CUET-UG Economics Sample Paper-17

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. In a centrally planned economy, the central problems are solved by:

(A) Market forces of demand and supply

(B) A central planning authority

(C) Consumers' preferences

(D) Individual producers

Q2. When the price of a substitute good (Y) rises, the demand for the given good (X):

(A) Increases

(B) Decreases

(C) Remains constant

(D) Becomes zero

Q3. A consumer reaches equilibrium when the Marginal Rate of Substitution (MRS_{xy}) is:

(A) Greater than P_x/P_y

(B) Less than P_x/P_y

(C) Equal to P_x/P_y

(D) Equal to Zero

Q4. If a 10% increase in price leads to a 10% decrease in quantity demanded, the elasticity of demand is:

(A) Perfectly Elastic

(B) Unitary Elastic

(C) Relatively Inelastic

(D) Perfectly Inelastic

Q5. Which of the following is a reason for the Law of Demand?

(A) Law of Diminishing Marginal Utility

(B) Substitution Effect

(C) Income Effect

(D) All of the above

Q6. The Law of Variable Proportions operates in the:

(A) Long run

(B) Short run

(C) Market period

(D) Secular period

Q7. When Marginal Product (MP) is negative, Total Product (TP) is:

(A) Increasing

(B) Decreasing

(C) Constant

(D) Zero

Q8. The shape of the Total Fixed Cost (TFC) curve is:

(A) U-shaped

(B) Vertical straight line

(C) Horizontal straight line

(D) Rectangular hyperbola

Q9. Which cost curve is called an "Envelope Curve"?

(A) Short-run Average Cost Curve

(B) Long-run Average Cost Curve

(C) Marginal Cost Curve

(D) Average Variable Cost Curve

Q10. If the Marginal Cost (MC) is less than Average Cost (AC), then AC:

(A) Falls

(B) Rises

(C) Remains constant

(D) Is at its minimum

Q11. Under Perfect Competition, the firm's demand curve is:

(A) Downward sloping

(B) Upward sloping

(C) Perfectly Elastic

(D) Perfectly Inelastic

Q12. A firm reaches the shut-down point when Price is equal to:

(A) Minimum AC

(B) Minimum AVC

(C) Minimum MC

(D) Minimum AFC

Q13. The supply curve of a perfectly competitive firm is the rising part of:

(A) AC curve

(B) MC curve above the minimum of AVC

(C) AVC curve

(D) AFC curve

Q14. If the price elasticity of supply is greater than one, the supply curve:

(A) Passes through the origin

(B) Intersects the Y-axis

(C) Intersects the X-axis

(D) Is a vertical line

Q15. In a situation of "Excess Demand," the market price has a tendency to:

(A) Decrease

(B) Remain stable

(C) Increase

(D) Become zero

Q16. A "Price Floor" is generally imposed on:

(A) Essential consumer goods

(B) Luxury items

(C) Agricultural goods to protect farmers

(D) Capital goods

Q17. Which of the following is a "Stock" variable?

(A) National Income

(B) Money Supply

(C) Consumption

(D) Investment

Q18. To calculate NNP_{FC} from GDP_{MP}, we must:

(A) Add Depreciation and subtract NIT

(B) Subtract Depreciation and NIT, and add NFIA

(C) Subtract Depreciation and NFIA

(D) Add NIT and NFIA

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

(A) It is calculated at current prices

(B) It accounts for changes in the price level (Inflation)

(C) It includes transfer payments

(D) It excludes exports

Q20. The "Value Added" method helps to avoid:

(A) Inflation

(B) Double Counting

(C) Deflation

(D) Tax evasion

Q21. If the Legal Reserve Ratio (LRR) is 20%, the value of the Money Multiplier is:

(A) 2

(B) 4

(C) 5

(D) 10

Q22. Which of the following is not a function of the Central Bank?

(A) Issuing currency

(B) Banker to the government

(C) Accepting deposits from the general public

(D) Controller of credit

Q23. "Reverse Repo Rate" is the rate at which:

(A) Central Bank lends to Commercial Banks

(B) Commercial Banks lend to the public

(C) Central Bank borrows money from Commercial Banks

(D) Government borrows from the Central Bank

Q24. In the context of the 2-sector model, if $MPC = 0.75$, the Investment Multiplier (k) is:

(A) 2

(B) 3

(C) 4

(D) 5

Q25. Aggregate Supply (AS) is always equal to:

(A) $C + I$

(B) $C + S$

(C) $S + I$

(D) AD

Q26. "Ex-ante" investment refers to:

(A) Actual investment made during a year

(B) Desired or planned investment

(C) Unplanned inventory accumulation

(D) Total capital stock

Q27. To correct "Deficient Demand," the Central Bank should:

(A) Increase Bank Rate

(B) Sell securities in the Open Market

(C) Decrease Reserve Ratios

(D) Increase Margin Requirements

Q28. When $AD > AS$ at the full employment level, it creates:

(A) Deflationary Gap

(B) Inflationary Gap

(C) Equilibrium

(D) Full employment

Q29. A "Budget Deficit" occurs when:

(A) Total Receipts > Total Expenditure

(B) Revenue Receipts > Revenue Expenditure

(C) Total Expenditure > Total Receipts

(D) Capital Receipts > Capital Expenditure

Q30. Which of the following is a "Non-Tax Revenue"?

(A) Income Tax

(B) Customs Duty

(C) Escheats

(D) GST

Q31. Recovery of loans by the government is classified as:

(A) Revenue Receipt

(B) Capital Receipt

(C) Revenue Expenditure

(D) Capital Expenditure

Q32. Primary Deficit is calculated as:

(A) Fiscal Deficit - Interest Payments

(B) Revenue Deficit - Interest Payments

(C) Fiscal Deficit + Interest Payments

(D) Total Expenditure - Total Revenue

Q33. The "Balance of Trade" records:

(A) Export and Import of services

(B) Unilateral transfers

(C) Export and Import of visible goods

(D) Foreign investments

Q34. If the exchange rate of the Indian Rupee changes from $1 = ₹ 80 to $1 = ₹ 83, it is called:

(A) Appreciation of Rupee

(B) Depreciation of Rupee

(C) Devaluation

(D) Revaluation

Q35. Which of the following is an "Autonomous" item in the Balance of Payments?

