

CUET-UG Economics Sample Paper-18

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. The 'Scarcity Definition' of Economics was popularized by:

- (A) Adam Smith
- (B) Alfred Marshall
- (C) Lionel Robbins
- (D) Samuelson

Q2. If the Marginal Utility of Good X is 40 and its price is 10, and the Marginal Utility of Good Y is 30, what must be the price of Good Y for the consumer to be in equilibrium?

- (A) 5
- (B) 7.50
- (C) 10
- (D) 15

Q3. Total Utility starts decreasing when Marginal Utility is:

- (A) Zero
- (B) Positive
- (C) Negative
- (D) Increasing



Q4. An 'Extension in Demand' is the result of:

- (A) Increase in number of consumers
- (B) Decrease in the price of the commodity
- (C) Increase in the price of substitutes
- (D) Change in taste and preferences

Q5. The Average Product (AP) is defined as:

- (A) $\Delta TP / \Delta L$
- (B) TP / L
- (C) $MP \times L$
- (D) $TP - MP$

Q6. 'Economies of Scale' explain why the Long-run Average Cost (LAC) curve is:

- (A) U-shaped
- (B) L-shaped
- (C) Horizontal
- (D) Vertical

Q7. Which cost increases continuously with an increase in output?

- (A) Average Fixed Cost
- (B) Marginal Cost
- (C) Total Variable Cost
- (D) Total Fixed Cost

Q8. In the third stage of the Law of Variable Proportions:

- (A) TP is rising
- (B) MP is zero
- (C) MP is negative



(D) AP is negative

Q9. A competitive firm maximizes profit at an output where:

- (A) Price = AC
- (B) Slope of TR = Slope of TC
- (C) TR is maximum
- (D) Total Cost is minimum

Q10. If the supply of a commodity is 'Unitary Elastic,' the supply curve:

- (A) Is a vertical line
- (B) Is a horizontal line
- (C) Passes through the origin
- (D) Intersects the Y-axis

Q11. 'Viable Industry' is one where:

- (A) Demand curve lies above the supply curve
- (B) Supply curve lies above the demand curve
- (C) Demand and supply never intersect
- (D) Equilibrium price is zero

Q12. A 'Price Ceiling' usually leads to:

- (A) Emergence of black markets
- (B) Accumulation of stocks by producers
- (C) Increase in quality of goods
- (D) Surplus of the commodity

Q13. In the short run, if $P < AVC$, a firm should:

- (A) Increase price
- (B) Shut down



- (C) Continue to produce to cover fixed costs
- (D) Increase output

Q14. Market equilibrium for a commodity is determined by:

- (A) Individual demand
- (B) Individual supply
- (C) Interaction of market demand and market supply
- (D) Government intervention

Q15. If demand increases and supply decreases, the equilibrium price will:

- (A) Definitely rise
- (B) Definitely fall
- (C) Remain constant
- (D) Become zero

Q16. 'Real Flow' refers to the flow of:

- (A) Money between households and firms
- (B) Goods and services between households and firms
- (C) Capital between banks
- (D) Taxes between government and public

Q17. Which of the following is a 'Transfer Payment'?

- (A) Bonus given to employees
- (B) Commission to a broker
- (C) Financial help to earthquake victims
- (D) Payment for stationery

Q18. National Income (NNP_{fc}) = GNP_{mp} - _____ :

- (A) Depreciation + NIT



- (B) Depreciation - NIT
- (C) NIT - Depreciation
- (D) NFIA + Depreciation

Q19. 'Double Counting' in GDP calculation leads to:

- (A) Underestimation of National Income
- (B) Overestimation of National Income
- (C) Correct estimation
- (D) Zero National Income

Q20. Capital loss is NOT included in Depreciation because:

- (A) It is an expected loss
- (B) It is an unexpected loss (accidental)
- (C) It is a revenue expenditure
- (D) It is already part of NIT

Q21. The 'Medium of Exchange' function of money solved the problem of:

- (A) Store of value
- (B) Double coincidence of wants
- (C) Deferred payments
- (D) Unit of account

Q22. The 'Legal Reserve Ratio' (LRR) is a combination of:

- (A) Bank Rate and Repo Rate
- (B) CRR and SLR
- (C) SLR and Repo Rate
- (D) CRR and Margin Requirements

Q23. Who issues 1 notes and coins in India?



- (A) RBI
- (B) Ministry of Finance
- (C) State Bank of India
- (D) NITI Aayog

Q24. If the LRR is 10%, an initial deposit of 500 creates total deposits of:

- (A) 5,000
- (B) 50,000
- (C) 500
- (D) 2,500

Q25. The 'Consumption Curve' starts from a point above the origin because of:

- (A) Induced Consumption
- (B) Autonomous Consumption
- (C) Savings
- (D) High Income

Q26. The value of $MPC + MPS$ is always:

- (A) 0
- (B) 1
- (C) > 1
- (D) ∞

Q27. 'Ex-ante Investment' means:

- (A) Actual investment in a year
- (B) Planned investment at the start of a period
- (C) Investment in second-hand goods
- (D) Unplanned inventory accumulation



