price. It is generally applied to make essential goods affordable for consumers and to prevent exploitation during shortages.

Solution: Let us examine each option:

- (a) Luxury goods to prevent overconsumption → Incorrect. Price ceilings are not typically applied to luxury goods.
- (b) Essential goods to protect the interest of consumers → Correct. Price ceilings are imposed on essential goods (like food, medicines, rent) to keep them affordable.
- (c) Agricultural goods to protect farmers → Incorrect. For farmers, **price floors** (minimum support prices) are used.
- (d) Capital goods to boost industry → Incorrect. Price ceilings are not used for capital goods.

Final Answer: Essential goods to protect the interest of consumers

Answer: (B)

Q15.

Solution

Concept: Excess Demand occurs when quantity demanded exceeds quantity supplied at a given price:

$$Q_d > Q_s$$

This creates a shortage in the market, leading to competition among buyers.

Solution: In a situation of excess demand:

- Consumers compete to purchase the limited available quantity.
- Sellers respond by raising prices.
- As price increases, quantity demanded falls and quantity supplied rises, restoring equilibrium.

Thus, price tends to **increase** in the presence of excess demand.

Final Answer: Increase

Answer: (C)



Q16.

Solution

Concept: Economic variables are classified into **stock** and **flow** variables:

- **Stock variables** are measured at a particular point in time (e.g., wealth, capital).
- **Flow variables** are measured over a period of time (e.g., income, expenditure).

Solution: Let us examine each option:

- (a) National Income → It is measured over a period (e.g., per year), hence a **flow variable**.
(b) Wealth → It is measured at a specific point in time, hence a **stock variable**.
(c) Exports → Measured over a period (monthly/yearly), so a **flow variable**.
(d) Consumption Expenditure → Also measured over a period, hence a **flow variable**.

Final Answer: Wealth

Answer: (B)

Q17.

Solution

Concept: The transition from a domestic concept (NDP) to a national concept (NNP) requires the addition of Net Factor Income from Abroad (NFIA). National Income is the sum of domestic income and the net income earned by residents from overseas.

Solution: The formula to calculate NNP at Factor Cost is: $NNP_{FC} = NDP_{FC} + NFIA$. Given that NDP_{FC} is 2,000 crore and NFIA is a negative value of 50 crore: $NNP_{FC} = 2,000 + (-50)$
 $NNP_{FC} = 1,950$ crore. A negative NFIA indicates that factor income outflow exceeds factor income inflow, resulting in National Income being lower than Domestic Income.

Final Answer:

1,950 crore

Answer: (B)



Q18.

Solution

Concept: Domestic Territory refers to the geographical area under the economic control of a country's government. It includes all economic activities within the country's boundaries, along with certain exceptions:

- Includes: Embassies and consulates of the country located abroad.
- Excludes: Foreign embassies and international organizations located within the country.

Solution: Let us analyze each option:

(a) Foreign embassies located in India → Excluded, as they are treated as part of the foreign country's domestic territory.

(b) Indian embassies located abroad → Included, as they are considered part of India's domestic territory.

(c) Offices of International Organizations (WHO, UN) in India → Excluded, as they are not under domestic economic control.

(d) Branches of foreign banks in India → Included, as they operate within the domestic territory.

Final Answer: Indian embassies located abroad

Answer: (B)

Q19.

Solution

Concept: GDP can be measured in two ways: Nominal GDP (at current prices) and Real GDP (at constant/base-year prices). Real GDP is a reliable indicator of economic performance because it isolates the effect of quantity changes from price changes.

Solution: Nominal GDP can rise due to an increase in output or simply due to a rise in prices (inflation). Real GDP, however, is calculated using prices from a fixed base year. Therefore, an increase in Real GDP exclusively signifies an increase in the physical flow of goods and services in the economy. This makes it a superior tool for comparing the actual standard of living and productive growth over time, as it eliminates the distortions caused by inflation.

Final Answer: It accounts for changes in the price level (inflation)

Answer: (B)



Q20.

Solution

Concept: The Value Added Method measures national income by summing up the value added at each stage of production. It avoids the problem of double counting by considering only the net contribution of each producer.

This method is also known as the **Product Method** or **Output Method**, as it focuses on the production of goods and services.

