CUET-UG Economics Sample Paper-19

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 'Diamond-Water Paradox' is explained by the fact that:

(A) Water has high marginal utility but low total utility.

(B) Diamonds have high marginal utility but low total utility.

(C) Water has high total utility but low marginal utility.

(D) Diamonds have low total utility and low marginal utility.

Q2. If a consumer's income increases by 10% and the demand for Good X falls by 5%, Good X is:

(A) A Substitute good

(B) An Inferior good

(C) A Normal good

(D) A Giffen good

Q3. Price Elasticity of Demand at the mid-point of a linear demand curve is:

(A) 0

(B) 1

(C) ∞

(D) < 1

Q4. Which of the following properties is NOT true for Indifference Curves?

(A) Two ICs can intersect if they represent different levels of satisfaction.

(B) Higher IC represents higher level of satisfaction.

(C) IC is convex to the origin.

(D) IC does not touch either axis.

Q5. If all inputs are increased by 10% and output increases by 15%, it is a case of:

(A) Constant Returns to Scale

(B) Increasing Returns to Factor

(C) Increasing Returns to Scale

(D) Diminishing Returns to Scale

Q6. When the Marginal Product (MP) is negative, the Total Product (TP) is:

(A) Increasing at an increasing rate

(B) Increasing at a decreasing rate

(C) At its maximum

(D) Falling

Q7. The vertical distance between Total Cost (TC) and Total Variable Cost (TVC) represents:

(A) Marginal Cost

(B) Average Fixed Cost

(C) Total Fixed Cost

(D) Average Variable Cost

Q8. Explicit costs plus Implicit costs equals:

(A) Accounting Cost

(B) Economic Cost

(C) Sunk Cost

(D) Opportunity Cost

Q9. In the 'Short Run', a firm will continue to produce even if it is making losses, as long as:

(A) $P = MC$

(B) $P \geq AVC$

(C) $P \geq AC$

(D) $MR = 0$

Q10. A change in 'Quantity Supplied' of a commodity occurs due to:

(A) Change in technology

(B) Change in price of factors of production

(C) Change in own price of the commodity

(D) Change in excise duty

Q11. If both Demand and Supply increase in the same proportion, the equilibrium price will:

(A) Rise

(B) Fall

(C) Remain constant

(D) Become zero

Q12. Which of the following is an example of a 'Price Ceiling' in India?

(A) Minimum Support Price for Wheat

(B) Rent Control on housing

(C) Minimum Wage legislation

(D) Buffer stocks for pulses

Q13. The 'Locus of various combinations of two inputs which yield the same level of output' is called:

(A) Indifference Curve

(B) Isoquant

(C) Production Possibility Curve

(D) Budget Line

Q14. Under Perfect Competition, the shape of the Marginal Revenue curve is:

(A) Downward sloping

(B) Upward sloping

(C) Horizontal straight line

(D) U-shaped

Q15. Economic Profit is zero when:

(A) $TR = TVC$

(B) $AR = AC$

(C) $TR = TFC$

(D) $MR = MC$

Q16. GDP Deflator is the ratio between:

(A) Real GDP and Nominal GDP

(B) Nominal GDP and Real GDP

(C) Nominal GNP and Real GDP

(D) Net Investment and Gross Investment

Q17. Which of the following is NOT a 'Flow' variable?

(A) Monthly income

(B) Capital formation

(C) Foreign Exchange Reserves

(D) Consumption expenditure

Q18. National Income at Constant Prices is also known as:

(A) Nominal National Income

(B) Real National Income

(C) Disposable Income

(D) Personal Income

Q19. If the value of intermediate goods is 600 and the value of final goods is 1000, the Value Added is:

(A) 1600

(B) 600

(C) 400

(D) 1000

Q20. 'Net Factor Income from Abroad' is the difference between:

(A) Export and Import

(B) Factor income received from abroad and Factor income paid to abroad

(C) Capital receipts and Revenue receipts

(D) GDP and NDP

Q21. The function of money that allows for the transfer of purchasing power from the present to the future is:

(A) Medium of Exchange

(B) Measure of Value

(C) Store of Value

(D) Standard for Deferred Payments

Q22. 'Reverse Repo Rate' is the rate at which:

(A) RBI lends to commercial banks

(B) Commercial banks park their surplus funds with RBI

(C) Commercial banks lend to each other

(D) Government borrows from the public

Q23. If the Total Deposits created are 10,000 and the Initial Deposit was 1,000, the LRR is:

(A) 5%

(B) 10%

(C) 20%

(D) 25%

Q24. In India, the 'Monetary Authority' is:

(A) Ministry of Finance

(B) NITI Aayog

(C) Reserve Bank of India

(D) State Bank of India

Q25. The value of MPC lies between:

(A) 1 and ∞

(B) 0 and 1

(C) -1 and 1

(D) 0 and ∞

Q26. In the Keynesian framework, investment is assumed to be:

(A) Induced by income

(B) Autonomous

(C) Dependent on interest rates only

(D) Negligible

Q27. When $AD < AS$, it leads to:

(A) Increase in inventory

(B) Decrease in inventory

(C) Increase in employment

(D) Rise in prices

Q28. If $S = -40 + 0.2Y$, the value of Autonomous Consumption (C) is:

(A) 0.2

(B) 40

(C) 0.8

(D) -40

Q29. Full employment equilibrium means:

(A) Zero unemployment in the economy

(B) Absence of involuntary unemployment

(C) Presence of only structural unemployment

(D) Both (B) and (C)

Q30. 'Fiscal Policy' refers to the use of:

(A) Interest rates and money supply

(B) Government spending and taxation

(C) Export and Import regulations

(D) Minimum Support Prices

Q31. Recovery of loans by the Central Government is a:

(A) Revenue Receipt

(B) Capital Receipt

(C) Revenue Expenditure

(D) Capital Expenditure

Q32. The 'Effective Revenue Deficit' is Revenue Deficit minus:

(A) Interest payments

(B) Grants for creation of capital assets

(C) Subsidies

(D) Defense expenditure

Q33. A 'Proportional Tax' is one where:

(A) Tax rate increases with income

(B) Tax rate decreases with income

(C) Tax rate remains constant regardless of income

(D) Tax is levied only on the rich

Q34. 'Autonomous Items' in BOP are those which take place due to:

(A) Government's need to balance the BOP

(B) Profit maximization or economic motives

(C) Granting of foreign aid

(D) Fluctuations in exchange rates

Q35. The 'Nominal Effective Exchange Rate' (NEER) is:

(A) The exchange rate of one currency against another

(B) A weighted average of bilateral nominal exchange rates

(C) The exchange rate adjusted for inflation

(D) The rate fixed by the IMF

Q36. The 'TISCO' (Tata Iron and Steel Company) was incorporated in:

(A) 1901

(B) 1907

(C) 1912

(D) 1923

Q37. The main aim of the 'Land Ceiling' policy was to:

(A) Increase the size of land holdings

(B) Reduce the concentration of land ownership

(C) Promote cooperative farming

(D) Increase the use of HYV seeds

Q38. The 'Small Scale Industry' (SSI) limit in 1950 was:

(A) 5 Lakh

(B) 10 Lakh

(C) 1 Crore

(D) 5 Crore

Q39. Under the WTO, the 'Most Favoured Nation' (MFN) clause implies:

(A) Preferential treatment for only one nation

(B) Non-discrimination between trading partners

(C) High tariffs on luxury goods

(D) Total ban on agricultural subsidies

Q40. The 'Crisis of 1991' was characterized by:

(A) Low Foreign Exchange reserves (enough for only 2 weeks)

(B) High rate of inflation

(C) Huge fiscal deficit

(D) All of the above

Q41. Which of the following is a 'Formal Sector' establishment?