- Q28.** To correct 'Excess Demand,' the government should:
- (A) Increase public expenditure
 - (B) Decrease taxes
 - (C) Decrease public expenditure
 - (D) Adopt a deficit budget
- Q29.** The multiplier effect is stronger when:
- (A) MPS is high
 - (B) MPC is high
 - (C) Income is low
 - (D) Savings are high
- Q30.** Which of the following is a 'Direct Tax'?
- (A) GST
 - (B) Excise Duty
 - (C) Wealth Tax
 - (D) Entertainment Tax
- Q31.** 'Disinvestment' is categorized as:
- (A) Revenue Receipt
 - (B) Capital Receipt
 - (C) Capital Expenditure
 - (D) Plan Expenditure
- Q32.** Fiscal Deficit - Interest Payments = _____ :
- (A) Revenue Deficit
 - (B) Primary Deficit
 - (C) Budgetary Deficit



(D) Capital Deficit

Q33. The 'Redistributive objective' of the budget is achieved through:

- (A) Progressive Taxation
- (B) Regressive Taxation
- (C) Proportional Taxation
- (D) Fixed Taxation

Q34. 'Accommodating Items' in BOP are also known as:

- (A) Above the line items
- (B) Below the line items
- (C) Autonomous items
- (D) Invisible items

Q35. If the Foreign Exchange Rate rises, the demand for foreign currency:

- (A) Rises
- (B) Falls
- (C) Remains constant
- (D) Becomes infinite

Q36. The 'Suez Canal' opened in _____, reducing the cost of transport between Britain and India.

- (A) 1850
- (B) 1869
- (C) 1901
- (D) 1921

Q37. The 'Great Divide' year in India's demographic history is:

- (A) 1921



- (B) 1951
- (C) 1991
- (D) 1901

Q38. The primary sector's contribution to GDP during the 1950-90 period:

- (A) Increased
- (B) Declined
- (C) Remained stagnant
- (D) Became zero

Q39. Which body replaced the Planning Commission in 2015?

- (A) Finance Commission
- (B) NITI Aayog
- (C) NDC
- (D) Ministry of Planning

Q40. 'Tariffs' and 'Quotas' were used under the policy of:

- (A) Export Promotion
- (B) Import Substitution
- (C) Privatisation
- (D) Outsourcing

Q41. The 'Self-Employed' make up roughly _____ % of the Indian workforce.

- (A) 20%
- (B) 30%
- (C) 52%
- (D) 10%

Q42. Human Capital considers 'Education' as an investment in:



- (A) Social welfare
- (B) Productivity
- (C) Personal hobby
- (D) Political power

Q43. Rural banks often suffer from high _____ (overdue payments).

- (A) Deposits
- (B) Default rates
- (C) Interest rates
- (D) Reserves

Q44. Which of the following is a 'Non-renewable' resource?

- (A) Solar energy
- (B) Wind energy
- (C) Fossil fuels
- (D) Fisheries

Q45. 'Jobless Growth' refers to a situation where:

- (A) GDP grows but employment does not
- (B) Employment grows but GDP does not
- (C) Both GDP and employment fall
- (D) GDP is stagnant

Q46. 'Great Leap Forward' (GLF) was focused on:

- (A) Agriculture only
- (B) Widespread industrialization
- (C) Population control
- (D) Foreign trade



- Q47.** Which country has the highest 'GNI per capita' among the three neighbours?
- (A) India
 - (B) Pakistan
 - (C) China
 - (D) Afghanistan
- Q48.** Pakistan's growth in the 70s was mainly due to remittances from:
- (A) USA
 - (B) Middle East
 - (C) UK
 - (D) China
- Q49.** 'Introduction of reforms' sequence (Earliest to latest):
- (A) China → Pakistan → India
 - (B) India → China → Pakistan
 - (C) China → India → Pakistan
 - (D) Pakistan → China → India
- Q50.** China's 'Special Economic Zones' (SEZs) were designed to attract:
- (A) Domestic farmers
 - (B) Foreign investors
 - (C) Government employees
 - (D) Military experts



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

Concept: Economists have defined the scope of economics differently over time: Adam Smith focused on wealth, Alfred Marshall on material welfare, and Lionel Robbins on the allocation of limited resources.

Solution: The **Scarcity Definition** of economics was popularized by **Lionel Robbins** in his 1932 book, *"An Essay on the Nature and Significance of Economic Science."*

- Robbins defined economics as: "The science which studies human behavior as a relationship between ends and scarce means which have alternative uses."
- This definition shifted the focus of economics from material welfare to the **problem of choice** arising from unlimited wants and limited resources.
- **Adam Smith** is associated with the "Wealth Definition," and **Alfred Marshall** with the "Welfare Definition."

Final Answer:

(C) Lionel Robbins

Answer: (C)



Q2.