Solution: Let us examine the options:

- (a) Expenditure Method → Calculates national income by summing total expenditure ($C + I + G + (X - M)$).
- (b) Income Method → Measures income earned by factors of production (wages, rent, interest, profit).
- (c) Product Method → Correct. It is another name for the Value Added Method.
- (d) Disposal Method → Not a standard method of calculating national income.

Final Answer: Product Method

Answer: (C)

Q21.

Solution

Concept: The Money Multiplier (or Credit Multiplier) measures the maximum amount of money the banking system generates with each dollar of excess reserves. It is mathematically defined as the reciprocal of the Legal Reserve Ratio (LRR), which includes the Cash Reserve Ratio (CRR).

Solution: The formula for the money multiplier is $1/\text{CRR}$. This represents an inverse relationship. When the Central Bank increases the CRR, commercial banks are required to hold a larger fraction of their deposits as reserves and are left with less loanable funds. This restriction on credit creation reduces the total money supply generated by the banking system. Consequently, an increase in the CRR leads to a decrease in the value of the money multiplier.

Final Answer: Decreases

Answer: (B)



Q22.

Solution

Concept: Monetary policy tools are divided into quantitative and qualitative measures. While quantitative tools control the total volume of money, qualitative tools (also known as selective credit controls) regulate the distribution of credit to specific sectors of the economy.

Solution: Margin requirement is a qualitative tool. It refers to the difference between the current value of the security offered for a loan and the value of the loan granted. By raising the margin requirement, the Central Bank can restrict the flow of credit to specific "speculative" sectors without affecting the entire economy's credit supply. In contrast, Bank Rate, OMO, and Reserve Ratios are quantitative tools as they impact the total liquidity available across all sectors.

Final Answer: Margin Requirements

Answer: (C)

Q23.

Solution

Concept: The Central Bank performs the function of **Lender of Last Resort** by providing financial assistance to banks facing temporary liquidity shortages. This helps maintain stability in the banking system and prevents bank failures.

Solution: Let us analyze each option:

(A) The general public → Incorrect. The central bank does not directly lend to the public under this function.

(B) The Central Government → Incorrect. Lending to the government is a different function (banker to government).

(C) Commercial Banks in times of financial crisis → Correct. The central bank provides emergency funds to commercial banks to prevent collapse and maintain confidence in the financial system.

(D) Foreign investors → Incorrect. This is not related to the lender of last resort function.

Final Answer: Commercial Banks in times of financial crisis

Answer: (C)



Q24.

Solution

Concept: The Investment Multiplier (k) measures the change in income resulting from a change in investment. It is given by:

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

Solution: Given:

$$MPC = 0.75$$

Substituting into the formula:

$$k = \frac{1}{1 - 0.75} = \frac{1}{0.25} = 4$$

Final Answer: 4

Answer: (B)

Q25.

Solution

Concept: Aggregate Demand (AD) refers to the total value of final goods and services which all the sectors of an economy are planning to buy at a given level of income during a period of one accounting year.

Solution: In a simple two-sector model, we assume the absence of the government and the foreign sector. Therefore, the total demand in the economy arises only from households for consumption purposes (C) and from producers for investment purposes (I). Mathematically, this is expressed as $AD = C + I$. The sum of consumption and saving ($C + S$), on the other hand, constitutes Aggregate Supply (AS) or National Income.

Final Answer: $C + I$

Answer: (A)

Q26.

Solution

Concept: Deficient demand occurs when the planned aggregate expenditure is less than the aggregate supply at the full employment level. To correct this, the Central Bank adopts an "Easy Money Policy" to increase the availability of credit and lower its cost.

Solution: To boost Aggregate Demand, the Central Bank must increase the liquidity in the economy. By decreasing the Bank Rate, the Central Bank makes borrowing cheaper for commercial banks. This leads to a decrease in market interest rates. As a result, the demand for loans for consumption and investment purposes increases, shifting the Aggregate Demand curve upwards to restore full employment equilibrium. Options (a), (b), and (d) are contractionary measures used to reduce the money supply during periods of excess demand (inflation).

Final Answer: Decrease the Bank Rate

Answer: (C)



Q27.

