

# CUET-UG Economics Sample Paper-14

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.** If the price of a good increases from ₹ 10 to ₹ 12 and the quantity demanded falls from 100 units to 80 units, what is the price elasticity of demand using the percentage method?

- (A) -0.5
- (B) -1.0
- (C) -1.5
- (D) -2.0

**Q2.** Which of the following is considered a 'Central Problem' of an economy?

- (A) How to maximize individual profits
- (B) How to achieve full employment
- (C) For whom to produce
- (D) How to control inflation

**Q3.** According to the Law of Diminishing Marginal Utility, as a consumer consumes more units of a commodity, the Marginal Utility:

- (A) Increases at an increasing rate
- (B) Becomes constant
- (C) Starts declining
- (D) Always remains positive



- Q4.** An indifference curve is downward sloping and convex to the origin due to:
- (A) Increasing Marginal Rate of Substitution
  - (B) Constant Marginal Rate of Substitution
  - (C) Diminishing Marginal Rate of Substitution
  - (D) Law of Equi-Marginal Utility
- Q5.** If two goods are perfect substitutes, the shape of the Indifference Curve will be:
- (A) Convex to the origin
  - (B) L-shaped
  - (C) A straight line
  - (D) Concave to the origin
- Q6.** When Total Product (TP) is at its maximum, the Marginal Product (MP) is:
- (A) Positive
  - (B) Negative
  - (C) Zero
  - (D) Equal to Average Product
- Q7.** Which of the following cost curves never touches the X-axis?
- (A) Marginal Cost Curve
  - (B) Average Variable Cost Curve
  - (C) Average Fixed Cost Curve
  - (D) Total Variable Cost Curve
- Q8.** In the short run, a firm will continue to produce as long as price covers:
- (A) Average Fixed Cost
  - (B) Average Variable Cost
  - (C) Total Cost



(D) Marginal Cost

**Q9.** The shape of the Average Revenue curve under Perfect Competition is:

- (A) Downward sloping
- (B) Upward sloping
- (C) A horizontal straight line
- (D) A vertical straight line

**Q10.** Marginal Revenue (MR) is defined as:

- (A) Change in TR / Change in Quantity
- (B) TR / Quantity
- (C) Price  $\times$  Quantity
- (D) Change in Price / Change in Quantity

**Q11.** Under perfect competition, a firm is a 'Price Taker' because:

- (A) It has a large market share
- (B) Products are heterogeneous
- (C) There are a large number of buyers and sellers selling homogeneous products
- (D) There are barriers to entry

**Q12.** The supply curve of a firm in the short run under perfect competition is:

- (A) The rising portion of the AVC curve
- (B) The rising portion of the MC curve above the minimum of AVC
- (C) The entire MC curve
- (D) The falling portion of the AC curve

**Q13.** The Geometric Method of measuring Price Elasticity of Supply at a point on a straight-line supply curve passing through the origin indicates elasticity is:

- (A) Greater than one



- (B) Less than one
- (C) Equal to one
- (D) Zero

**Q14.** Market Equilibrium is reached when:

- (A) Marginal Cost equals Marginal Revenue
- (B) Price is set by the government
- (C) Quantity Demanded equals Quantity Supplied
- (D) Consumers reach the highest indifference curve

**Q15.** If the government imposes a 'Price Ceiling' below the equilibrium price, it leads to:

- (A) Excess Supply
- (B) Excess Demand
- (C) No change in the market
- (D) Increase in producer surplus

**Q16.** Which of the following is a 'Flow' variable?

- (A) Wealth
- (B) National Capital
- (C) Income
- (D) Money Supply

**Q17.** In a two-sector economy, the condition for equilibrium is:

- (A)  $Y = C + I$
- (B)  $Y = C + S$
- (C)  $S = I$
- (D) All of the above



- Q18.** GDP at Market Price ( $GDP_{MP}$ ) is calculated as:
- (A)  $GDP_{FC}$  + Net Indirect Taxes
  - (B)  $GNP_{MP} - NFIA$
  - (C)  $NDP_{MP}$  + Depreciation
  - (D) All of the above
- Q19.** Which of the following is excluded from the calculation of National Income?
- (A) Rent received by a landlord
  - (B) Old age pensions
  - (C) Profits earned by a company
  - (D) Wages paid to laborers
- Q20.** Value Added is defined as:
- (A) Value of Output + Intermediate Consumption
  - (B) Value of Output - Intermediate Consumption
  - (C) Sales + Change in Stock
  - (D) Final Consumption - Depreciation
- Q21.** The Money Multiplier is calculated as:
- (A)  $1/LRR$  (Legal Reserve Ratio)
  - (B)  $LRR/1$
  - (C)  $Cash/Deposits$
  - (D)  $1 - LRR$
- Q22.** Which of the following is a 'Qualitative' tool of monetary policy?
- (A) Bank Rate
  - (B) Open Market Operations
  - (C) Margin Requirements



(D) Cash Reserve Ratio

**Q23.** When the Central Bank acts as a 'Custodian of Foreign Exchange Reserves,' its primary goal is to:

(A) Maximize profit by trading in international stock markets

(B) Stabilize the external value of the domestic currency

(C) Distribute foreign currency to tourists at discounted rates

(D) Prevent citizens from traveling abroad

**Q24.** If the Marginal Propensity to Consume (MPC) is 0.8, the value of the Investment Multiplier (k) is:

(A) 2

(B) 4

(C) 5

(D) 10

**Q25.** Deficient Demand in an economy leads to:

(A) Inflationary Gap

(B) Deflationary Gap

(C) Full Employment

(D) Excess Supply of Money

**Q26.** Aggregate Demand in a two-sector model is the sum of:

(A) Consumption and Saving

(B) Consumption and Investment

(C) Investment and Government Spending

(D) Exports and Imports

**Q27.** At the 'Break-even point':



- (A)  $S = I$
- (B)  $C = Y$
- (C)  $MPC = 1$
- (D)  $APC = 0$

**Q28.** Which of the following is a Capital Receipt for the Government?

- (A) Tax Revenue
- (B) Interest Receipts
- (C) Borrowings
- (D) Dividends from Public Sector Undertakings