(A) Items determined by profit motive

(B) Items used to cover the gap in BOP

(C) IMF loans

(D) Changes in Foreign Exchange Reserves

Q36. The main objective of the "Land Ceiling" policy was to:

(A) Increase the size of holdings

(B) Promote equity in agriculture

(C) Increase tax collection

(D) Encourage cooperative farming

Q37. The "Blue Revolution" in India is related to:

(A) Milk production

(B) Food grain production

(C) Fisheries

(D) Indigo plantation

Q38. Which sector was given the "Commanding Heights" in the IPR 1956?

(A) Private Sector

(B) Public Sector

(C) Foreign Sector

(D) Small Scale Sector

Q39. The strategy of "Substitution of Imports with Domestic Production" is known as:

(A) Export Promotion

(B) Inward Looking Trade Strategy

(C) Globalisation

(D) Outsourcing

Q40. Which of the following was a major reason for the 1991 Economic Reforms?

(A) Foreign Exchange Crisis

(B) High Inflation

(C) Burden of Foreign Debt

(D) All of the above

Q41. "Navratnas" refers to:

(A) Nine high-performing private companies

(B) Nine high-performing Public Sector Enterprises

(C) Nine types of taxes

(D) Nine agricultural crops

Q42. Outsourcing is a successful outcome of which policy?

(A) Liberalisation

(B) Privatisation

(C) Globalisation

(D) Demonetisation

Q43. World Trade Organization (WTO) was established in:

(A) 1948

(B) 1991

(C) 1995

(D) 2001

Q44. Which of the following is a source of "Human Capital"?

(A) Investment in education

(B) On-the-job training

(C) Migration

(D) All of the above

Q45. The "Micro-credit" system in India is largely associated with:

(A) Commercial Banks

(B) Self-Help Groups (SHGs)

(C) Land Development Banks

(D) RBI

Q46. "Jobless Growth" refers to a situation where:

(A) GDP grows without an increase in employment opportunities

(B) Employment grows faster than GDP

(C) Both GDP and Employment fall

(D) People refuse to work

Q47. The "Great Proletarian Cultural Revolution" was introduced in:

(A) India

(B) Pakistan

(C) China

(D) South Korea

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

(A) China

(B) India

(C) Pakistan

(D) They are all equal

Q49. Pakistan's economic reforms were initiated in the year:

(A) 1978

(B) 1988

(C) 1991

(D) 1998

Q50. The development strategy of China that focused on widespread industrialization in the 1950s was:

(A) Great Leap Forward

(B) Commune System

(C) Five Year Plans

(D) Special Economic Zones

Detailed Solutions

Q1.

Solution

Concept: A centrally planned economy is an economic system in which all major economic decisions, such as production, allocation of resources, and pricing, are made by the government or a central planning authority rather than by market forces.

Solution: In a centrally planned economy:

- The government determines what to produce, how to produce, and for whom to produce.
- Market forces like demand and supply play a minimal or no role in solving central problems.
- Individual consumers and producers do not independently decide resource allocation.

Let us analyze each option:

(A) Market forces of demand and supply → Incorrect. These operate in a market economy, not a centrally planned economy.

(B) A central planning authority → Correct. The government or central authority makes all key economic decisions.

(C) Consumers' preferences → Incorrect. These influence demand but do not solve central problems directly in a planned economy.

(D) Individual producers → Incorrect. Producers follow government directives rather than independent decision-making.

Final Answer: A central planning authority

Answer: (B)

Q2.

Solution

Concept: Substitute goods are those goods which can be used in place of each other, such as tea and coffee. When the price of one good changes, it affects the demand for its substitute.
Solution: If the price of substitute good (Y) rises:

- Y becomes more expensive.
- Consumers shift their demand from Y to the relatively cheaper good X.
- Hence, demand for good X increases.

Let us analyze the options:
(A) Increases $\rightarrow$ Correct. Demand for X rises due to substitution effect.
(B) Decreases $\rightarrow$ Incorrect.
(C) Remains constant $\rightarrow$ Incorrect.
(D) Becomes zero $\rightarrow$ Incorrect.
Final Answer: Increases

Answer: (A)

Q3.

Solution

Concept: A consumer is in equilibrium when he maximizes satisfaction given his budget constraint. At this point, the rate at which the consumer is willing to substitute one good for another equals the rate at which the market allows substitution.
This is given by:

$$MRS_{xy} = \frac{P_x}{P_y}$$

Solution: At equilibrium:

- Marginal Rate of Substitution (MRS_{xy}) equals the ratio of prices.
- This ensures that the consumer allocates income optimally between the two goods.

Now, evaluate the options:
(A) Greater than P_x/P_y $\rightarrow$ Incorrect. Consumer would adjust consumption.
(B) Less than P_x/P_y $\rightarrow$ Incorrect. Also indicates disequilibrium.
(C) Equal to P_x/P_y $\rightarrow$ Correct. This is the condition for consumer equilibrium.
(D) Equal to Zero $\rightarrow$ Incorrect. MRS is generally positive in normal goods.
Final Answer: Equal to P_x/P_y

Answer: (C)

Q4.

Solution

Concept: Price elasticity of demand measures the responsiveness of quantity demanded to a change in price:

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

Solution: Given:

- Percentage change in price = 10%
- Percentage change in quantity demanded = 10% (decrease)

So,

$$E_d = \frac{10\%}{10\%} = 1$$

When elasticity equals 1, demand is called **unitary elastic**.

Now evaluate options:

(A) Perfectly Elastic $\longrightarrow$ Incorrect. This would require infinite responsiveness.

(B) Unitary Elastic $\longrightarrow$ Correct. Elasticity equals 1.

(C) Relatively Inelastic $\longrightarrow$ Incorrect. This occurs when elasticity is less than 1.

(D) Perfectly Inelastic $\longrightarrow$ Incorrect. This occurs when quantity does not change at all.

Final Answer: Unitary Elastic

Answer: (B)

Q5.