Solution

Concept: According to the **Law of Equi-Marginal Utility**, a consumer is in equilibrium when the ratio of marginal utility of a good to its price is equal across all goods consumed. This is expressed as:

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

Solution: Given:

- $MU_x = 40, P_x = 10$
- $MU_y = 30, P_y = ?$

Substituting the values into the equilibrium formula:

$$\frac{40}{10} = \frac{30}{P_y}$$

$$4 = \frac{30}{P_y}$$

$$P_y = \frac{30}{4} = 7.50$$

Therefore, the price of Good Y must be 7.50 for the consumer to be in equilibrium.

Final Answer:

(B) 7.50

Answer: (B)



Q3.

Solution

Concept: The relationship between Total Utility (TU) and Marginal Utility (MU) defines the consumer's experience. MU is the rate of change of TU.

- When MU is positive, TU increases.
- When MU is zero, TU is at its maximum (Point of Satiation).
- When MU becomes negative, TU begins to decline.

Solution: Total Utility starts decreasing only when the consumption of an additional unit provides disutility, meaning the **Marginal Utility is negative**. This indicates that the consumer has surpassed the point of maximum satisfaction and further consumption causes a drop in total well-being.

Final Answer:

(C) Negative

Answer: (C)

Q4.

Solution

Concept: A change in quantity demanded can occur in two ways:

- **Movement along the demand curve:** Caused by a change in the price of the own commodity (Extension or Contraction).
- **Shift in the demand curve:** Caused by changes in factors other than price (Increase or Decrease).

Solution: An '**Extension in Demand**' refers to a rise in the quantity demanded specifically due to a **decrease in the price** of the commodity, assuming other factors remain constant (*ceteris paribus*).

- Options (A), (C), and (D) lead to an *Increase in Demand* (a rightward shift), not an extension.
- Extension is represented by a downward movement along the same demand curve.

Final Answer:

(B) Decrease in the price of the commodity

Answer: (B)



Q5.

Solution

Concept: In the theory of production, we analyze the relationship between inputs and outputs using three main measures: Total Product (TP), Marginal Product (MP), and Average Product (AP).

Solution: The **Average Product (AP)** refers to the output per unit of the variable input (usually labor). It is calculated by dividing the Total Product by the total units of the variable factor employed.

- **Formula:** $AP = \frac{TP}{L}$
- Option (A) $\Delta TP / \Delta L$ defines the *Marginal Product (MP)*.
- Option (C) $MP \times L$ does not represent a standard product identity.

[Image of TP, AP, and MP curves relationship]

Final Answer:

(B) TP/L

Answer: (B)

Q6.

Solution

Concept: The Long-run Average Cost (LAC) curve is known as the "Planning Curve" or "Envelope Curve." Its shape is determined by the returns to scale that a firm experiences as it expands its size.

Solution: The LAC curve is **U-shaped** due to the operation of **Economies and Diseconomies of Scale**.

- **Economies of Scale:** As output increases initially, the average cost falls due to better utilization of resources, specialization, and technical efficiency.
- **Constant Returns to Scale:** The curve reaches a minimum point where the average cost is at its lowest.
- **Diseconomies of Scale:** Eventually, as the firm becomes too large to manage efficiently, coordination problems arise, causing the average cost to rise.

Final Answer:

(A) U-shaped

Answer: (A)



Q7.

Solution

Concept: Total Cost is the sum of Total Fixed Cost (TFC) and Total Variable Cost (TVC).

- **Fixed Costs:** Remain constant regardless of the level of output (e.g., rent).
- **Variable Costs:** Change directly with the level of output (e.g., raw materials, labor).

Solution: The **Total Variable Cost (TVC)** increases continuously with an increase in output because more units of variable factors are required to produce more goods.

- **Average Fixed Cost (AFC)** actually *decreases* continuously as output increases (the "rectangular hyperbola" effect).
- **Total Fixed Cost (TFC)** remains horizontal and constant.
- **Marginal Cost (MC)** typically falls and then rises, so it does not increase "continuously" from zero.

[Image of Total Variable Cost and Total Fixed Cost curves]

Final Answer:

(C) Total Variable Cost

Answer: (C)



Q8.

Solution

Concept: The Law of Variable Proportions (Returns to a Variable Factor) describes three stages of production as more units of a variable factor are combined with a fixed factor.

- **Stage I (Increasing Returns):** TP rises at an increasing rate; MP rises.
- **Stage II (Diminishing Returns):** TP rises at a decreasing rate; MP falls but remains positive.
- **Stage III (Negative Returns):** TP begins to fall.

Solution: In the **third stage**, the pressure on the fixed factor becomes so great that the additional units of the variable factor actually hinder the production process.

- Consequently, the **Marginal Product (MP) becomes negative**.
- Total Product (TP) starts to decline.
- Average Product (AP) continues to fall but stays positive (as long as TP is positive).

Final Answer:

(C) MP is negative

Answer: (C)

Q9.

Solution

Concept: A firm's profit (π) is the difference between Total Revenue (TR) and Total Cost (TC). In calculus terms, to maximize profit, the first derivative of the profit function must be zero ($\frac{d\pi}{dq} = 0$).

Solution: Profit is maximized when the gap between TR and TC is at its widest.