**Q29.** Fiscal Deficit is defined as:

- (A) Total Expenditure - Total Receipts
- (B) Total Expenditure - Total Receipts (excluding borrowings)
- (C) Revenue Expenditure - Revenue Receipts
- (D) Total Expenditure - Revenue Receipts

**Q30.** Disinvestment is a source of:

- (A) Revenue Receipt
- (B) Capital Receipt
- (C) Revenue Expenditure
- (D) Capital Expenditure

**Q31.** If the Primary Deficit is ₹ 10,000 and Interest Payments are ₹ 8,000, the Fiscal Deficit is:

- (A) ₹ 2,000
- (B) ₹ 18,000
- (C) ₹ 8,000
- (D) ₹ 10,000



- Q32.** The 'Balance of Trade' includes:
- (A) Export and Import of services
  - (B) Export and Import of visible goods only
  - (C) Unilateral transfers
  - (D) Portfolio investment
- Q33.** Which of the following enters the 'Capital Account' of the Balance of Payments?
- (A) Export of Machinery
  - (B) Foreign Direct Investment (FDI)
  - (C) Interest on foreign loans
  - (D) Shipping services
- Q34.** Under a 'Managed Floating' exchange rate system:
- (A) The rate is fixed by the IMF
  - (B) The rate is determined solely by market forces
  - (C) The rate is determined by market forces but intervened by the Central Bank
  - (D) The rate is pegged to the price of gold
- Q35.** Appreciation of domestic currency makes:
- (A) Exports cheaper and Imports costlier
  - (B) Exports costlier and Imports cheaper
  - (C) Both Exports and Imports cheaper
  - (D) No effect on trade
- Q36.** During the British rule, the Indian economy was primarily:
- (A) Industrialized
  - (B) A feeder economy (Stagnant and colonial)
  - (C) Self-sufficient in technology



(D) Export-oriented in finished goods

**Q37.** Which committee was constituted to address the issues of 'Small Scale Industries' specifically in the context of the 1991 reforms?

(A) Abid Hussain Committee

(B) Raja Chelliah Committee

(C) Malhotra Committee

(D) Rangarajan Committee

**Q38.** Which of the following was a goal of the Five-Year Plans in India?

(A) Modernization

(B) Self-reliance

(C) Equity

(D) All of the above

**Q39.** The 'Green Revolution' initially focused on which crops?

(A) Rice and Wheat

(B) Cotton and Jute

(C) Tea and Coffee

(D) Pulses and Oilseeds

**Q40.** Industrial Policy Resolution (IPR) 1956 classified industries into how many categories?

(A) Two

(B) Three

(C) Four

(D) Five

**Q41.** The New Economic Policy (1991) was launched to address:



- (A) High Foreign Exchange Reserves
- (B) Fiscal discipline
- (C) Economic Crisis and Balance of Payment deficit
- (D) Low Inflation

**Q42.** 'Privatisation' refers to:

- (A) Opening the economy to foreign trade
- (B) Reducing government control and ownership of public sector enterprises
- (C) Abolishing licensing for all industries
- (D) Fixing the exchange rate

**Q43.** Which of the following is an example of an Indirect Tax?

- (A) Income Tax
- (B) Wealth Tax
- (C) Goods and Services Tax (GST)
- (D) Corporate Tax

**Q44.** Human Capital Formation involves:

- (A) Increase in the number of machines
- (B) Investment in education and health
- (C) Exploitation of natural resources
- (D) Increase in land area

**Q45.** The 'NABARD' was set up in 1982 to promote:

- (A) Industrial development
- (B) Rural and Agricultural credit
- (C) Urban infrastructure
- (D) Foreign investment



- Q46.** Which of the following is a characteristic of a 'Regular Salaried Employee'?
- (A) They do not have social security benefits
  - (B) They are hired on a daily basis
  - (C) They are on the permanent payroll of their employer
  - (D) They do not have a fixed work schedule
- Q47.** Sustainable Development is development that meets the needs of the present without compromising:
- (A) The profits of big corporations
  - (B) The ability of future generations to meet their own needs
  - (C) The current level of industrialization
  - (D) The use of fossil fuels
- Q48.** Compared to India and Pakistan, China has:
- (A) Higher population growth rate
  - (B) Lower Human Development Index (HDI)
  - (C) Higher GDP growth rate and industrial development
  - (D) Smaller geographical area
- Q49.** The 'Great Leap Forward' (GLF) campaign in China (1958) aimed at:
- (A) Population control
  - (B) Large scale industrialization in every backyard
  - (C) Promoting agriculture only
  - (D) Privatizing land
- Q50.** Which country has the highest life expectancy among India, China, and Pakistan?
- (A) India
  - (B) Pakistan
  - (C) China
  - (D) All are equal



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

**Concept:** Price Elasticity of Demand ( $E_d$ ) by the percentage method is the ratio of the percentage change in quantity demanded to the percentage change in price. Formula:  $E_d = \frac{\% \Delta Q}{\% \Delta P}$

**Solution:** 1. **Percentage change in Price:**  $\% \Delta P = \frac{P_1 - P}{P} \times 100 = \frac{12 - 10}{10} \times 100 = \frac{2}{10} \times 100 = 20\%$

2. **Percentage change in Quantity:**  $\% \Delta Q = \frac{Q_1 - Q}{Q} \times 100 = \frac{80 - 100}{100} \times 100 = \frac{-20}{100} \times 100 = -20\%$

3. **Elasticity Calculation:**  $E_d = \frac{-20\%}{20\%} = -1$

Since the absolute value is 1, the demand is unitary elastic.