Solution

Concept: The Law of Demand states that, other things remaining constant, there is an inverse relationship between price and quantity demanded. This relationship is explained through several underlying reasons.
Solution: The main reasons for the downward-sloping demand curve are:

- **Law of Diminishing Marginal Utility:** As consumption increases, additional satisfaction falls, so consumers buy more only at lower prices.
- **Substitution Effect:** When price of a good falls, it becomes relatively cheaper than substitutes, so consumers shift towards it.
- **Income Effect:** A fall in price increases real purchasing power, leading to higher quantity demanded.

Thus, all three factors contribute to the Law of Demand.
Now, evaluate options:
(A) Law of Diminishing Marginal Utility → Correct but incomplete reason.
(B) Substitution Effect → Correct but incomplete reason.
(C) Income Effect → Correct but incomplete reason.
(D) All of the above → Correct. All are valid reasons for the Law of Demand.
Final Answer: All of the above

Answer: (D)

Q6.

Solution

Concept: The Law of Variable Proportions explains the behavior of output when one factor of production is varied while other factors are kept constant. It is a short-run concept because at least one input is fixed in the short run.
Solution: Let us analyze each option:
(A) Long run → Incorrect. In the long run, all factors are variable, so the law does not apply.
(B) Short run → Correct. The law operates when some inputs are fixed and one is variable.
(C) Market period → Incorrect. This relates to demand-supply adjustments in very short time periods, not production theory.
(D) Secular period → Incorrect. This refers to very long-term trends in the economy.
Final Answer: Short run

Answer: (B)

Q7.

Solution

Concept: The relationship between Marginal Product (MP) and Total Product (TP) is fundamental in production theory:

- When MP is positive, TP increases.
- When MP is zero, TP is maximum.
- When MP is negative, TP falls.

Solution: If Marginal Product (MP) is negative, it means that adding an additional unit of input reduces total output.
Now analyze the options:
(A) Increasing $\rightarrow$ Incorrect. TP increases only when MP is positive.
(B) Decreasing $\rightarrow$ Correct. Negative MP causes TP to fall.
(C) Constant $\rightarrow$ Incorrect. TP is constant only when MP is zero.
(D) Zero $\rightarrow$ Incorrect. TP being zero is unrelated to MP being negative.
Final Answer: Decreasing

Answer: (B)

Q8.

Solution

Concept: Fixed costs are those costs which do not vary with the change in the level of output in the short run. They are incurred even at zero level of output.
Solution: The Total Fixed Cost (TFC) is represented graphically by plotting output on the x-axis and cost on the y-axis. Since TFC remains identical for every unit of output produced, the y-coordinate remains constant while the x-coordinate increases. This geometric property results in a horizontal straight line parallel to the x-axis. Mathematically, if $TFC = c$ (where c is a constant), the function is $f(x) = c$, which is a horizontal line.
Final Answer: Horizontal straight line

Answer: (C)

Q9.

Solution

Concept: In production theory, cost curves are classified into short-run and long-run cost curves. The Long-run Average Cost (LRAC) curve is known as the "Envelope Curve" because it envelops or touches a series of Short-run Average Cost (SAC) curves at different levels of output.
Solution: Let us analyze each option:
(A) Short-run Average Cost Curve → Incorrect. SAC curves are individual cost curves for specific plant sizes.
(B) Long-run Average Cost Curve → Correct. It is called the envelope curve as it is tangent to all SAC curves.
(C) Marginal Cost Curve → Incorrect. It shows additional cost of producing one more unit.
(D) Average Variable Cost Curve → Incorrect. It is a short-run cost component, not an envelope curve.
Final Answer: Long-run Average Cost Curve

Answer: (B)

Q10.

Solution

Concept: The relationship between Marginal Cost (MC) and Average Cost (AC) is important in cost theory. MC affects AC in the following way:

- If MC < AC, then AC is pulled down.
- If MC > AC, then AC is pulled up.
- If MC = AC, then AC is at its minimum point.

Solution: Given that MC is less than AC, each additional unit costs less than the current average. This reduces the overall average cost.
Now analyze the options:
(A) Falls → Correct. AC decreases when MC is less than AC.
(B) Rises → Incorrect.
(C) Remains constant → Incorrect.
(D) Is at its minimum → Incorrect. AC is minimum only when MC = AC.
Final Answer: Falls

Answer: (A)

Q11.

Solution

Concept: Under Perfect Competition, there are a very large number of buyers and sellers, and the product is homogeneous. An individual firm is a price taker and cannot influence the market price.
Solution: Since the firm is a price taker:

- The price is fixed by the market.
- The firm can sell any quantity at that price.
- Therefore, the demand curve faced by the firm is a horizontal straight line.

This implies that demand is perfectly elastic.
Now analyze the options:
(A) Downward sloping $\rightarrow$ Incorrect. This applies to monopoly or imperfect competition.
(B) Upward sloping $\rightarrow$ Incorrect.
(C) Perfectly Elastic $\rightarrow$ Correct. The firm's demand curve is horizontal.
(D) Perfectly Inelastic $\rightarrow$ Incorrect.
Final Answer: Perfectly Elastic

Answer: (C)

Q12.

Solution

Concept: Under Perfect Competition, a firm is a price taker because there are many buyers and sellers and the product is homogeneous. This means the firm cannot influence the market price and must accept it as given.
Solution: Since the firm can sell any quantity at the given market price:

- The price remains constant for the firm.
- Therefore, the demand curve is a horizontal straight line.
- A horizontal demand curve implies perfectly elastic demand.

Now analyze the options:
(A) Downward sloping $\rightarrow$ Incorrect. This occurs under imperfect competition.
(B) Upward sloping $\rightarrow$ Incorrect.
(C) Perfectly Elastic $\rightarrow$ Correct. The firm's demand curve is perfectly elastic.
(D) Perfectly Inelastic $\rightarrow$ Incorrect.
Final Answer: Perfectly Elastic

Answer: (C)

Q13.

Solution

Concept: Under Perfect Competition, the firm is a price taker ($P = MR$). The supply curve represents the relationship between price and quantity supplied, which is determined by the firm's Marginal Cost.

Solution: A firm will supply output only when the price is at least equal to the minimum of its Average Variable Cost ($P \geq \min AVC$). Above this point, the firm follows the $P = MC$ rule to maximize profits. Therefore, for any price greater than or equal to the minimum AVC, the quantity supplied is determined by the MC curve. Below the minimum AVC, the quantity supplied is zero. Thus, the short-run supply curve is defined as the rising segment of the MC curve starting from the shut-down point.