- Mathematically, this occurs where **Marginal Revenue (MR) = Marginal Cost (MC)**.
- Since MR is the **slope of the TR curve** and MC is the **slope of the TC curve**, the equilibrium point is where the **Slope of TR = Slope of TC**.
- In perfect competition, since Price is constant, $P = MR$; thus, the condition is also $P = MC$.

Final Answer:

(B) Slope of TR = Slope of TC

Answer: (B)



Q10.

Solution

Concept: The price elasticity of supply (E_s) measures the responsiveness of quantity supplied to a change in price. When $E_s = 1$, it is called Unitary Elastic Supply.

Solution: For any linear supply curve, the elasticity depends on its intercept on the axes:

- If the supply curve **passes through the origin** (making any angle), the elasticity of supply is always equal to **unity** ($E_s = 1$).
- If it intersects the Y-axis (Price axis), $E_s > 1$.
- If it intersects the X-axis (Quantity axis), $E_s < 1$.

Final Answer:

(C) Passes through the origin

Answer: (C)

Q11.

Solution

Concept: An industry's viability is determined by whether producers can afford to supply at a price that consumers are willing to pay.

Solution: A **Viable Industry** is one where the demand and supply curves intersect at some point in the positive quadrant.

- This occurs when the **demand curve lies above the supply curve** for at least some range of output.
- Specifically, the maximum price consumers are willing to pay (intercept of the demand curve) must be higher than the minimum price at which producers are willing to start supplying (intercept of the supply curve).
- If the supply curve is always above the demand curve, the product will not be produced as it is not economically feasible.

Final Answer:

(A) Demand curve lies above the supply curve

Answer: (A)



Q12.

Solution

Concept: A **Price Ceiling** (or Maximum Price) is a government-imposed limit on how high a price can be charged for a product, usually set below the equilibrium price to protect consumers.

Solution: Setting a price below equilibrium creates an **excess demand** (shortage). Since the legal price is low but the demand is high, it typically leads to:

- **Emergence of black markets:** Sellers may illegally sell the good at prices higher than the ceiling.
- **Rationing:** Since supply is limited, the government often has to issue coupons to ensure fair distribution.
- Option (D) is incorrect because a ceiling leads to a *shortage*, not a surplus.

Final Answer:

(A) Emergence of black markets

Answer: (A)

Q13.

Solution

Concept: In the short run, a firm faces both fixed and variable costs. The decision to stay in business depends on whether the firm can at least cover its operating (variable) costs.

Solution: If the Price (P) falls below the **Average Variable Cost (AVC)**, the firm is not even recovering the cost of its raw materials and labor for each unit produced.

- By continuing to produce, the firm loses its total fixed costs *plus* a portion of its variable costs.
- By shutting down, the firm limits its losses strictly to its total fixed costs.
- Therefore, $P = AVC$ is known as the **Shut-down Point**. If $P < AVC$, the firm should **Shut down**.

Final Answer:

(B) Shut down

Answer: (B)



Q14.

Solution

Concept: Market equilibrium is a state where the intentions of all buyers and sellers in the market are synchronized, leaving no incentive for the price to change.

Solution: Market equilibrium is determined by the **interaction of market demand and market supply**.

- **Market Demand:** The sum of all individual demands at various prices.
- **Market Supply:** The sum of all individual supplies at various prices.
- The point where the market demand curve intersects the market supply curve determines the **Equilibrium Price** and **Equilibrium Quantity**. At this point, Quantity Demanded (Q_d) = Quantity Supplied (Q_s).

Final Answer:

(C) Interaction of market demand and market supply

Answer: (C)

Q15.

Solution

Concept: Simultaneous shifts in demand and supply have predictable effects on equilibrium price and quantity depending on the direction of the shifts.

Solution: When the following two events occur simultaneously:

- **Demand Increases:** This shifts the demand curve to the right, putting **upward pressure** on the price.
- **Supply Decreases:** This shifts the supply curve to the left, also putting **upward pressure** on the price.

Since both movements push the price in the same direction, the equilibrium price will **definitely rise**. (Note: The effect on equilibrium quantity would be uncertain without knowing the magnitude of the shifts).

Final Answer:

(A) Definitely rise

Answer: (A)



Q16.

Solution

Concept: In a circular flow of income, the economy consists of two types of flows: Real Flow and Money Flow.

Solution: **Real Flow** refers to the exchange of physical goods and factors of production between the sectors of the economy.

- It involves the flow of **factor services** (land, labor, capital, enterprise) from households to firms.
- It also involves the flow of **goods and services** from firms to households.
- Unlike money flow, it does not involve the exchange of currency.

Final Answer:

(B) Goods and services between households and firms

Answer: (B)

Q17.

Solution

Concept: Payments in an economy are categorized into Factor Payments (earned) and Transfer Payments (unearned).

Solution: A **Transfer Payment** is a "one-way" payment for which no goods or services are exchanged in return.

- **Financial help to earthquake victims** is a transfer payment because it is a unilateral gift/grant.
- **Bonus, Commission, and Stationery payments** are all linked to a service or factor contribution and are thus part of factor income or intermediate consumption.
- Transfer payments are **not included** in the calculation of National Income.

Final Answer:

(C) Financial help to earthquake victims

Answer: (C)



Q18.