**Final Answer:** -1.0

**Answer: (B)**

**Q2.****Solution**

**Concept:** The Central Problems of an economy arise due to the scarcity of resources and their alternative uses. These problems are concerned with the allocation of resources to ensure maximum social or private welfare.

**Solution:** The three fundamental central problems are 'What to produce', 'How to produce', and 'For whom to produce'. 'For whom to produce' specifically addresses the distribution of final goods and services among the members of society. It is a problem of choice regarding the category of people who will ultimately consume the goods—whether production should focus on luxury goods for the rich or essential goods for the poor. The other options provided, such as controlling inflation or achieving full employment, fall under the study of Macroeconomic policy rather than the basic allocation problems of an economic system.

**Final Answer:** For whom to produce

**Answer: (C)**



Q3.

**Solution**

**Concept:** The Law of Diminishing Marginal Utility states that as a consumer consumes more units of a commodity, the additional satisfaction (marginal utility) derived from each successive unit tends to decrease, keeping other factors constant.

**Solution:** Let us analyze each option:

- (A) Increases at an increasing rate → Incorrect. This is opposite to the law.
- (B) Becomes constant → Incorrect. Marginal utility generally declines, not remains constant.
- (C) Starts declining → Correct. With each additional unit consumed, marginal utility decreases.
- (D) Always remains positive → Incorrect. Marginal utility may become zero or even negative after a certain level of consumption.

**Final Answer:** Starts declining

**Answer: (C)**

Q4.

**Solution**

**Concept:** An indifference curve represents combinations of two goods that give the consumer the same level of satisfaction. It is:

- Downward sloping due to the trade-off between goods.
- Convex to the origin due to the **diminishing Marginal Rate of Substitution (MRS)**.

**Solution:** Let us analyze each option:

- (A) Increasing Marginal Rate of Substitution → Incorrect. This would make the curve concave.
- (B) Constant Marginal Rate of Substitution → Incorrect. This gives a straight-line indifference curve (perfect substitutes).
- (C) Diminishing Marginal Rate of Substitution → Correct. As a consumer consumes more of one good, they are willing to give up less of the other good, making the curve convex.
- (D) Law of Equi-Marginal Utility → Related to consumer equilibrium, not the shape of the indifference curve.

**Final Answer:** Diminishing Marginal Rate of Substitution

**Answer: (C)**



Q5.

**Solution**

**Concept:** The shape of an Indifference Curve (IC) depends on the Marginal Rate of Substitution (MRS). MRS is the rate at which a consumer is willing to substitute one good for another while maintaining the same level of utility.

**Solution:** In the case of perfect substitutes, the consumer views the two goods as identical in terms of utility. Therefore, the consumer is willing to exchange one good for the other at a constant ratio regardless of how much of each they already possess. Since the MRS remains constant, the slope of the IC is constant throughout. A curve with a constant slope is represented graphically as a downward-sloping straight line. In contrast, convex curves represent diminishing MRS, and L-shaped curves represent perfect complements.

**Final Answer:** A straight line

**Answer:** (C)

Q6.

**Solution**

**Concept:** Marginal Product (MP) is the addition to Total Product (TP) from employing one more unit of a factor:

$$MP = \frac{\Delta TP}{\Delta L}$$

The relationship between TP and MP is:

- When MP is positive → TP increases
- When MP is zero → TP is maximum
- When MP is negative → TP decreases

**Solution:** At the maximum point of TP:

- TP stops increasing
- Additional units of the factor do not add to output

Mathematically:

$$MP = 0$$

Now check the options:

- (A) Positive → Incorrect. TP would still be increasing.  
 (B) Negative → Incorrect. TP would be decreasing.  
 (C) Zero → Correct.  
 (D) Equal to Average Product → Incorrect.  $MP = AP$  when AP is maximum.

**Final Answer:** Zero

**Answer:** (C)



Q7.

**Solution**

**Concept:** Different cost curves behave differently with changes in output:

- **Average Fixed Cost (AFC)** =  $\frac{TFC}{Q}$
- AFC continuously decreases as output (Q) increases.
- Since Total Fixed Cost (TFC) is always positive, AFC can never become zero.

**Solution:** Let us analyze each option:

(A) Marginal Cost Curve → May touch or approach the X-axis depending on cost conditions.

(B) Average Variable Cost Curve → Can approach close to the X-axis but not necessarily restricted like AFC.

(C) Average Fixed Cost Curve → Correct. Since  $AFC = \frac{TFC}{Q}$  and  $TFC > 0$ , AFC can never be zero. Hence, it never touches the X-axis and takes the shape of a rectangular hyperbola.

(D) Total Variable Cost Curve → Starts from the origin, so it touches the X-axis.

**Final Answer:** Average Fixed Cost Curve

**Answer: (C)**

Q8.

**Solution**

**Concept:** The shut-down rule states that in the short run, a firm should continue to operate if its total revenue covers its total variable costs. This is because fixed costs must be paid regardless of whether the firm produces or not.

**Solution:** A firm incurs a loss whenever the Price ( $P$ ) is less than the Average Total Cost ( $ATC$ ). However, in the short run, the firm will not necessarily stop production. If  $P > AVC$ , the firm covers its variable expenses and contributes toward paying its fixed costs, making its loss smaller than if it shut down. The critical limit is the minimum of the Average Variable Cost ( $AVC$ ) curve. If the price falls below this point ( $P < AVC$ ), the firm's total loss would exceed its fixed costs if it continued to produce. Therefore, the condition for continuing production in the short run is  $P \geq AVC$ .

**Final Answer:** Average Variable Cost

**Answer: (B)**



Q9.