Final Answer: MC curve above the minimum of AVC

Answer: (B)

Q14.

Solution

Concept: Price elasticity of supply measures the responsiveness of quantity supplied to a change in price:

$$E_s = \frac{\%\text{ change in quantity supplied}}{\%\text{ change in price}}$$

If elasticity is greater than 1, supply is called **relatively elastic**, meaning quantity supplied responds more than proportionately to price changes. Such supply curves are typically steeper in shape but still pass through the origin in standard linear form.

Solution: Let us analyze each option:

(A) Passes through the origin → Correct. A relatively elastic supply curve generally starts from the origin in standard diagrams.

(B) Intersects the Y-axis → Incorrect. This would imply negative or fixed supply at zero price.

(C) Intersects the X-axis → Incorrect. Supply curves do not typically start from the quantity axis.

(D) Is a vertical line → Incorrect. A vertical line represents perfectly inelastic supply.

Final Answer: Passes through the origin

Answer: (A)

Q15.

Solution

Concept: Excess demand occurs when the market price is set below the equilibrium level, creating a gap where $Q_d > Q_s$.

Solution: In a free-market economy, prices act as a signaling mechanism. When excess demand exists, buyers are unable to purchase all they want at the current price. This scarcity creates competition among consumers, leading them to offer higher prices to sellers. As the price rises, the quantity demanded contracts and the quantity supplied expands. This upward movement continues until the 'shortage' is eliminated and the market returns to the equilibrium price where $Q_d = Q_s$.

Final Answer: Increase

Answer: (C)

Q16.

Solution

Concept: A Price Floor is a government-imposed minimum price set above the equilibrium price. It is mainly used to protect producers from falling prices by ensuring they receive a minimum guaranteed price.

Solution: Let us analyze each option:

(A) Essential consumer goods → Incorrect. These usually have price ceilings, not floors.

(B) Luxury items → Incorrect. Luxury goods are generally not regulated by price floors.

(C) Agricultural goods to protect farmers → Correct. Price floors (like Minimum Support Price) are commonly used to protect farmers' income.

(D) Capital goods → Incorrect. Price floors are not typically applied here.

Final Answer: Agricultural goods to protect farmers

Answer: (C)

Q17.

Solution

Concept: The distinction between stock and flow depends on the presence of a time interval. A stock is a quantity measured at a specific moment, while a flow is a magnitude measured over a duration.

Solution: National Income, Consumption, and Investment are all measured over a fiscal year or a specific month, making them flow variables. Money Supply, however, is the total stock of money in existence in an economy at a specific point in time. If we look at the change in money supply over a year, that change would be a flow, but the total volume itself remains a stock.

Final Answer: Money Supply

Answer: (B)

Q18.

Solution

Concept: To convert Gross Domestic Product at Market Price (GDP_{MP}) to Net National Product at Factor Cost (NNP_{FC}), three primary adjustments are required:

(a) **Gross to Net:** Subtract Depreciation (Consumption of Fixed Capital).

(b) **Domestic to National:** Add Net Factor Income from Abroad (NFIA).

(c) **Market Price to Factor Cost:** Subtract Net Indirect Taxes (NIT), where NIT = Indirect Taxes − Subsidies.

Solution: The derivation follows this mathematical pathway:

$$NNP_{FC} = GDP_{MP} - \text{Depreciation} + \text{NFIA} - \text{NIT}$$

By looking at the options:

- Option A is incorrect because it adds Depreciation.
- Option B correctly identifies the subtraction of Depreciation and NIT, and the addition of NFIA.
- Option C and D are incomplete.

Final Answer: The correct process is to subtract Depreciation and Net Indirect Taxes (NIT), and add Net Factor Income from Abroad (NFIA).

Answer: (B)

Q19.

Solution

Concept: The primary difference between Nominal GDP and Real GDP lies in the price level used for calculation:

- **Nominal GDP:** Measured at current market prices. It can increase simply because prices rose, even if the actual production of goods and services remained the same.
- **Real GDP:** Measured at constant prices (base year prices). It eliminates the effect of inflation, meaning any increase in Real GDP reflects an actual increase in the volume of production.

Solution: Real GDP is a superior indicator for comparing economic performance over time because it isolates "quantity" from "price." By holding prices constant, it allows economists to see if the economy is truly growing in terms of output.

- Option A describes Nominal GDP.
- Option B is the defining characteristic of Real GDP.
- Options C and D are irrelevant to the distinction between Nominal and Real GDP.

Final Answer: Real GDP accounts for changes in the price level (Inflation), providing a clearer picture of actual production growth.

Answer: (B)

Q20.

Solution

Concept: The Value Added method (also known as the Product Method) measures the contribution of each producing enterprise in the domestic territory of a country. It calculates the difference between the value of output and the value of intermediate consumption at each stage of production.
Solution: The primary purpose of using "Value Added" instead of simply summing the final prices of all transactions is to avoid **Double Counting**. Double counting occurs when the value of intermediate goods (like flour used to make bread) is counted multiple times—once as the output of the miller and again as part of the output of the baker.

- By only counting the *value added* at each stage ($Value\ of\ Output - Intermediate\ Consumption$), we ensure that the value of each good is only included once in the national income.
- Options A, C, and D are economic phenomena or issues, but they are not the specific technical problem solved by the Value Added method.

Final Answer: The "Value Added" method helps to avoid the problem of double counting in the estimation of national income.

Answer: (B)

Q21.

Solution

Concept: The Money Multiplier (k) is a phenomenon that demonstrates the process of credit creation by commercial banks. It is determined by the Legal Reserve Ratio (LRR), which is the minimum fraction of deposits that banks are required to keep as reserves (in the form of Cash Reserve Ratio and Statutory Liquidity Ratio). The relationship between the money multiplier and the LRR is inverse:

$$Money\ Multiplier\ (k) = \frac{1}{Legal\ Reserve\ Ratio\ (LRR)}$$

Solution: Given the Legal Reserve Ratio (LRR) is 20%.

(a) Convert the percentage into a decimal: $20\% = \frac{20}{100} = 0.2$.