Solution

Concept: The break-even point in the consumption function occurs when the level of consumption expenditure exactly matches the level of national income. It is the transition point between dissaving and positive saving.

Solution: At the break-even point, the entire income is spent on consumption, meaning $Y = C$. Because Savings (S) is defined as the difference between Income and Consumption ($S = Y - C$), the value of savings at this point is exactly zero ($S = 0$). Graphically, this is the point where the consumption curve intersects the 45° line (income line). Options such as positive savings only occur at income levels higher than the break-even point.

Final Answer: Consumption is equal to Income

Answer: (C)

Q28.

Solution

Concept: Government receipts are classified into:

- **Revenue Receipts:** Do not create liabilities or reduce assets (e.g., taxes, interest, dividends).
- **Capital Receipts:** Either create liabilities (borrowings) or reduce assets (disinvestment).

Solution: Let us examine each option:

(A) Income Tax → A tax receipt, hence a **revenue receipt**.

(B) Interest Receipts → Income earned by the government, hence a **revenue receipt**.

(C) Disinvestment → Sale of government-owned assets (shares in PSUs), which reduces assets. Hence, it is a **capital receipt**.

(D) Dividends from PSUs → Income earned from investments, hence a **revenue receipt**.

Final Answer: Disinvestment

Answer: (C)



Q29.

Solution

Concept: Fiscal Deficit represents the extent to which the government's total spending exceeds its non-debt generating receipts. It is the most comprehensive measure of the government's financial health as it reveals the total debt the government will incur in a year.

Solution: By definition, Fiscal Deficit = Total Expenditure – (Revenue Receipts + Non-debt Capital Receipts). Since the gap created by this deficit must be financed through loans, the Fiscal Deficit is always equivalent to the total borrowings of the government. This includes borrowings from the central bank (printing money), from the public (market loans), and from the rest of the world. Therefore, it is a direct measure of the government's reliance on debt.

Final Answer: Total Borrowings of the Government

Answer: (B)

Q30.

Solution

Concept: Primary Deficit is defined as:

$$\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payments}$$

It shows the borrowing requirements of the government excluding interest obligations.

Solution: Given that Primary Deficit = 0, we have:

$$0 = \text{Fiscal Deficit} - \text{Interest Payments}$$

Rearranging:

$$\text{Fiscal Deficit} = \text{Interest Payments}$$

This means that the entire fiscal deficit is due to interest payments, and there is no additional borrowing for current expenditures.

Now check the options:

- (a) The government has no interest payments → Incorrect.
- (b) Fiscal Deficit is equal to interest payments → Correct.
- (c) Revenue Deficit is zero → Not necessarily true.
- (d) Total expenditure is equal to total revenue → Incorrect; this would imply zero fiscal deficit.

Final Answer: Fiscal Deficit is equal to interest payments

Answer: (B)



Q31.

Solution

Concept: The Balance of Trade (BOT) is a narrow concept that refers to the net difference between the value of a country's physical exports and imports of merchandise (goods).

Solution: In the Balance of Payments, transactions are categorized into visible and invisible items. Visible items refer to tangible goods. The Balance of Trade specifically accounts only for these physical goods. If the value of exported goods exceeds imported goods, it is a trade surplus; if imports exceed exports, it is a trade deficit. Services, unilateral transfers, and capital flows are excluded from the BOT as they fall under "invisibles" or the "capital account."

Final Answer: Export and Import of goods (Visible items)

Answer: (B)

Q32.

Solution

Concept: Exchange rate indicates the value of one currency in terms of another.

- **Depreciation:** Domestic currency loses value (more units needed per foreign currency).
- **Appreciation:** Domestic currency gains value (fewer units needed per foreign currency).

Solution: Initially:

$$1 \text{ USD} = 80$$

Later:

$$1 \text{ USD} = 85$$

This means more rupees are now required to buy 1 USD. Hence, the Indian Rupee has **lost value** relative to the US Dollar.

$$80 \rightarrow 85 \Rightarrow \text{Rupee has depreciated}$$

Now check the options:

- (a) Appreciation of Indian Rupee → Incorrect.
- (b) Depreciation of Indian Rupee → Correct.
- (c) Revaluation of Indian Rupee → Incorrect (applies in fixed exchange rate systems).
- (d) No change in value → Incorrect.