Solution

Concept: To convert GNP_{mp} to NNP_{fc} , we must address two conceptual gaps: 1. The difference between "Gross" and "Net" (Depreciation). 2. The difference between "Market Price" and "Factor Cost" (Net Indirect Taxes).

Solution: The relationship is derived as follows:

$$(a) \quad GNP_{mp} - \text{Depreciation} = NNP_{mp}$$

$$(b) \quad NNP_{mp} - \text{Net Indirect Taxes (NIT)} = NNP_{fc}$$

Combining these, we get:

$$NNP_{fc} = GNP_{mp} - (\text{Depreciation} + \text{NIT})$$

Note: NIT = Indirect Taxes – Subsidies.

Final Answer:

(A) Depreciation + NIT

Answer: (A)

Q19.

Solution

Concept: Double counting occurs when the value of the same good is counted more than once while calculating national income. This usually happens when the value of intermediate goods is added alongside the value of final goods.

Solution: If a baker buys flour for 50 and sells bread for 80, the total contribution to GDP should be 80 (the final value) or 30 (the value added).

- If we add both the flour (50) and the bread (80), we get 130.
- This results in an **Overestimation of National Income** because the value of the flour is already included in the price of the bread.

Final Answer:

(B) Overestimation of National Income

Answer: (B)



Q20.

Solution

Concept: Depreciation (Consumption of Fixed Capital) refers to the loss in value of fixed assets due to normal wear and tear, passage of time, or expected obsolescence.

Solution: Depreciation only covers **expected** or foreseeable decreases in value.

- **Capital Loss** refers to a loss in value due to **unexpected** events like natural calamities (floods, earthquakes) or accidents (fire).
- Since these are not part of the normal production process, they are treated as capital losses rather than depreciation.

Final Answer:

(B) It is an unexpected loss (accidental)

Answer: (B)

Q21.

Solution

Concept: Before money, the Barter System relied on the direct exchange of goods. This system had several limitations that money eventually addressed through its primary functions.

Solution: The **Medium of Exchange** function is the most fundamental function of money.

- Under Barter, exchange required a "**Double Coincidence of Wants**"—meaning both parties had to simultaneously need what the other was offering.
- Money solved this by acting as an intermediary, allowing people to sell goods for money and then use that money to buy what they actually need.

Final Answer:

(B) Double coincidence of wants

Answer: (B)



Q22.

Solution

Concept: The Legal Reserve Ratio (LRR) is a monetary tool used by the Central Bank to regulate the credit creation capacity of commercial banks. It represents the minimum fraction of deposits that banks are legally required to keep as reserves.

Solution: The **Legal Reserve Ratio (LRR)** consists of two components:

- **Cash Reserve Ratio (CRR):** The portion of total deposits that commercial banks must keep as cash with the Central Bank (RBI).
- **Statutory Liquidity Ratio (SLR):** The portion of total deposits that commercial banks must maintain with themselves in the form of liquid assets (Gold, Cash, or approved securities).

Thus, $LRR = CRR + SLR$.

Final Answer:

(B) CRR and SLR

Answer: (B)

Q23.

Solution

Concept: In India, the authority to issue currency is divided between the Central Bank and the Central Government under the Reserve Bank of India Act, 1934 and the Coinage Act.

Solution: While the **Reserve Bank of India (RBI)** has the sole authority to issue all currency notes of denominations 2 and above, the **Ministry of Finance** (Government of India) is responsible for:

- Issuing **one-rupee notes**.
- Issuing **all coins** of various denominations.

Note: The one-rupee note is signed by the **Finance Secretary**, whereas other notes are signed by the Governor of the RBI.

Final Answer:

(B) Ministry of Finance

Answer: (B)



Q24.

Solution

Concept: The capacity of the banking system to create credit depends on the Money Multiplier (or Deposit Multiplier), which is inversely related to the Legal Reserve Ratio (LRR).

Solution: The formula for Total Deposit Creation is:

$$\text{Total Deposits} = \text{Initial Deposit} \times \frac{1}{\text{LRR}}$$

Given:

- Initial Deposit = 500
- LRR = 10% (or 0.10)

Calculation:

$$\text{Money Multiplier} = \frac{1}{0.10} = 10$$

$$\text{Total Deposits} = 500 \times 10 = 5,000$$

Thus, an initial deposit of 500 will lead to a total credit creation of 5,000.

Final Answer:

(A) 5,000

Answer: (A)

Q25.

Solution

Concept: The Keynesian consumption function is represented as $C = \bar{c} + bY$, where C is total consumption, \bar{c} is autonomous consumption, b is the marginal propensity to consume, and Y is income.

Solution: The consumption curve does not start from the origin (zero) because even at zero level of income, there is a minimum level of consumption required for survival (food, shelter, etc.).

- This is known as **Autonomous Consumption** (\bar{c}).
- This consumption is financed through past savings (dissaving) or borrowing.
- Consequently, the consumption curve has a positive intercept on the Y-axis.

Final Answer:

(B) Autonomous Consumption

Answer: (B)



Q26.