(A) A street vendor

(B) An establishment with 10 or more hired workers

(C) A farmer working on his own land

(D) A domestic help

Q42. 'Human Development' is a:

(A) Means to an end

(B) End in itself

(C) Purely economic concept

(D) Synonym for Human Capital

Q43. The 'Self-Employed' constitute the largest portion of the Indian workforce. This includes:

(A) Doctors in government hospitals

(B) Owners of small shops/enterprises

(C) Workers in MNCs

(D) Daily wage construction workers

Q44. 'Global Warming' is primarily caused by the emission of:

(A) Oxygen

(B) Greenhouse gases (like CO_2)

(C) Nitrogen

(D) Argon

Q45. Which organization coordinates rural credit in India?

(A) RBI

(B) NABARD

(C) SEBI

(D) Planning Commission

Q46. Which country out of the three (India, China, Pakistan) has the highest Life Expectancy at birth?

(A) India

(B) China

(C) Pakistan

(D) They are roughly equal

Q47. The 'Commune System' in China was related to:

(A) Heavy Industry

(B) Collective Farming

(C) Education

(D) Military training

Q48. Pakistan's economy is often criticized for its high 'Military Expenditure' relative to its:

(A) GDP

(B) External Debt

(C) Foreign Exchange Reserves

(D) All of the above

Q49. China's growth rate in the 1980s-90s was primarily driven by the:

(A) Service sector

(B) Manufacturing (Secondary) sector

(C) Agricultural sector

(D) Mining sector

Q50. Identify the 'Human Development Indicator':

(A) GDP per capita

(B) Infant Mortality Rate

(C) Literacy Rate

(D) All of the above

Detailed Solutions

Q1.

Solution

Concept: The Paradox of Value (Diamond-Water Paradox) explains why essential goods like water have low prices while non-essential goods like diamonds have high prices. This is resolved by the distinction between **Total Utility** (the total satisfaction from all units) and **Marginal Utility** (the satisfaction from the last unit consumed). In a competitive market, price is determined by marginal utility.

Solution: The paradox is explained as follows:

- **Water:** Being abundant, its consumption level is high. According to the Law of Diminishing Marginal Utility, the utility of the last unit consumed (Marginal Utility) is very low. Since price equals marginal utility ($P = MU$), water is cheap despite its high **Total Utility**.
- **Diamonds:** Being scarce, their consumption level is very low. Thus, the Marginal Utility of an additional diamond is very high, leading to a high market price, even though its **Total Utility** (contribution to survival) is low.

Therefore, the paradox is explained by the fact that water has high total utility but low marginal utility.

Final Answer:

(C) Water has high total utility but low marginal utility.

Answer: (C)

Q2.

Solution

Concept: The relationship between consumer income and quantity demanded is measured by **Income Elasticity of Demand** (E_y). Based on this relationship, goods are classified as:

- **Normal Goods:** Demand increases as income increases ($E_y > 0$).
- **Inferior Goods:** Demand decreases as income increases ($E_y < 0$).

Solution: Given:

- Percentage change in Income ($\%\Delta Y$) = $+10\%$
- Percentage change in Quantity Demanded ($\%\Delta Q$) = -5%

Using the formula for Income Elasticity of Demand:

$$E_y = \frac{\%\text{ change in Quantity Demanded}}{\%\text{ change in Income}}$$

$$E_y = \frac{-5\%}{10\%} = -0.5$$

Since the value of E_y is negative, it indicates an inverse relationship between income and demand. This is the defining characteristic of an **Inferior Good**, where consumers switch to superior alternatives as their purchasing power rises.

Final Answer:

$$\boxed{\text{(B) An Inferior good}}$$

Answer: (B)

Q3.