Final Answer: Depreciation of Indian Rupee

Answer: (B)



Q33.

Solution

Concept: Autonomous transactions are international economic transactions that take place due to some economic motive, such as profit maximization, and are independent of the state of the country's Balance of Payments (BOP).

Solution: Autonomous items are called "above the line" items. These transactions, which include the export and import of goods and services as well as long-term capital transfers, are carried out by individuals or business firms for their own gain. They are not influenced by whether the BOP is in a surplus or deficit position. In fact, it is the net balance of these autonomous transactions that determines whether the overall BOP is in equilibrium, surplus, or deficit. Accommodating transactions, conversely, are "below the line" items meant to correct any such imbalance.

Final Answer: Take place due to profit motive

Answer: (B)

Q34.

Solution

Concept: Exchange rate systems can be broadly classified as:

- **Fixed Exchange Rate:** Determined by the government or central authority.
- **Flexible (Floating) Exchange Rate:** Determined by market forces of demand and supply.
- **Dirty Floating (Managed Float):** Primarily determined by market forces, but with occasional intervention by the Central Bank to stabilize fluctuations.

Solution: Let us analyze each option:

(a) The rate is fixed by the IMF → Incorrect. IMF does not fix exchange rates.

(b) The rate is determined by market forces with occasional Central Bank intervention → Correct. This is the definition of a **dirty floating** system.

(c) The rate is fixed to the price of gold → Incorrect. This refers to the gold standard system.

(d) The rate never changes → Incorrect. Exchange rates do change under floating systems.

Final Answer: The rate is determined by market forces with occasional Central Bank intervention

Answer: (B)



Q35.

Solution

Concept: The Zamindari System was a land tenure arrangement introduced by the British colonial administration. It created a class of intermediaries known as Zamindars who were responsible for collecting land revenue from peasants and remitting it to the government.

Solution: The primary motive behind the introduction of the Zamindari System was the financial interest of the British East India Company. By fixing the land revenue permanently, the British aimed to secure a regular and stable source of income to fund their administrative and military expenses. The system showed total apathy toward the condition of agriculture; the Zamindars were only interested in extracting the maximum rent from the actual tillers to meet the high revenue demands of the British and to enrich themselves. This led to the extreme exploitation of the peasantry and agricultural stagnation.

Final Answer: To collect maximum land revenue for the British

Answer: (B)

Q36.

Solution

Concept: The partition of India in 1947 led to an uneven distribution of resources and industries between India and Pakistan. Some industries were adversely affected because their raw material sources and manufacturing units were separated.

Solution: Let us analyze the options:

(a) Iron and Steel → Not significantly affected, as major plants remained in India.

(b) Jute and Cotton → Correct. The jute industry was severely affected because:

- Most jute mills were located in India (especially in West Bengal).
- A large portion of jute-producing areas went to East Pakistan (now Bangladesh).

This separation caused shortages of raw materials for Indian mills.

(c) Sugar → Not significantly affected by partition.

(d) Information Technology → Did not exist as an industry at that time.

Final Answer: Jute and Cotton

Answer: (B)



Q37.

Solution

Concept: The "Great Leap Forward" (1958) was an economic and social campaign launched in China to rapidly transform the country from an agrarian economy into a socialist industrial economy. It emphasized large-scale industrialization along with collectivization of agriculture.

Solution: Let us examine each option:

- (a) Modernizing agriculture → Partially involved, but not the main objective.
- (b) Industrializing the country on a massive scale → Correct. The primary goal was rapid industrialization, including setting up small-scale industries like backyard furnaces.
- (c) Reducing population growth → Incorrect. This was not an objective of the campaign.
- (d) Expanding the service sector → Incorrect. The focus was on industry and agriculture.

Final Answer: Industrializing the country on a massive scale

Answer: (B)

Q38.

Solution

Concept: The Karve Committee (1955) was established to examine the role and development of small-scale industries in India. It emphasized the importance of promoting small industries for employment generation and balanced regional development.