**Solution**

**Concept:** Average Revenue (AR) is defined as the total revenue per unit of output sold ( $AR = TR/Q$ ). In a perfectly competitive market, the firm is a price taker, meaning it can sell any amount of output at the prevailing market price.

**Solution:** Under perfect competition, the market price is determined by the intersection of market demand and market supply. Since the firm is too small to affect this price, it faces a perfectly elastic demand curve. Consequently, the price remains unchanged for every additional unit sold. Because  $AR = (P \times Q)/Q$ , it follows that  $AR = P$ . Since  $P$  is constant, the AR curve is a horizontal straight line parallel to the x-axis. This line also represents the Marginal Revenue (MR) curve for the firm.

**Final Answer:** A horizontal straight line

**Answer:** (C)

Q10.

**Solution**

**Concept:** Marginal Revenue (MR) is the additional revenue earned by a firm from selling one more unit of a good. It is defined as:

$$MR = \frac{\Delta TR}{\Delta Q}$$

**Solution:** Let us analyze each option:

(A) Change in TR / Change in Quantity → Correct. This is the definition of Marginal Revenue.

(B) TR / Quantity → This represents Average Revenue (AR).

(C) Price × Quantity → This represents Total Revenue (TR).

(D) Change in Price / Change in Quantity → Not a standard revenue concept.

**Final Answer:** Change in TR / Change in Quantity

**Answer:** (A)



Q11.

**Solution**

**Concept:** Under perfect competition, firms are **price takers**, meaning they have no control over the market price. This happens because:

- There are a large number of buyers and sellers.
- Products are homogeneous (identical).
- No single firm can influence the market price.

**Solution:** Let us analyze each option:

(A) It has a large market share → Incorrect. A large market share would give price-making power.

(B) Products are heterogeneous → Incorrect. In perfect competition, products are homogeneous.

(C) There are a large number of buyers and sellers selling homogeneous products → Correct. This ensures no individual firm can influence price, making it a price taker.

(D) There are barriers to entry → Incorrect. Perfect competition assumes free entry and exit.

**Final Answer:** There are a large number of buyers and sellers selling homogeneous products

**Answer: (C)**

Q12.

**Solution**

**Concept:** The short-run supply curve of a perfectly competitive firm is derived from its marginal cost curve, constrained by the condition that the firm must cover its variable costs to remain operational.

**Solution:** A profit-maximizing firm in perfect competition produces at a level where  $P = MC$ . However, the firm faces a shut-down point at the minimum of the Average Variable Cost (AVC). If the market price ( $P$ ) is less than the minimum AVC, the firm minimizes its losses by producing zero output. If  $P \geq \min(AVC)$ , the firm will produce the quantity where  $P = MC$  on the rising portion of the MC curve. Thus, the firm's supply curve is represented by the portion of the Marginal Cost curve that lies at or above the minimum point of the Average Variable Cost curve.

**Final Answer:** The rising portion of the MC curve above the minimum of AVC

**Answer: (B)**



Q13.

**Solution**

**Concept:** The geometric method measures elasticity at a specific point on the supply curve. For a linear supply curve, elasticity is determined by the position of its intercept on the graph.

**Solution:** According to the geometric properties of a linear supply curve: 1. If the curve passes through the origin (0, 0), the ratio of price to quantity ( $P/Q$ ) at any point is exactly equal to the slope of the curve ( $\Delta P/\Delta Q$ ). Consequently,  $e_s = (\Delta Q/\Delta P) \times (P/Q) = 1$ . 2. If it intercepts the Price-axis (Y-axis),  $e_s > 1$ . 3. If it intercepts the Quantity-axis (X-axis),  $e_s < 1$ . Since the question specifies the curve passes through the origin, the elasticity must be equal to one (unitary elastic) at every point on the line.

**Final Answer:** Equal to one

Answer: (C)

Q14.

**Solution**

**Concept:** Market equilibrium occurs at the point where the quantity demanded by consumers is exactly equal to the quantity supplied by producers. At this point, there is no tendency for price to change.

**Solution:** Let us analyze each option:

(A) Marginal Cost equals Marginal Revenue → This is the condition for **firm equilibrium**, not market equilibrium.

(B) Price is set by the government → Incorrect. This refers to price control, not equilibrium.

(C) Quantity Demanded equals Quantity Supplied → Correct. This is the definition of market equilibrium.

(D) Consumers reach the highest indifference curve → This relates to consumer equilibrium, not market equilibrium.

**Final Answer:** Quantity Demanded equals Quantity Supplied

Answer: (C)



Q15.

**Solution**

**Concept:** A Price Ceiling is a government-imposed maximum price set below the equilibrium price. When it is binding, it prevents prices from rising to the equilibrium level.

**Solution:** When a price ceiling is imposed below the equilibrium price:

- The price becomes artificially low.
- Quantity demanded increases (more consumers want to buy).
- Quantity supplied decreases (producers supply less).

Thus,

$$Q_d > Q_s$$

This leads to **excess demand** (shortage) in the market.

Now check the options:

(A) Excess Supply → Incorrect.

(B) Excess Demand → Correct.

(C) No change in the market → Incorrect.

(D) Increase in producer surplus → Incorrect. Producer surplus generally decreases.

**Final Answer:** Excess Demand

**Answer: (B)**

Q16.

**Solution**

**Concept:** Economic variables are classified as:

- **Stock variables:** Measured at a point in time (e.g., wealth, capital, money supply).
- **Flow variables:** Measured over a period of time (e.g., income, expenditure).

**Solution:** Let us analyze each option:

(A) Wealth → Stock variable (measured at a point in time).

(B) National Capital → Stock variable.

(C) Income → Correct. It is measured over a period (per month/year), hence a flow variable.

(D) Money Supply → Stock variable at a given point in time.

**Final Answer:** Income

**Answer: (C)**



Q17.