(b) Apply the formula:

$$k = \frac{1}{0.2}$$
$$k = 5$$

This means that for every unit of initial deposit, the banking system can create 5 units of total money.

Final Answer: The value of the Money Multiplier is 5.

Answer: (C)

Q22.

Solution

Concept: The Central Bank (such as the RBI in India or the Federal Reserve in the US) is the apex monetary institution of a country. Its primary role is to regulate the banking system and maintain monetary stability. Key functions include:

- **Currency Authority:** Sole right to issue banknotes.
- **Banker to the Government:** Manages government accounts and public debt.
- **Banker's Bank:** Acts as a lender of last resort and supervisor to commercial banks.
- **Controller of Credit:** Regulates money supply using tools like Repo Rate and LRR.

Solution: The Central Bank operates at the macro level and does not deal directly with individual citizens.

- Options A, B, and D are standard legal and regulatory functions of a Central Bank.
- Option C, **Accepting deposits from the general public**, is a primary function of **Commercial Banks** (like SBI, HDFC, etc.), not the Central Bank.

Final Answer: Accepting deposits from the general public is not a function of the Central Bank.

Answer: (C)

Q23.

Solution

Concept: The Reverse Repo Rate is a qualitative/quantitative tool used by the Central Bank to control the money supply in the economy. It is part of the Liquidity Adjustment Facility (LAF).

- When the Central Bank increases the Reverse Repo Rate, it becomes more attractive for commercial banks to park their surplus funds with the Central Bank.
- This reduces the credit-creating capacity of commercial banks, thereby decreasing the money supply in the economy to control inflation.

Solution: To distinguish between the various rates:

- **Repo Rate:** The rate at which the Central Bank lends to commercial banks.
- **Reverse Repo Rate:** The rate at which the Central Bank "borrows" or accepts deposits from commercial banks.
- **Bank Rate:** The long-term lending rate by the Central Bank to commercial banks.

Therefore, Option C is the only definition that fits "Reverse Repo Rate."
Final Answer: Central Bank borrows money from Commercial Banks

Answer: (C)

Q24.

Solution

Concept: The Investment Multiplier (k) expresses the relationship between an initial increment in investment and the resulting increase in aggregate income. In a two-sector model, the multiplier is determined by the Marginal Propensity to Consume (MPC). There is a direct relationship between MPC and the multiplier: the higher the MPC, the higher the value of the multiplier. The formula is:

$$k = \frac{1}{1 - MPC} \quad \text{or} \quad k = \frac{1}{MPS}$$

Solution: Given that the Marginal Propensity to Consume (MPC) is 0.75:

(a) Substitute the value of MPC into the multiplier formula:

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

(b) Simplify the denominator:

$$k = \frac{1}{0.25}$$

(c) Calculate the final value:

$$k = 4$$

This means that an initial increase in investment will lead to a fourfold increase in the total national income.

Final Answer: The value of the Investment Multiplier is 4.

Answer: (C)

Q25.

Solution

Concept: Aggregate Supply (AS) refers to the total value of goods and services that all the producers are willing to supply in an economy during a given time period. In macroeconomics, Aggregate Supply is identical to the National Income (Y). Since income is either consumed (C) or saved (S), Aggregate Supply can be expressed as the sum of consumption and saving.

Solution: The components of Aggregate Supply are:

- **Consumption (C):** Expenditure by households on goods and services.
- **Saving (S):** The portion of income that is not consumed.

Mathematically:

$$AS = Y = C + S$$

Comparing this with the options:

- Option A ($C + I$) represents Aggregate Demand (AD) in a two-sector economy.
- Option B ($C + S$) is the correct identity for Aggregate Supply.
- Option C ($S + I$) relates to the equilibrium condition where $S = I$.
- Option D (AD) only equals AS at the equilibrium point, but they are not "always" equal by definition.

Final Answer: Aggregate Supply is always equal to $C + S$.

Answer: (B)

Q26.

Solution

Concept: In macroeconomics, the terms "Ex-ante" and "Ex-post" are used to distinguish between planned intentions and actual realized outcomes:

- **Ex-ante:** Refers to the "planned," "desired," or "intended" value of a variable at the beginning of a period.
- **Ex-post:** Refers to the "actual" or "realized" value of a variable as measured at the end of a period.

Solution: Ex-ante investment represents the amount of investment which firms or entrepreneurs *plan* to invest at different levels of income in the economy.

- Option A describes **Ex-post investment**.
- Option B correctly defines **Ex-ante investment** as planned or desired investment.
- Option C refers to **unplanned investment**, which occurs when actual sales differ from expected sales.
- Option D refers to the total volume of productive assets at a point in time, not a flow of investment.

Final Answer: Desired or planned investment

Answer: (B)

Q27.

Solution

Concept: Deficient Demand occurs when Aggregate Demand (AD) is less than Aggregate Supply (AS) at the full employment level. This leads to a deflationary gap. To correct this, the Central Bank uses "Cheap Money Policy" to increase the money supply and stimulate spending.

- **Decreasing Reserve Ratios (LRR):** Frees up more funds for commercial banks to lend.
- **Decreasing Bank Rate/Repo Rate:** Makes borrowing cheaper for banks and the public.
- **Buying Securities (OMOs):** Injects liquidity into the banking system.

Solution: To boost demand, the Central Bank must make credit easier and cheaper to obtain.

- Options A, B, and D are contractionary measures used to reduce excess demand.
- Option C, **Decrease Reserve Ratios**, increases the credit creation capacity of banks, helping to correct deficient demand.

Final Answer: Decrease Reserve Ratios

Answer: (C)

Q28.

Solution

Concept: When AD exceeds AS at the level of full employment, it represents a situation of "Excess Demand." Since the economy is already at full employment, real output cannot increase further. Consequently, the extra demand puts upward pressure on prices.
Solution: The vertical difference between the actual Aggregate Demand and the Aggregate Demand required to maintain full employment is called the **Inflationary Gap**.

- Option A (Deflationary Gap) occurs when $AD < AS$ at full employment.
- Option B is the correct term for the pressure caused by $AD > AS$.
- Options C and D describe states of the economy, but not the "gap" created by this specific imbalance.

Final Answer: Inflationary Gap

Answer: (B)

Q29.