Solution

Concept: The **Geometric Method** (or Point Method) of measuring Price Elasticity of Demand (e_d) on a linear demand curve uses the ratio of the lower segment to the upper segment from a specific point on the curve:

$$e_d = \frac{\text{Lower Segment}}{\text{Upper Segment}}$$

Solution: Consider a linear demand curve MN, where M is the intercept on the Y-axis (price) and N is the intercept on the X-axis (quantity). Let P be the mid-point of this demand curve.

- At the mid-point P, the length of the lower segment (PN) is exactly equal to the length of the upper segment (PM).
- Applying the formula:

$$e_d = \frac{PN}{PM}$$

- Since $PN = PM$, the ratio equals 1.

At points above the mid-point, $e_d > 1$; at points below the mid-point, $e_d < 1$; at the Y-intercept, $e_d = \infty$; and at the X-intercept, $e_d = 0$.

Final Answer:

$$\boxed{\text{(B) } 1}$$

Answer: (B)

Q4.

Solution

Concept: An **Indifference Curve (IC)** represents all combinations of two goods that provide the same level of satisfaction to a consumer. The fundamental properties of ICs are based on the assumption of transitivity and monotonic preferences.

Solution: To identify the incorrect statement, we evaluate each property:

- **(B) Higher IC represents higher level of satisfaction:** This is true. Due to monotonic preferences, more of a good is preferred to less, so a curve further from the origin indicates a larger bundle of goods.
- **(C) IC is convex to the origin:** This is true. This occurs because of the **Diminishing Marginal Rate of Substitution (MRS)**, meaning a consumer is willing to give up less of one good to obtain an additional unit of another.
- **(D) IC does not touch either axis:** This is true. The IC analysis assumes the consumer consumes combinations of *both* goods. If it touched an axis, the consumption of one good would be zero.
- **(A) Two ICs can intersect:** This is **False**. If two ICs intersected, it would violate the principle of transitivity. A single point (the intersection) cannot simultaneously represent two different levels of satisfaction.

Final Answer:

(A) Two ICs can intersect if they represent different levels of satisfaction.

Answer: (A)

Q5.

Solution

Concept: The concept of **Returns to Scale** refers to the change in output as all factors of production (inputs) are changed in the same proportion. It is a long-run phenomenon. There are three types:

- **Constant Returns to Scale (CRS):** Output increases by the same proportion as inputs.
- **Increasing Returns to Scale (IRS):** Output increases by a proportion *greater* than the proportion of increase in inputs.
- **Diminishing Returns to Scale (DRS):** Output increases by a proportion *less* than the proportion of increase in inputs.

Solution: Given:

- Percentage increase in all inputs = 10%
- Percentage increase in output = 15%

Since the percentage increase in output (15%) is greater than the percentage increase in inputs (10%), the production process exhibits **Increasing Returns to Scale**. This usually happens due to economies of scale, better specialization, and technical efficiencies as the scale of production expands.

Final Answer:

(C) Increasing Returns to Scale

Answer: (C)

Q6.

Solution

Concept: The relationship between **Total Product (TP)** and **Marginal Product (MP)** is governed by the **Law of Variable Proportions**. This relationship can be divided into three distinct phases:

- **Phase I:** TP increases at an increasing rate; MP rises.
- **Phase II:** TP increases at a decreasing rate; MP falls but remains positive. TP reaches its maximum when $MP = 0$.
- **Phase III:** TP begins to decline; MP becomes negative.

Solution: Marginal Product (MP) is defined as the change in Total Product resulting from the employment of an additional unit of a variable factor ($\Delta TP/\Delta L$).
When MP becomes negative, it implies that the addition of an extra worker/unit actually reduces the total output (often due to overcrowding or management inefficiency). Consequently, the **Total Product (TP) must be falling**. This corresponds to the third stage of production, where the variable factor is used in excessive quantities relative to the fixed factor.
Final Answer:

(D) Falling

Answer: (D)

Q7.