**Solution**

**Concept:** In a two-sector economy (households and firms), equilibrium can be expressed in two equivalent ways:

- **Income-Expenditure approach:**

$$Y = C + I$$

- **Saving-Investment approach:**

$$S = I$$

- Also, since income is either consumed or saved:

$$Y = C + S$$

**Solution:** At equilibrium:

- Total output (Y) equals total expenditure (C + I)
- Total income is divided into consumption and saving (C + S)
- For equilibrium, leakages (S) must equal injections (I)

Thus, all the given conditions are consistent and represent equilibrium.

**Final Answer:** All of the above

**Answer: (D)**

Q18.

**Solution**

**Concept:** GDP at Market Price ( $GDP_{MP}$ ) can be expressed in different equivalent forms:

- $GDP_{MP} = GDP_{FC} + \text{Net Indirect Taxes}$
- $GDP_{MP} = GNP_{MP} - NFIA$
- $GDP_{MP} = NDP_{MP} + \text{Depreciation}$

**Solution:** Let us verify each option:

(A)  $GDP_{FC} + \text{Net Indirect Taxes} \rightarrow \text{Correct.}$

(B)  $GNP_{MP} - NFIA \rightarrow \text{Correct.}$

(C)  $NDP_{MP} + \text{Depreciation} \rightarrow \text{Correct.}$

Since all the above expressions correctly represent  $GDP_{MP}$ ,

**Final Answer:** All of the above

**Answer: (D)**



Q19.

**Solution**

**Concept:** National Income includes only factor incomes earned by normal residents of a country for rendering productive services in the production process. It excludes transfer incomes, which are receipts earned without providing any productive service in return.

**Solution:** Wages, Rent, and Profits are components of Factor Income (Compensation of Employees, Operating Surplus). They represent payments for contributing to the production of goods and services. However, Old Age Pensions are transfer payments made by the government as social security. Since no value addition occurs in the economy as a result of this payment, it is excluded from National Income. Similarly, other transfer payments like scholarships, unemployment allowances, and gifts are also excluded.

**Final Answer:** Old age pensions

**Answer: (B)**

Q20.

**Solution**

**Concept:** Value Added is the difference between the value of goods produced (Value of Output) and the cost of raw materials and services used in the production process (Intermediate Consumption). It represents the value that a firm adds to the raw materials through its productive activities.

**Solution:** The formula for Gross Value Added (GVA) at market price is:  $GVA_{MP} = \text{Value of Output} - \text{Intermediate Consumption}$  Where: Value of Output = Sales + Change in Stock (if all output is not sold) Intermediate consumption must be excluded to avoid the problem of double counting, which occurs when the value of the same good is counted more than once as it passes through different stages of production. Subtracting these costs ensures that we only measure the actual contribution of each producing unit.

**Final Answer:** Value of Output - Intermediate Consumption

**Answer: (B)**

Q21.

**Solution**

**Concept:** The Money Multiplier measures the maximum amount of money the banking system generates with each rupee of excess reserves. It is determined by the Legal Reserve Ratio (LRR) set by the Central Bank.

**Solution:** The relationship between the money multiplier and the legal reserve ratio is inverse. If the LRR is low, banks can lend more, leading to higher credit creation and a larger multiplier. Conversely, a high LRR restricts lending and reduces the multiplier. The mathematical expression for this is:  $\text{Money Multiplier} = \frac{1}{LRR}$  Total credit creation is then calculated as  $\text{Initial Deposit} \times \frac{1}{LRR}$ . For instance, with an LRR of 10

**Final Answer:**  $1 / LRR$

**Answer: (A)**



Q22.

**Solution**

**Concept:** Monetary policy tools are divided into quantitative measures, which influence the overall quantity of money, and qualitative measures, which influence the allocation of credit to specific areas of the economy.

**Solution:** Margin Requirements are a qualitative tool because they control the maximum amount of loan a person can receive against collateral. For example, if the margin is 20%, a borrower can get a loan of ₹ 80 against a security worth ₹ 100. If the Central Bank wants to restrict credit to a specific sector, it increases the margin requirement. On the other hand, Bank Rate, Cash Reserve Ratio (CRR), and Open Market Operations (OMO) are quantitative tools as they change the overall liquidity and interest rate structure of the entire economy simultaneously.

**Final Answer:** Margin Requirements

**Answer:** (C)

Q23.

**Solution**

**Concept:** As the custodian of foreign exchange, the Central Bank manages the nation's reserves to ensure that the country remains solvent in international trade and that the exchange rate does not experience extreme volatility.

**Solution:** When the Central Bank acts as a custodian, it manages the 'official reserve transactions.' If the domestic currency experiences a sharp decline in value (depreciation), the Central Bank intervenes by selling foreign exchange from its reserves to buy back the domestic currency. Conversely, if the domestic currency appreciates too much, the bank buys foreign exchange to keep the value stable. This process is essential for maintaining the 'Managed Floating' system and ensuring that international trade remains predictable.

**Final Answer:** Stabilize the external value of the domestic currency

**Answer:** (B)



Q24.

**Solution**

**Concept:** The investment multiplier ( $k$ ) explains the relationship between an initial increase in investment and the resulting increase in national income. It is determined by the Marginal Propensity to Consume ( $MPC$ ), which represents the fraction of additional income spent on consumption.

**Solution:** The formula to calculate the investment multiplier is:  $k = \frac{1}{1-MPC}$  Substituting the given value of  $MPC = 0.8$ :  $k = \frac{1}{1-0.8} = \frac{1}{0.2} = 5$  This result indicates that for every ₹ 1 increase in investment, the total national income will increase by ₹ 5. This happens because one person's consumption expenditure becomes another person's income, leading to multiple rounds of income generation.

**Final Answer:** 5

**Answer:** (C)

Q25.

**Solution**

**Concept:** Deficient demand is a macroeconomic situation where the total planned expenditure (Aggregate Demand) is lower than the capacity of the economy to produce (Aggregate Supply) at the full employment level.