Solution

Concept: In macroeconomics, any additional unit of national income (Y) is either consumed (C) or saved (S). Therefore, the change in income (ΔY) is equal to the sum of the change in consumption (ΔC) and the change in savings (ΔS).

Solution: The relationship can be derived as follows:

- (a) We know that: $\Delta Y = \Delta C + \Delta S$
- (b) Dividing both sides by ΔY : $\frac{\Delta Y}{\Delta Y} = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y}$
- (c) This gives: $1 = MPC + MPS$

Since the total change in income is completely exhausted by consumption and saving, the sum of **Marginal Propensity to Consume (MPC)** and **Marginal Propensity to Save (MPS)** must **always equal 1**.

Final Answer:

(B) 1

Answer: (B)

Q27.

Solution

Concept: In macroeconomic theory, especially in the Keynesian model, we distinguish between "Ex-ante" (planned/desired) and "Ex-post" (actual/realized) variables.

Solution: "**Ex-ante Investment**" refers to the amount of investment which firms **plan or intend to invest** at different levels of income in the economy during a particular period.

- It is the "planned" or "intended" investment, not the actual amount that ends up being spent.
- **Ex-post Investment** (Option A), on the other hand, represents the actual investment that took place, including unplanned inventory changes.

Final Answer:

(B) Planned investment at the start of a period

Answer: (B)



Q28.

Solution

Concept: Excess Demand (Inflationary Gap) occurs when Aggregate Demand (AD) exceeds Aggregate Supply (AS) at the full employment level. To correct this, the government must adopt "Contractionary Fiscal Policy" to reduce the level of AD in the economy.

Solution: To reduce the purchasing power and total spending in the economy:

- The government should **decrease public expenditure**, which directly reduces the injection of money into the economy.
- Alternatively, the government could increase taxes (to reduce disposable income) or aim for a budget surplus.
- Options (A), (B), and (D) are all expansionary measures that would worsen excess demand.

Final Answer:

(C) Decrease public expenditure

Answer: (C)

Q29.

Solution

Concept: The Investment Multiplier (k) measures the ratio of the change in national income to the initial change in investment. Its value depends on how much of the additional income people spend on consumption.

Solution: The relationship between the multiplier and propensities is given by:

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

- There is a **direct relationship** between the Multiplier and **MPC** (Marginal Propensity to Consume). If people spend a larger portion of their new income, it creates more income for others, leading to a larger total increase.
- There is an **inverse relationship** between the Multiplier and **MPS** (Marginal Propensity to Save). Savings act as a "leakage" from the circular flow; higher savings (high MPS) reduce the strength of the multiplier.

Final Answer:

(B) MPC is high

Answer: (B)



Q30.

Solution

Concept: Taxes are classified into Direct and Indirect based on their impact and incidence.

- **Direct Tax:** The burden of the tax cannot be shifted; the person who is legally liable to pay the tax also bears the economic burden.
- **Indirect Tax:** The burden can be shifted from the seller to the buyer (e.g., taxes on goods and services).

Solution: **Wealth Tax** is a **Direct Tax** because it is imposed on the property or assets of an individual and must be paid directly by that person to the government.

- **GST, Excise Duty, and Entertainment Tax** are all **Indirect Taxes** as they are levied on goods and services and the burden is shifted to the final consumer.

Final Answer:

(C) Wealth Tax

Answer: (C)

Q31.

Solution

Concept: Government receipts are divided into Revenue Receipts and Capital Receipts.

- **Revenue Receipts:** Neither create a liability nor reduce any asset.
- **Capital Receipts:** Either create a liability (like borrowing) or **reduce an asset**.

Solution: **Disinvestment** refers to the sale of all or part of the government's equity/shares in Public Sector Undertakings (PSUs).

- Since this process results in a **reduction of the government's assets**, it is categorized as a **Capital Receipt**.

Final Answer:

(B) Capital Receipt

Answer: (B)



Q32.

Solution

Concept: Budgetary deficits indicate the financial health of the government. While Fiscal Deficit shows total borrowing requirements, other measures refine this data to show current year obligations.

Solution: The difference between the Fiscal Deficit and interest payments is known as the **Primary Deficit**.

- **Formula:** Primary Deficit = Fiscal Deficit - Interest Payments.
- This measure shows how much the government needs to borrow to meet expenses *other than* the interest obligations accumulated from past borrowings.
- A zero primary deficit indicates that the government's borrowing is only to pay off interest on old loans.

Final Answer:

(B) Primary Deficit

Answer: (B)

Q33.

Solution

Concept: The government uses fiscal policy to reduce inequalities of income and wealth. This is known as the redistributive objective (or the "Allocation of Resources" and "Distribution of Income" objective).

Solution: The **Redistributive objective** is primarily achieved through **Progressive Taxation**.

- In a progressive tax system, the rate of tax increases as the income level increases. This puts a higher burden on the rich.
- The revenue collected from these taxes is then used to provide subsidies, free education, and healthcare for the poor.
- This process helps in narrowing the gap between the rich and the poor.

Final Answer:

(A) Progressive Taxation

Answer: (A)



Q34.