Solution: Let us analyze each option:

- (a) Land reforms → Incorrect. These were handled by separate committees and policies.
- (b) Small-scale industries → Correct. The Karve Committee recommended the development and encouragement of small-scale industries.
- (c) Financial sector reforms → Incorrect. These came much later (e.g., Narasimham Committee).
- (d) Tax reforms → Incorrect. Tax reforms were addressed by other committees.

Final Answer: Small-scale industries

Answer: (B)



Q39.

Solution

Concept: The Green Revolution refers to the transition in Indian agriculture characterized by the adoption of modern methods and technology, such as High Yielding Variety (HYV) seeds, irrigation, and chemical fertilizers, to increase agricultural productivity.

Solution: The most significant impact of the Green Revolution was the dramatic increase in the production of wheat and rice. This surge in output enabled India to break its dependence on food aid and imports, achieving the goal of self-sufficiency in food grains. While it brought prosperity to certain regions, it also led to an increased use of fertilizers and initially widened the income gap between wealthy and small-scale farmers. However, the attainment of food security remains its primary hallmark achievement.

Final Answer: Self-sufficiency in food grains

Answer: (A)

Q40.

Solution

Concept: India's Economic Reforms of 1991 were introduced to stabilize the economy and promote growth. While several structural issues existed (like inflation and inefficiency of public sector units), the **immediate trigger** was a severe balance of payments crisis.

Solution: Let us analyze each option:

- (a) High rate of inflation → This was a problem, but not the immediate cause of reforms.
- (b) Foreign exchange crisis → Correct. In 1991, India faced a severe shortage of foreign exchange reserves, barely sufficient to cover a few weeks of imports. This crisis forced the government to initiate economic reforms.
- (c) Poor performance of PSUs → A long-term structural issue, but not the immediate trigger.
- (d) All of the above → Incorrect. The question specifically asks for the **immediate reason**, which was the foreign exchange crisis.

Final Answer: Foreign exchange crisis

Answer: (B)



Q41.

Solution

Concept: "Navratna" status is granted by the Government of India to certain high-performing Public Sector Enterprises (PSEs). These companies are given greater financial and operational autonomy to compete globally and improve efficiency.

Solution: Let us examine each option:

(a) High-performing Private companies → Incorrect. Navratna status applies only to Public Sector Enterprises.

(b) Nine specific Public Sector Enterprises given greater autonomy → Correct. Initially, nine PSEs were granted this status to enhance their decision-making powers and operational flexibility.

(c) Financial reforms in 1991 → Incorrect. Though related to liberalization, Navratna is not a reform itself.

(d) Trade agreements with neighboring countries → Incorrect.

Final Answer: Nine specific Public Sector Enterprises given greater autonomy

Answer: (B)

Q42.

Solution

Concept: Globalisation refers to the integration of an economy with the rest of the world through trade, investment, and technology. It promotes fewer restrictions on international economic activities.

Solution: Let us analyze each option:

(a) Reduction in tariff barriers → Involves globalisation, as it encourages free trade.

(b) Free flow of capital → A key feature of globalisation.

(c) Increase in import licensing → Correct. Globalisation aims to **reduce** restrictions like import licensing, not increase them.

(d) Outward orientation of the economy → Also a feature of globalisation.

Final Answer: Increase in import licensing

Answer: (C)



Q43.

Solution

Concept: Human Capital Formation refers to the process of adding to the stock of skilled and productive workforce in an economy through investments in education, health, training, and other activities that enhance human capabilities.

Solution: Let us analyze each option:

(a) Education and Health → These improve knowledge and physical well-being, forming core components of human capital.

(b) Migration and Information → Migration allows better job opportunities and efficient use of skills; information improves decision-making and productivity.

(c) On-the-job training → Enhances skills and efficiency of workers.

Since all the above contribute to improving human productivity and skills, they are all components of human capital formation.

Final Answer: All of the above

Answer: (D)

Q44.

Solution

Concept: Sources of rural credit are classified into:

- **Institutional sources:** Formal and regulated (e.g., banks, cooperatives, NABARD, SHGs).
- **Non-institutional sources:** Informal and unregulated (e.g., moneylenders, traders, landlords).

Solution: Let us examine each option:

(a) Regional Rural Banks → Institutional source.

(b) Moneylenders → Correct. They are informal, unregulated, and hence non-institutional.

(c) Self Help Groups (SHGs) → Institutional source.