**Solution:** When Aggregate Demand ( $AD$ ) is less than the level required for full employment ( $AD < AS$  at  $Y_{full}$ ), it results in a Deflationary Gap. This gap measures the insufficiency of total spending. Because demand is weak, firms face unintended accumulation of inventories, which forces them to reduce output, income, and employment in the subsequent periods. This leads to a downward pressure on the general price level and results in an equilibrium level of income that is lower than the full employment level.

**Final Answer:** Deflationary Gap

**Answer:** (B)



Q26.

**Solution**

**Concept:** Deficient demand is a macroeconomic situation where the total planned expenditure (Aggregate Demand) is lower than the capacity of the economy to produce (Aggregate Supply) at the full employment level.

**Solution:** When Aggregate Demand ( $AD$ ) is less than the level required for full employment ( $AD < AS$  at  $Y_{full}$ ), it results in a Deflationary Gap. This gap measures the insufficiency of total spending. Because demand is weak, firms face unintended accumulation of inventories, which forces them to reduce output, income, and employment in the subsequent periods. This leads to a downward pressure on the general price level and results in an equilibrium level of income that is lower than the full employment level.

**Final Answer:** Deflationary Gap

**Answer: (B)**

Q27.

**Solution**

**Concept:** The **Break-even point** in macroeconomics refers to the level of income where consumption equals income, i.e., there are no savings:

$$S = 0 \quad \text{and} \quad C = Y$$

**Solution:** At the break-even point:

- Income is fully consumed.
- There is neither saving nor dissaving.

Now analyze the options:

(A)  $S = I \rightarrow$  This is the equilibrium condition, not specifically the break-even point.

(B)  $C = Y \rightarrow$  Correct. At break-even, all income is consumed and saving is zero.

(C)  $MPC = 1 \rightarrow$  Incorrect. MPC may be less than 1 even at break-even.

(D)  $APC = 0 \rightarrow$  Incorrect. At break-even,  $APC = \frac{C}{Y} = 1$ .

**Final Answer:**  $C = Y$

**Answer: (B)**



Q28.

**Solution**

**Concept:** Government receipts are classified based on their impact on the government's assets and liabilities. Capital receipts are those that either increase the financial burdens (liabilities) of the government or decrease its wealth (assets).

**Solution:** Borrowings are the most prominent example of capital receipts because they represent debt incurred by the government, which must be repaid with interest, thereby creating a future liability. On the contrary, Tax Revenue, Interest Receipts, and Dividends are categorized as Revenue Receipts. These do not result in a claim against the government, nor do they involve the sale of any government property. They are the routine earnings of the state used to fund its daily administrative and social welfare expenses.

**Final Answer:** Borrowings

**Answer:** (C)

Q29.

**Solution**

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**Final Answer:** Borrowings

**Answer:** (C)

Q30.

**Solution**

**Concept:** Capital receipts are those receipts of the government that either create a liability or lead to a reduction in the government's assets. Disinvestment falls under the latter category.

**Solution:** Disinvestment involves the sale of a portion or the entirety of the government's stake in public sector enterprises. Since the government is essentially selling off its property/assets to generate funds, it results in a decrease in the total assets held by the state. According to the classification of the Union Budget, any receipt that reduces assets must be treated as a Capital Receipt. This is distinct from Revenue Receipts, such as taxes, which do not affect the asset-liability status of the government.

**Final Answer:** Capital Receipt

**Answer:** (B)



Q31.

**Solution**

**Concept:** Primary Deficit is defined as:

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

Rearranging the formula:

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

**Solution:** Given:

$$\text{Primary Deficit} = 10,000, \quad \text{Interest Payments} = 8,000$$

Substituting:

$$\text{Fiscal Deficit} = 10,000 + 8,000 = 18,000$$

**Final Answer:** ₹ 18,000

**Answer: (B)**

Q32.

**Solution**

**Concept:** The Balance of Trade (BOT) is the narrowest measure of a country's international trade, focusing solely on the movement of tangible, physical commodities.

**Solution:** In international accounting, transactions are divided into visible and invisible items. Visible items refer to physical goods that can be touched and weighed, while invisible items refer to services. Balance of Trade specifically accounts only for the net value of these visible items (Exports of goods minus Imports of goods). Services, unilateral transfers, and investment income are excluded from BOT and are instead categorized under the broader Balance of Current Account. Capital flows like portfolio investments are recorded in the Capital Account.

**Final Answer:** Export and Import of visible goods only

**Answer: (B)**



Q33.

**Solution**

**Concept:** The Balance of Payments (BoP) is divided into:

- **Current Account:** Includes trade in goods and services, income (interest, dividends), and transfers.
- **Capital Account:** Includes transactions that lead to changes in assets or liabilities, such as foreign investment and loans.

**Solution:** Let us analyze each option:

(A) Export of Machinery → Current account item (export of goods).

(B) Foreign Direct Investment (FDI) → Correct. FDI involves capital inflows/outflows and is recorded in the capital account.

(C) Interest on foreign loans → Current account item (factor income).

(D) Shipping services → Current account item (services).

**Final Answer:** Foreign Direct Investment (FDI)

**Answer: (B)**

Q34.

**Solution**

**Concept:** Managed Floating is an exchange rate regime where the exchange rate is allowed to fluctuate daily based on market forces, but the Central Bank intervenes to keep the rate within a specific range.

**Solution:** In a managed floating system, the value of a currency is primarily dictated by its demand and supply in the foreign exchange market. However, to prevent excessive appreciation or depreciation—which could hurt exports or cause inflation—the Central Bank acts as a "manager." It buys foreign currency when the domestic currency is too strong and sells foreign currency when the domestic currency is too weak. This system provides a middle ground between the rigidity of a Fixed Exchange Rate and the volatility of a Pure Flexible Exchange Rate.