Solution

Concept: Balance of Payments (BOP) transactions are classified based on their purpose into Autonomous and Accommodating items.

Solution: Accommodating Items are those transactions that are undertaken by the Central Bank to cover the gap (deficit or surplus) in the BOP arising from autonomous transactions.

- These are also known as "**Below the line items**" because they are determined by the end result of all other transactions.
- Unlike autonomous items (Above the line), accommodating items are not done for profit motive but for restoring BOP equilibrium.

Final Answer:

(B) Below the line items

Answer: (B)

Q35.

Solution

Concept: The demand for foreign exchange is inversely related to the exchange rate. This relationship forms the downward-sloping demand curve for foreign currency.

Solution: If the Foreign Exchange Rate rises (meaning the domestic currency has depreciated and foreign currency has become more expensive):

- Imports become costlier for domestic residents, leading to a fall in imports.
- Traveling abroad or investing in foreign countries becomes more expensive.
- As a result, the **demand for foreign currency falls**.

Final Answer:

(B) Falls

Answer: (B)



Q36.

Solution

Concept: The Suez Canal is an artificial sea-level waterway in Egypt, connecting the Mediterranean Sea to the Red Sea. Its opening was a turning point for colonial trade.

Solution: The **Suez Canal** was opened in **1869**.

- Before its opening, ships from Britain had to sail around the entire African continent (Cape of Good Hope) to reach India.
- The canal provided a direct route, significantly reducing the distance and cost of transporting goods between Britain and its colony, India.
- This further intensified the colonial exploitation of Indian resources.

Final Answer:

(B) 1869

Answer: (B)

Q37.

Solution

Concept: Demographic transition describes the stages of population growth. The "Year of Great Divide" marks the transition from a period of fluctuating population growth to a period of consistent increase.

Solution: The year **1921** is known as the '**Year of Great Divide**' in India's demographic history.

- Before 1921, India was in the first stage of demographic transition, where population growth was stagnant and often fluctuated due to high birth and death rates.
- After 1921, the death rate began to fall due to better health facilities, while the birth rate remained high, leading to a continuous and rapid increase in population.

Final Answer:

(A) 1921

Answer: (A)



Q38.

Solution

Concept: Structural change in an economy refers to the shift in the relative contribution of different sectors (Primary, Secondary, and Tertiary) to the Gross Domestic Product (GDP).

Solution: During the planning period of **1950-1990**, the Indian economy underwent significant structural transformation.

- The share of the **Primary Sector** (Agriculture) in GDP **declined** significantly (from about 59% in 1950 to about 35% in 1990).
- Simultaneously, the shares of the secondary and tertiary sectors increased, which is a hallmark of a developing economy.
- However, it is important to note that the percentage of the workforce dependent on agriculture did not decline as sharply as its contribution to GDP.

Final Answer:

(B) Declined

Answer: (B)

Q39.

Solution

Concept: Economic planning in India underwent a structural shift in 2015, moving from a centralized "top-down" approach to a more collaborative "bottom-up" approach involving the states.

Solution: The **Planning Commission** (established in 1950) was replaced by the **NITI Aayog** (National Institution for Transforming India) on January 1, 2015.

- Unlike the Planning Commission, NITI Aayog serves as a "Think Tank" for the government.
- It emphasizes **Cooperative Federalism** by ensuring the active participation of State Governments in the planning process.
- It does not have the power to allocate funds to ministries or state governments, which was a core function of the old Planning Commission.

Final Answer:

(B) NITI Aayog

Answer: (B)



Q40.

Solution

Concept: During the first seven Five-Year Plans (1950–1990), India followed an Inward-Oriented Trade Strategy to protect domestic industries from foreign competition.

Solution: "**Tariffs**" (taxes on imported goods) and "**Quotas**" (numerical limits on the quantity of imports) were the primary tools of **Import Substitution**.

- The goal was to encourage the production of goods domestically rather than importing them from abroad.
- Tariffs made imported goods more expensive, while Quotas restricted their availability.
- This policy aimed to achieve **Self-Reliance** and protect "infant industries" in India from the established firms of developed nations.

Final Answer:

(B) Import Substitution

Answer: (B)

Q41.

Solution

Concept: Employment in India is broadly classified into three categories: Self-employment, Casual Wage Labor, and Regular Salaried Employment.

Solution: The **Self-employed** category remains the largest provider of employment in India.

- About **52%** of the Indian workforce is self-employed. This includes farmers, shopkeepers, and independent professionals.
- Casual wage labor accounts for roughly 25%, while regular salaried employees make up about 23% of the workforce.
- The high percentage of self-employment is a characteristic feature of developing economies with a large agricultural base and informal sector.

Final Answer:

(C) 52%

Answer: (C)



Q42.

Solution

Concept: Human Capital refers to the stock of skill, ability, expertise, education, and knowledge embodied in the people of a country.

Solution: Human Capital theory treats education and health as means to an end.

- It considers education as an investment in **Productivity**.
- Just as a machine (physical capital) increases the output of a factory, education increases the labor productivity of an individual, leading to higher income and national economic growth.
- Unlike "Human Development," which views education as a fundamental right, Human Capital focuses primarily on the **economic return** of education.