(d) NABARD → Institutional source (apex development bank).

Final Answer: Moneylenders

Answer: (B)



Q45.

Solution

Concept: Organic farming is a method of agriculture that avoids the use of synthetic fertilizers, pesticides, and genetically modified organisms. It focuses on natural inputs and environmentally sustainable practices.

Solution: Let us analyze each option:

- (a) It uses expensive chemical fertilizers → Incorrect. Organic farming avoids chemical fertilizers.
- (b) It is eco-friendly and sustainable → Correct. It maintains soil health, reduces pollution, and promotes biodiversity.
- (c) It requires less labor → Incorrect. Organic farming is often more labor-intensive.
- (d) It provides instant high yields → Incorrect. Yields may initially be lower compared to conventional farming.

Final Answer: It is eco-friendly and sustainable

Answer: (B)

Q46.

Solution

Concept: Casualisation of workforce refers to a situation where an increasing proportion of workers are employed as casual laborers. These workers typically do not have job security, regular income, or social security benefits.

Solution: Let us analyze each option:

- (a) Movement of workers from formal to informal sector → This describes **informalisation**, not casualisation.
- (b) Increase in the proportion of casual wage laborers in the total workforce → Correct. This directly defines casualisation of workforce.
- (c) Decrease in unemployment → Not related to casualisation.
- (d) Increase in self-employment → Different concept; not casualisation.

Final Answer: Increase in the proportion of casual wage laborers in the total workforce

Answer: (B)



Q47.

Solution

Concept: The Appiko Movement was an environmental conservation movement in India inspired by the Chipko Movement. It aimed at protecting forests and promoting ecological balance by preventing tree felling.

Solution: Let us analyze the options:

- (a) Uttarakhand → Incorrect. This is associated with the Chipko Movement.
- (b) Karnataka → Correct. The Appiko Movement started in the state of Karnataka in the 1980s.
- (c) Kerala → Incorrect.
- (d) Rajasthan → Incorrect.

Final Answer: Karnataka

Answer: (B)

Q48.

Solution

Concept: Population density refers to the number of people living per unit area (usually per square kilometer). It helps compare how crowded different countries are.

Solution: Let us compare:

- India has a very high population density due to its large population relative to land area.
- China, despite having a large population, has a much larger land area, resulting in a lower density than India.
- Pakistan also has a high density, but it is still lower than India.

Thus, among the given countries, India has the highest population density.

Final Answer: India

Answer: (A)



Q49.

Solution

Concept: Five Year Plans were introduced as a strategy for planned economic development. India launched its First Five Year Plan in 1951, focusing mainly on agriculture and irrigation. Pakistan started its First Five Year Plan later, in 1956.

Solution: Let us analyze the options:

- (a) 1951 and 1953 → Incorrect. Pakistan did not start in 1953.
- (b) 1951 and 1956 → Correct. India began in 1951, and Pakistan began in 1956.
- (c) 1947 and 1948 → Incorrect. These are independence years, not planning years.
- (d) 1950 and 1955 → Incorrect.

Final Answer: 1951 and 1956

Answer: (B)

Q50.

Solution

Concept: Special Economic Zones (SEZs) are designated areas within a country where business and trade laws are different from the rest of the country. They are established to attract Foreign Direct Investment (FDI), boost exports, and promote industrial growth.

Solution: Let us analyze each option:

- (a) India → Adopted SEZ policy later (2000s).
- (b) Pakistan → Not the first country to introduce SEZs.
- (c) China → Correct. China was the first to introduce SEZs in the late 1970s under economic reforms (e.g., Shenzhen), successfully attracting large-scale FDI.
- (d) Sri Lanka → Not the first.

Final Answer: China

Answer: (C)



Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	C	2	C	3	A	4	B	5	B
6	C	7	B	8	B	9	B	10	D
11	B	12	B	13	B	14	B	15	C
16	B	17	B	18	B	19	B	20	C
21	B	22	C	23	C	24	B	25	A
26	C	27	C	28	C	29	B	30	B
31	B	32	B	33	B	34	B	35	B
36	B	37	B	38	B	39	A	40	B
41	B	42	C	43	D	44	B	45	B
46	B	47	B	48	A	49	B	50	C