**Final Answer:** The rate is determined by market forces but intervened by the Central Bank

**Answer: (C)**



Q35.

**Solution**

**Concept:** Appreciation refers to an increase in the external value of a domestic currency in a flexible exchange rate system. It means the domestic currency becomes "stronger" relative to foreign currencies.

**Solution:** When the domestic currency appreciates, its purchasing power in the international market increases. Consequently, the cost of purchasing foreign goods (imports) decreases in terms of domestic currency, making them cheaper for residents. Conversely, foreign buyers must now spend more of their own currency to purchase the same amount of domestic goods, making those goods (exports) more expensive in the international market. This typically leads to a decrease in the volume of exports and an increase in the volume of imports.

**Final Answer:** Exports costlier and Imports cheaper

**Answer: (B)**

Q36.

**Solution**

**Concept:** The structure of the Indian economy during the British Raj was determined by the needs of the British Industrial Revolution. This resulted in a colonial relationship characterized by the 'Drain of Wealth'.

**Solution:** The British government's economic policies were designed to make India a 'feeder' for the British economy. This involved two main strategies: first, using India as a source of cheap raw materials for British factories, and second, using India as a captive market for high-priced finished goods produced in Britain. This led to the systematic destruction of the Indian traditional handicraft industry (De-industrialization) and kept the agricultural sector backward and stagnant. Therefore, the economy is described as a stagnant, colonial feeder economy.

**Final Answer:** A feeder economy (Stagnant and colonial)

**Answer: (B)**



Q37.

**Solution**

**Concept:** Post-1991, the protectionist regime for Small Scale Industries (SSIs) needed a revision to ensure their survival in a competitive, liberalized market. The Abid Hussain Committee provided the roadmap for this transition.

**Solution:** The Abid Hussain Committee on Small Scale Enterprises was constituted to look into the problems of the small-scale sector in the post-reform era. Its most significant and debated recommendation was the 'de-reservation' of items. Previously, over 800 items were reserved for exclusive production by SSIs. The committee argued that this prevented economies of scale and technological modernization. Following its report, the government began the process of de-reservation to make Indian small-scale units globally competitive.

**Final Answer:** Abid Hussain Committee

**Answer: (A)**

Q38.

**Solution**

**Concept:** The Five-Year Plans in India were designed to achieve multiple development objectives. The key goals included:

- **Growth and modernization** of the economy through industrial and agricultural development.
- **Self-reliance** by reducing dependence on imports.
- **Equity** to ensure fair distribution of income and reduce poverty.

**Solution:** Let us analyze the options:

(A) Modernization → A core objective of planning.

(B) Self-reliance → Also a major goal to reduce foreign dependence.

(C) Equity → Important goal to reduce inequality and promote social justice.

Since all the above are objectives of the Five-Year Plans:

**Final Answer:** All of the above

**Answer: (D)**



Q39.

**Solution**

**Concept:** The Green Revolution refers to the introduction of modern farming methods and technology to increase agricultural productivity, specifically targeting food grain self-sufficiency in India.

**Solution:** The first phase of the Green Revolution (mid-1960s to mid-1970s) was centered on the application of HYV (High-Yielding Variety) seeds for wheat and rice. These seeds, combined with the use of chemical fertilizers, pesticides, and intensive irrigation, led to a substantial increase in output. Because the most successful initial results were observed in wheat production, it is sometimes noted that the revolution began as a 'Wheat Revolution' before successfully expanding to rice. Other crops like pulses, oilseeds, and commercial crops were not part of this initial technological transformation.

**Final Answer:** Rice and Wheat

**Answer:** (A)

Q40.

**Solution**

**Concept:** The Industrial Policy Resolution (IPR) of 1956 was a landmark policy in India that aimed at building a socialist pattern of society. It classified industries into three categories based on the role of the public and private sectors.

**Solution:** The three categories were:

- **Schedule A:** Industries exclusively owned by the government.
- **Schedule B:** Industries where the state would play a progressively increasing role.
- **Schedule C:** Industries left to the private sector but under state regulation.

Thus, industries were classified into **three categories**.

**Final Answer:** Three

**Answer:** (B)



Q41.

**Solution**

**Concept:** The New Economic Policy (1991) in India was introduced during a severe economic crisis. The country was facing a sharp decline in foreign exchange reserves and a serious Balance of Payments (BoP) crisis, which made economic reforms necessary.

**Solution:** Let us analyze each option:

(A) High Foreign Exchange Reserves → Incorrect. India actually faced a shortage of foreign exchange reserves.

(B) Fiscal discipline → Not the immediate trigger, though reforms aimed to improve it.

(C) Economic Crisis and Balance of Payment deficit → Correct. The 1991 reforms were introduced primarily to address the severe BoP crisis and overall economic instability.

(D) Low Inflation → Incorrect. Inflation was not low; it was relatively high.

**Final Answer:** Economic Crisis and Balance of Payment deficit

**Answer: (C)**

Q42.

**Solution**

**Concept:** Privatisation is the process of involving the private sector in the ownership or operation of state-owned enterprises to enhance economic efficiency and reduce the fiscal burden on the government.

**Solution:** Under the policy of Privatisation, the government reduces its role as a producer. This is primarily achieved through 'Disinvestment' (selling equity shares of PSUs) or through the outright sale of public assets. By reducing government control, these enterprises are subjected to market competition, which encourages better resource allocation, technical efficiency, and improved financial performance. While Liberalisation refers to the removal of regulatory hurdles and Globalisation refers to economic integration, Privatisation specifically targets the ownership structure of the public sector.

**Final Answer:** Reducing government control and ownership of public sector enterprises

**Answer: (B)**



Q43.