Solution

Concept: A government budget is a financial statement showing the estimated receipts and estimated expenditure of the government for a fiscal year. A "deficit" in general financial terms signifies a shortfall or a status where outgoings exceed incoming funds. In the context of a government budget:

- **Balanced Budget:** Total Expenditure = Total Receipts.
- **Surplus Budget:** Total Receipts > Total Expenditure.
- **Deficit Budget:** Total Expenditure > Total Receipts.

Solution: A budget deficit specifically refers to the situation where the government's total estimated spending (both revenue and capital) exceeds its total estimated income from all sources (tax, non-tax, and capital receipts).

- Option A describes a Budget Surplus.
- Option B describes a Revenue Surplus.
- Option C, **Total Expenditure > Total Receipts**, is the standard definition of a Budget Deficit.
- Option D is just one component of the budget and does not define the overall deficit.

Final Answer: Total Expenditure > Total Receipts

Answer: (C)

Q30.

Solution

Concept: Government receipts are broadly categorized into two types:

(a) **Tax Revenue:** These are compulsory payments made by individuals and firms to the government without any direct expectation of benefit (e.g., Income Tax, GST, Corporate Tax).

(b) **Non-Tax Revenue:** These are receipts from sources other than taxes. They arise from providing administrative services, commercial activities, or legal penalties. Common examples include interest receipts, dividends/profits from public enterprises, fees, fines, and **Escheats**.

Solution: To identify the correct answer, we must categorize each option:

- **Income Tax:** A Direct Tax (Tax Revenue).
- **Customs Duty:** An Indirect Tax (Tax Revenue).
- **Escheats:** Refers to the claim of the government on the property of a person who dies without having any legal heir or leaving a will. Since this is not a tax, it falls under Non-Tax Revenue.
- **GST:** An Indirect Tax (Tax Revenue).

Final Answer: Escheats

Answer: (C)

Q31.

Solution

Concept: Government receipts are divided into Revenue Receipts and Capital Receipts based on their impact on assets and liabilities:

- **Revenue Receipts:** Neither create a liability nor cause a reduction in assets (e.g., Taxes, Fees).
- **Capital Receipts:** Either create a liability (e.g., Borrowings) or cause a reduction in the assets of the government.

Solution: When the government recovers a loan that it had previously granted to others (like state governments or foreign nations), it is treated as a **Capital Receipt**.

- This is because the loan was an "asset" for the government (as it was earning interest).
- When the loan is repaid and recovered, that financial asset is reduced or liquidated.
- Therefore, any receipt that leads to a reduction in assets is classified as a Capital Receipt.

Final Answer: Capital Receipt

Answer: (B)

Q32.

Solution

Concept: The Primary Deficit is a key fiscal indicator that shows the government's borrowing requirements excluding the interest burden accumulated from past borrowings. It reflects the extent to which current government policy (current expenditures and taxes) contributes to the national debt, independent of historical debt obligations.
Solution: The formula for Primary Deficit is derived from the Fiscal Deficit. Since the Fiscal Deficit represents the total borrowing needs of the government, subtracting the interest payments on previous loans isolates the "primary" or current year's deficit.

(a) **Fiscal Deficit:** Total borrowing needed for the current year.

(b) **Interest Payments:** Payments made on debt taken in previous years.

(c) **Primary Deficit:** $Fiscal\ Deficit - Interest\ Payments.$

Therefore, Option A is the correct mathematical representation.
Final Answer: Fiscal Deficit - Interest Payments

Answer: (A)

Q33.

Solution

Concept: The Balance of Payments (BoP) is divided into the Current Account and the Capital Account. Within the Current Account, we distinguish between "visible" and "invisible" items:

- **Visible Items:** Physical goods that can be seen, touched, and weighed (Merchandise).
- **Invisible Items:** Services (banking, shipping), unilateral transfers (gifts), and income flows.

The **Balance of Trade (BoT)**, also known as the Trade Balance, is a narrower concept that focuses strictly on the merchandise sector.
Solution: Balance of Trade is the difference between the value of exports of goods and the value of imports of goods.

- Option A (Services) and Option B (Unilateral transfers) are "invisible" items and are part of the **Balance of Current Account**, but not the Balance of Trade.
- Option D (Foreign investments) is a part of the **Capital Account**.
- Option C, **Export and Import of visible goods**, is the correct definition of the Balance of Trade.

Final Answer: The "Balance of Trade" records the Export and Import of visible goods.

Answer: (C)

Q34.

Solution

Concept: In a flexible exchange rate system, the value of a currency is determined by the market forces of demand and supply.

- **Currency Depreciation:** This occurs when the value of a domestic currency falls in terms of a foreign currency. It means one unit of foreign currency now buys more units of the domestic currency.
- **Currency Appreciation:** This occurs when the domestic currency becomes more valuable, meaning one unit of foreign currency buys fewer units of the domestic currency.

Note: Devaluation and Revaluation are similar concepts but occur under a Fixed Exchange Rate system where the government/central bank intervenes officially.

Solution: In this scenario:

(a) Initially: $1 = 80

(b) New rate: $1 = 83

The price of one US Dollar has increased from 80 to 83. Conversely, the Indian Rupee has become "cheaper" because you now need more Rupees to buy a single Dollar. This loss in value due to market forces is known as **Depreciation**.

Final Answer: Depreciation of Rupee

Answer: (B)

Q35.

Solution

Concept: In the Balance of Payments (BoP), transactions are classified into two categories based on their nature and purpose:

(a) **Autonomous Items:** These are international economic transactions (like exports, imports, and investments) that take place due to some economic motive, such as profit maximization. They are independent of the state of the BoP and are often called "Above the Line" items.

(b) **Accommodating Items:** These are transactions (like IMF loans or changes in reserves) undertaken by the central bank to cover a deficit or surplus arising from autonomous transactions. These are called "Below the Line" items.

Solution: To distinguish between the options provided:

- **Option A:** Correct. Autonomous items are driven by individual or corporate profit motives, regardless of whether the BoP is in equilibrium.
- **Option B:** Describes accommodating items, which "accommodate" or fill the gap.
- **Options C and D:** These are specific examples of accommodating items used to correct a BoP imbalance.

Final Answer: Items determined by profit motive

Answer: (A)

Q36.