Final Answer:

(B) Productivity

Answer: (B)

Q43.

Solution

Concept: The rural credit system in India (comprising RRBs, Co-operatives, and Commercial Banks) faces several institutional challenges that hinder its efficiency.

Solution: Rural banking institutions often suffer from high **Default rates** (or overdue payments).

- This occurs when farmers are unable to repay loans due to crop failure, poor monsoons, or low market prices for their produce.
- Sometimes, defaults are intentional in anticipation of "loan waivers" announced by governments.
- High defaults lead to a "mounting overdues" problem, which restricts the recycling of funds and threatens the financial viability of rural banks.

Final Answer:

(B) Default rates

Answer: (B)



Q44.

Solution

Concept: Resources are classified based on their availability and regeneration capacity.

- **Renewable Resources:** Can be replenished over time (e.g., Sun, Wind).
- **Non-renewable Resources:** Exist in finite quantities and take millions of years to form.

Solution: Fossil fuels (coal, petroleum, and natural gas) are **Non-renewable resources**.

- Once they are extracted and consumed, they cannot be replaced within a human timeframe.
- Over-reliance on these resources leads to environmental degradation and resource exhaustion.
- Solar and wind energy are perpetual, while fisheries are renewable as long as the rate of extraction does not exceed the rate of regeneration.

Final Answer:

(C) Fossil fuels

Answer: (C)

Q45.

Solution

Concept: Ideally, economic growth (increase in GDP) should be accompanied by an increase in employment opportunities. However, structural changes in the economy can decouple these two variables.

Solution: "Jobless Growth" describes a macroeconomic phenomenon where the economy produces more goods and services (rise in GDP) without a corresponding increase in the number of jobs.

- This usually happens due to **technological advancement** and capital-intensive production methods replacing labor.
- In India, during the post-reform period, the service and manufacturing sectors saw high growth, but the rate of employment growth remained very low compared to the rate of GDP growth.

Final Answer:

(A) GDP grows but employment does not

Answer: (A)



Q46.

Solution

Concept: The Great Leap Forward (GLF) was a campaign initiated by the Communist Party of China (CPC) under Mao Zedong, running from 1958 to 1962.

Solution: The **Great Leap Forward** was a campaign aimed at **widespread industrialization** of the country on a massive scale.

- People were encouraged to set up "backyard industries" in their own courtyards.
- In rural areas, the **Commune System** was introduced, where people collectively cultivated land. By 1958, there were 26,000 communes covering almost all the farm population.
- The ultimate goal was to transform the agrarian economy into a modern industrial society in a very short period.

Final Answer:

(B) Widespread industrialization

Answer: (B)

Q47.

Solution

Concept: Gross National Income (GNI) per capita is a core indicator of the standard of living and economic productivity of a country's citizens.

Solution: Among the three neighboring nations—India, Pakistan, and China—**China** has the highest **GNI per capita**.

- China's rapid economic growth, driven by manufacturing and export-led strategies since the 1978 reforms, has pushed its income levels significantly higher than those of India and Pakistan.
- While India has seen substantial growth, it still lags behind China in terms of per capita income.
- Pakistan's growth rate has slowed down in recent decades, placing it third among the three in this specific metric.

Final Answer:

(C) China

Answer: (C)



Q48.

Solution

Concept: During the late 1970s and 1980s, Pakistan's economy experienced a period of growth that was largely driven by external factors rather than domestic industrial depth.

Solution: Pakistan's growth during this period was heavily supported by **remittances from the Middle East**.

- A large number of Pakistani workers migrated to oil-rich Gulf countries, sending home significant foreign exchange.
- These inflows helped sustain the Balance of Payments and stimulated domestic consumption.
- Additionally, the country benefited from direct foreign aid, particularly from the USA, during the geopolitical shifts of that era.

Final Answer:

(B) Middle East

Answer: (B)

Q49.

Solution

Concept: The three neighboring countries—China, Pakistan, and India—followed different timelines for liberalizing their economies and moving away from inward-looking policies.

Solution: The correct chronological sequence for the introduction of economic reforms is:

- **China (1978):** Introduced by Deng Xiaoping, starting with the agricultural sector and SEZs.
- **Pakistan (1988):** Introduced structural adjustment reforms in the late 80s.
- **India (1991):** Introduced the New Economic Policy (LPG reforms) following a balance of payment crisis.

Thus, the sequence is **China → Pakistan → India**.

Final Answer:

(A) China → Pakistan → India

Answer: (A)



Q50.

Solution

Concept: Special Economic Zones (SEZs) are designated areas in a country that possess special economic regulations that are different from other areas in the same country.

Solution: China's **Special Economic Zones (SEZs)** were specifically designed to attract **Foreign Investors**.

- These zones offered tax incentives, low-cost labor, and high-quality infrastructure to Multinational Corporations (MNCs).
- The goal was to encourage **Foreign Direct Investment (FDI)** and promote export-led growth.
- SEZs played a pivotal role in transforming China into the "World's Factory."

Final Answer:

(B) Foreign investors

Answer: (B)



Answer Key

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