**Solution**

**Concept:** Direct taxes are paid directly by the taxpayer to the government, whereas indirect taxes are collected by an intermediary (like a retailer) from the person who bears the ultimate economic burden of the tax (the consumer).

**Solution:** Income Tax, Wealth Tax, and Corporate Tax are direct taxes because the liability to pay and the actual burden of the tax fall on the same entity. In contrast, Goods and Services Tax (GST) is an indirect tax. The government levies GST on the manufacturer or seller, but they pass this cost onto the final consumer. Thus, the 'impact' is on the seller, but the 'incidence' is on the consumer. Other examples of indirect taxes include customs duties and central excise duties.

**Final Answer:** Goods and Services Tax (GST)

**Answer: (C)**

Q44.

**Solution**

**Concept:** Human capital refers to the stock of skill, ability, expertise, education, and knowledge embodied in the people of a nation. Human Capital Formation is the process of adding to this stock over time.

**Solution:** While physical capital formation involves increasing the stock of produced means of production (like machines and buildings), Human Capital Formation focuses on the qualitative improvement of the population. Investment in education increases knowledge and mental abilities, while investment in health ensures a physically fit workforce capable of consistent labor. Together, these investments enhance the productivity of the human resource, leading to higher economic growth. Other factors like on-the-job training and migration also contribute to this process.

**Final Answer:** Investment in education and health

**Answer: (B)**

Q45.

**Solution**

**Concept:** NABARD serves as the apex financing institution for the rural sector in India, ensuring that credit flows effectively to agriculture and allied activities.

**Solution:** Established in 1982 by a special Act of Parliament, NABARD took over the agricultural credit functions of the Reserve Bank of India (RBI) and the Agricultural Refinance and Development Corporation (ARDC). Its mandate is to facilitate credit flow for the promotion and development of agriculture, integrated rural development, and securing prosperity in rural areas. By providing refinance to cooperative banks and Regional Rural Banks, it ensures that institutional credit reaches the grassroots level, reducing the dependency of farmers on informal moneylenders.

**Final Answer:** Rural and Agricultural credit

**Answer: (B)**



Q46.

**Solution**

**Concept:** Employment status in an economy is categorized by the nature of the contract, the regularity of income, and the presence of legal protections. Regular salaried employment is considered the most stable form of wage employment.

**Solution:** Regular salaried employees are those workers who are engaged by an employer on a long-term basis and are included in the establishment's permanent payroll. Because of this formal arrangement, they are entitled to a set of benefits regulated by labor laws, including health insurance, provident funds, and retirement benefits. This distinguishes them from casual laborers, who are hired intermittently without any long-term commitment or social security, and the self-employed, who own and operate their own enterprises.

**Final Answer:** They are on the permanent payroll of their employer

**Answer: (C)**

Q47.

**Solution**

**Concept:** Sustainable development is a widely accepted concept defined by the Brundtland Commission. It focuses on meeting present needs while ensuring that future generations are not deprived of resources and opportunities.

**Solution:** The correct definition states that sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Let us analyze the options:

(A) The profits of big corporations → Incorrect. Sustainability is not defined in terms of corporate profits.

(B) The ability of future generations to meet their own needs → Correct. This is the exact definition of sustainable development.

(C) The current level of industrialization → Incorrect. It does not focus on maintaining industrial levels.

(D) The use of fossil fuels → Incorrect. Sustainable development actually aims to reduce dependence on fossil fuels.

**Final Answer:** The ability of future generations to meet their own needs

**Answer: (B)**



Q48.

**Solution**

**Concept:** To compare countries like India, China, and Pakistan, we consider indicators such as GDP growth, industrial development, population growth, HDI, and geographical size.

China has undergone rapid industrialization and sustained high economic growth over the past few decades due to strong manufacturing and export-oriented policies.

**Solution:** Let us analyze each option:

(A) Higher population growth rate → Incorrect. China has a lower population growth rate due to population control policies like the One-Child Policy (earlier) and current demographic slowdown.

(B) Lower Human Development Index (HDI) → Incorrect. China generally has a higher HDI than Pakistan and is comparable or higher than India in several indicators.

(C) Higher GDP growth rate and industrial development → Correct. China is known for its rapid GDP growth and strong industrial base compared to India and Pakistan.

(D) Smaller geographical area → Incorrect. China has a larger geographical area than Pakistan and is comparable to India.

**Final Answer:** Higher GDP growth rate and industrial development

**Answer: (C)**

Q49.

**Solution**

**Concept:** The Great Leap Forward (1958) was an economic and social campaign launched in 1958 under Mao Zedong. Its main objective was to rapidly transform the country from an agrarian economy into a socialist industrial economy through mass mobilization and decentralised production.

**Solution:** Let us analyze each option:

(A) Population control → Incorrect. Population control policies came much later in China.

(B) Large scale industrialization in every backyard → Correct. The GLF aimed at rapid industrialisation, including setting up small-scale “backyard furnaces” for steel production in rural areas.

(C) Promoting agriculture only → Incorrect. The focus was not only agriculture but also industrial expansion.

(D) Privatizing land → Incorrect. The policy actually promoted collectivisation, not privatisation.

**Final Answer:** Large scale industrialization in every backyard

**Answer: (B)**



Q50.

**Solution**

**Concept:** Life expectancy at birth is a key indicator of the health status and quality of life in a country. It is heavily influenced by public health policy, nutrition, and access to medical services.

**Solution:** According to recent Human Development Reports, China leads this group significantly. China's transition to a more developed economy, coupled with historical focus on public health, has pushed its life expectancy to around 78 years. India follows with a life expectancy nearing 70 years, having made strides in reducing maternal and infant mortality. Pakistan has the lowest life expectancy among the three, at approximately 66 years, due to slower progress in health infrastructure and social indicators. Therefore, China has the highest life expectancy among the given options.

**Final Answer:** China

**Answer:** (C)



**Answer Key**

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