Solution

Concept: Land Ceiling refers to fixing the maximum size of land which could be owned by an individual or a family. Beyond the specified limit, all land is confiscated by the government and redistributed to landless laborers and small farmers.
The primary goals of land reforms in India, particularly the land ceiling, were to:

(a) Reduce the concentration of land ownership in a few hands (abolishing the Zamindari influence).

(b) Ensure social justice by distributing land to the actual tillers.

Solution: The policy was designed to bridge the gap between large landlords and landless peasants.

- Option A is incorrect as it aimed to *limit* the size of large holdings, not increase them.
- Option B is the correct choice; the policy was a tool to promote **equity** (fairness) in the agricultural sector by ensuring land was not concentrated among a wealthy few.
- Options C and D were secondary possibilities or separate policies, but not the "main objective" of the ceiling itself.

Final Answer: The main objective of the "Land Ceiling" policy was to promote equity in agriculture.

Answer: (B)

Q37.

Solution

Concept: The "Blue Revolution" (Neel Kranti) refers to the time of intense growth in the worldwide aquaculture industry from the mid-1960s to the present. In India, it was launched during the 7th Five-Year Plan (1985–1990) with the aim of doubling the income of fishers and fish farmers. To differentiate:

- **Green Revolution:** Food grain production (Wheat and Rice).
- **White Revolution:** Milk production (Operation Flood).
- **Yellow Revolution:** Oilseeds production.

Solution: The Blue Revolution specifically focuses on the management and development of the fisheries sector. It involves the adoption of new technologies for fish breeding, rearing, marketing, and export to transform the sector into a modern industry.

- Option A refers to the White Revolution.
- Option B refers to the Green Revolution.
- Option C is the correct association for the Blue Revolution.
- Option D is related to colonial history and the "Indigo Revolt," not a post-independence agricultural revolution.

Final Answer: Fisheries

Answer: (C)

Q38.

Solution

Concept: The Industrial Policy Resolution (IPR) of 1956 formed the basis of the Second Five-Year Plan and the roadmap for industrial development in India. It categorized industries into three schedules (Schedule A, B, and C). The resolution was heavily influenced by the "Mahalanobis Model," which emphasized the development of heavy and basic industries under state control to achieve a socialistic pattern of society.

Solution: Under IPR 1956, the State (Government) was assigned a leading role in the industrialization process. The government aimed to control the "Commanding Heights" of the economy to ensure social justice and prevent the concentration of economic power in private hands.

- **Public Sector:** Given the "Commanding Heights," with 17 industries (Schedule A) reserved exclusively for the state.
- **Private Sector:** Played a secondary role and was kept under a system of strict licensing.
- **Foreign/Small Scale:** While the Small Scale sector was encouraged for employment, it did not hold the strategic leadership role defined as the "Commanding Heights."

Final Answer: Public Sector

Answer: (B)

Q39.

Solution

Concept: Import substitution is an economic strategy in which a country focuses on replacing foreign imports with domestically produced goods. This approach aims to reduce dependence on imports and promote domestic industries.

Solution: Let us analyze each option:

(A) Export Promotion → Incorrect. This focuses on increasing exports rather than reducing imports.

(B) Inward Looking Trade Strategy → Correct. Import substitution is part of an inward-looking strategy where domestic production is encouraged over imports.

(C) Globalisation → Incorrect. Globalisation promotes integration with world markets.

(D) Outsourcing → Incorrect. Outsourcing refers to contracting work to other countries or firms.

Final Answer: Inward Looking Trade Strategy

Answer: (B)

Q40.

Solution

Concept: The Economic Reforms of 1991, often referred to as the New Economic Policy (NEP), were necessitated by a severe economic crisis that had been building up throughout the 1980s. The crisis was characterized by a "Balance of Payments" (BoP) failure, where India's foreign exchange reserves were barely enough to pay for two weeks of imports.
Solution: The 1991 crisis was multi-dimensional:

- **Foreign Exchange Crisis:** Reserves dropped significantly due to high import costs (especially oil) and poor export performance.
- **High Inflation:** Prices of essential goods were rising at double-digit rates (around 17%), causing widespread economic instability.
- **Burden of Foreign Debt:** Internal and external debt reached unsustainable levels, and the government found it difficult to make interest payments.

Since all three factors were primary drivers for the government to approach the IMF and World Bank for help, the answer is "All of the above."
Final Answer: All of the above

Answer: (D)

Q41.

Solution

Concept: To improve efficiency and infuse professionalism into Public Sector Undertakings (PSUs) after the 1991 reforms, the government started granting them greater managerial and financial autonomy. Based on their performance and potential, these PSUs were categorized into different statuses: Maharatnas, Navratnas, and Miniratnas.
Solution: The term "Navratnas" (literally "Nine Jewels") was inspired by the nine legendary scholars in the court of Emperor Vikramaditya. In the economic context:

- It refers to a specific group of **Public Sector Enterprises** (PSEs) that have been given a high degree of autonomy to compete in the global market.
- These companies can invest up to 1,000 crore or 15% of their net worth on a single project without seeking prior government approval.
- While the number of such companies has changed over the years (exceeding nine), the name remains a title for high-performing government-owned entities.

Final Answer: Nine high-performing Public Sector Enterprises

Answer: (B)

Q42.

Solution

Concept: Outsourcing is a practice where a company hires external agencies, often in other countries, to perform services that were traditionally handled internally. This has become a signature feature of the modern world economy due to the growth of Information Technology (IT) and telecommunications. It allows companies to benefit from lower labor costs and specialized skills available in developing nations like India.

Solution: To identify the correct policy, we examine the pillars of the 1991 New Economic Policy:

- **Liberalisation:** Refers to the removal of entry and growth restrictions on the private sector.
- **Privatisation:** Refers to the transfer of ownership or management of government-owned enterprises to the private sector.
- **Globalisation:** Refers to the integration of the national economy with the world economy. Since outsourcing involves the cross-border flow of services and information, it is a direct and successful outcome of Globalisation.
- **Demonetisation:** A monetary policy where specific currency units are withdrawn from circulation; it is unrelated to the rise of international outsourcing.

Final Answer: Globalisation

Answer: (C)

Q43.

Solution

Concept: The World Trade Organization (WTO) is an international body that sets the rules for global trade and resolves disputes between member nations. It was established as the successor to the General Agreement on Tariffs and Trade (GATT), which had been in place since 1948. The WTO aims to expand multilateral trade by removing tariffs and non-tariff barriers.

Solution: While GATT was established in 1948, the WTO was officially founded following the Marrakesh Agreement.

- Option A (1948) refers to the establishment of GATT.
- Option B (1991) marks the beginning of economic reforms in India.
- Option C (1995) is the correct year the WTO commenced operations (January 1, 1995).

Final Answer: 1995

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 through specific investments that increase future productivity.
Solution: Investment in humans is similar to investment in physical capital. The major sources include:

- **Education:** Increases skill levels and future income-earning capacity.
- **Health:** A healthy worker is more productive than a sick one.
- **On-the-job training:** Enhances the technical skills of the existing workforce.
- **Migration:** People move to places with better job opportunities, where the gain in income exceeds the cost of migration.

Since all the provided options contribute to building the expertise and productivity of the population, "All of the above" is the correct choice.
Final Answer: All of the above

Answer: (D)

Q45.

Solution

Concept: Micro-credit refers to the provision of small loans and other financial services to the poor who lack access to traditional banking due to a lack of collateral. In India, this system emerged as a response to the failures of formal credit institutions in reaching rural areas. The most prominent model for delivering micro-credit is the linkage between banks and informal groups of people.
Solution: To identify the primary association of micro-credit:

- **Commercial Banks:** While they provide the funds, they are part of the "formal" credit system.
- **Self-Help Groups (SHGs):** These are informal groups of 15–20 members (usually women) who pool their savings to give small loans to members. This "Micro-credit Programme" has been highly successful in promoting rural thrift and financial inclusion.
- **Land Development Banks:** Focus on long-term credit for land improvement, not micro-loans.
- **RBI:** Is the regulatory body, not a direct provider of micro-credit.

Final Answer: Self-Help Groups (SHGs)

Answer: (B)

Q46.

Solution

Concept: Growth is generally expected to generate employment. However, when an economy experiences an increase in the production of goods and services (GDP) over a long period without a corresponding increase in employment opportunities, it is termed "Jobless Growth." This often happens when economic growth is driven more by technological advancements and capital-intensive methods rather than labor-intensive ones.
Solution: We can evaluate the options based on the relationship between production and jobs:

- **Option A:** Correct. This is the definition of jobless growth—the economy produces more, but the number of jobs remains the same or shrinks.
- **Option B:** This would be labor-intensive growth, the opposite of jobless growth.
- **Option C:** This indicates an economic recession or depression.
- **Option D:** This refers to voluntary unemployment, which is a behavioral choice, not a macroeconomic growth pattern.

Final Answer: GDP grows without an increase in employment opportunities

Answer: (A)

Q47.

Solution

Concept: The Great Proletarian Cultural Revolution was a socio-political movement aimed at enforcing communism in the country by removing capitalist, traditional, and cultural elements from society. It followed the "Great Leap Forward" and was led by Mao Zedong. Students and professionals were sent to work and learn from the countryside during this period.
Solution: The movement is a significant part of the history of the People's Republic of China.

- **India:** Followed a democratic path with Five-Year Plans.
- **Pakistan:** Economic history is marked by varying degrees of private and public sector dominance.
- **China:** Correct. Mao Zedong introduced the Cultural Revolution in 1966, which lasted until 1976.
- **South Korea:** Focused on export-oriented industrialization and rapid economic development known as the "Miracle on the Han River."

Final Answer: China

Answer: (C)

Q48.

Solution

Concept: Population density is defined as the number of persons living per unit of land area (usually per square kilometer). It is calculated as:

$$Population\ Density = \frac{Total\ Population}{Total\ Land\ Area}$$

While China has the largest total population among the three (historically, though India has recently surpassed it), its land area is much larger than that of India and Pakistan. Therefore, a higher total population does not necessarily mean a higher density.

Solution: Comparing the three neighboring nations:

- **China:** Despite its massive population, it has a vast geographical area, including large uninhabitable regions (deserts and mountains), resulting in a relatively lower density (approx. 150 persons per sq. km).
- **Pakistan:** Has a smaller population and a smaller land area compared to the others, with a density of approx. 280-300 persons per sq. km.
- **India:** India has a very large population packed into a land area that is about one-third the size of China's. This results in the highest density among the three (approx. 470-480 persons per sq. km).

Final Answer: India

Answer: (B)

Q49.

Solution

Concept: The three neighboring countries—India, China, and Pakistan—started their economic reforms at different times. China was the first to open its economy in 1978. India followed in 1991 under the New Economic Policy. Pakistan, on the other hand, initiated its structural adjustment programs and economic reforms slightly earlier than India, during the late 1980s.

Solution: Pakistan initiated its economic reforms, often referred to as the "Structural Adjustment Programme," in the year 1988.

- **1978:** Marks the beginning of economic reforms in China.
- **1988:** The correct year for the start of Pakistan's economic reforms.
- **1991:** Marks the beginning of economic reforms in India.
- **1998:** Unrelated to the initial start of these countries' reform eras.

Final Answer: 1988

Answer: (B)

Q50.

Solution

Concept: The **Great Leap Forward (GLF)** was a campaign initiated by the Communist Party of China in 1958. Its primary objective was to transform the country from an agrarian economy into a modern industrial society in a very short period. A unique feature of this strategy was the encouragement of people to set up "backyard furnaces" to produce steel in their own homes or communities.

Solution: We can differentiate the options based on their specific roles in China's development:

- **Option A:** The **Great Leap Forward** was the specific campaign that focused on widespread, rapid industrialization, including the rural areas.
- **Option B:** The **Commune System** was a method of land cultivation where people collectively owned and farmed land; while related, it was the agricultural counterpart to the GLF's industrial goals.
- **Option C:** China did use Five Year Plans, but the specific 1950s strategy for "widespread" industrialization is best identified as the GLF.
- **Option D:** **Special Economic Zones (SEZs)** were introduced much later, in the late 1970s and 80s, to attract foreign investment.

Final Answer: Great Leap Forward

Answer: (A)

Answer Key

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