Solution

Concept: In the short run, Total Cost (TC) is the sum of Total Fixed Cost (TFC) and Total Variable Cost (TVC):

$$TC = TFC + TVC$$

Rearranging this formula, we get:

$$TFC = TC - TVC$$

Solution: The relationship between these costs is as follows:

- **Total Fixed Cost (TFC):** These costs remain constant regardless of the level of output. On a graph, TFC is represented by a horizontal straight line.
- **Total Variable Cost (TVC):** These costs change with the level of output, typically starting from the origin.
- **Total Cost (TC):** This curve starts from the intercept of the TFC curve and follows the same shape as the TVC curve.

Since TC is always greater than TVC by the exact amount of TFC, the vertical distance between the TC and TVC curves at any level of output is constant and represents the **Total Fixed Cost (TFC)**.

Final Answer:

(C) Total Fixed Cost

Answer: (C)

Q8.

Solution

Concept: In economics, total cost is viewed differently than in traditional accounting. It encompasses all sacrifices made to produce a good or service. These are categorized into:

- **Explicit Costs:** Out-of-pocket expenses paid to outsiders (e.g., wages, rent, raw materials).
- **Implicit Costs:** The opportunity costs of using resources owned by the firm itself (e.g., the salary the owner could have earned elsewhere or interest on own capital).

Solution: The sum of these two types of costs represents the **Economic Cost**:

$$\text{Economic Cost} = \text{Explicit Costs} + \text{Implicit Costs}$$

This differs from **Accounting Cost**, which typically only considers explicit, recorded transactions. For an economist, a firm is only truly profitable if its total revenue exceeds its economic cost, meaning it earns more than it could have in its next best alternative use.

Final Answer:

$$\boxed{\text{(B) Economic Cost}}$$

Answer: (B)

Q9.

Solution

Concept: In the short run, a firm faces both fixed and variable costs. Fixed costs must be paid even if production is zero. Therefore, a firm will continue to operate as long as it can cover its **Variable Costs**. The point where Price equals Average Variable Cost ($P = AVC$) is known as the **Shut-down Point**.

Solution: The decision to stay in business depends on the comparison between Price (P) and Average Variable Cost (AVC):

- If $P > AC$, the firm makes super-normal profits.
- If $P = AC$, the firm makes normal profits (break-even).
- If $AVC \leq P < AC$, the firm is making a loss but will **continue to produce**. This is because the revenue covers all variable costs and contributes toward paying a portion of the fixed costs, which would be lost entirely if they shut down.
- If $P < AVC$, the firm should shut down immediately to minimize losses to just the fixed costs.

Final Answer:

$$\boxed{\text{(B) } P \geq AVC}$$

Answer: (B)

Q10.

Solution

Concept: Economists distinguish between a **'Change in Supply'** and a **'Change in Quantity Supplied'**.

- **Change in Quantity Supplied:** Refers to a movement along the same supply curve (Extension or Contraction).
- **Change in Supply:** Refers to a shift of the entire supply curve (Increase or Decrease).

Solution: A change in the **Quantity Supplied** is caused exclusively by a **change in the own price of the commodity**, assuming other factors remain constant (*ceteris paribus*).

- If the price rises, quantity supplied increases (Extension).
- If the price falls, quantity supplied decreases (Contraction).

Other options like technology, factor prices, and excise duties cause a shift in the supply curve (Change in Supply), not a movement along it.

Final Answer:

(C) Change in own price of the commodity

Answer: (C)

Q11.

Solution

Concept: Equilibrium price is determined by the intersection of the demand and supply curves. When both curves shift simultaneously, the final effect on price and quantity depends on the relative magnitude of the shifts.

Solution: We analyze the simultaneous shift as follows:

- **Increase in Demand:** Shifts the demand curve to the right, which exerts upward pressure on the price.
- **Increase in Supply:** Shifts the supply curve to the right, which exerts downward pressure on the price.

When both increase in the **same proportion**:

(a) The upward pressure on price from the demand side is exactly offset by the downward pressure from the supply side.

(b) As a result, the **equilibrium price remains constant**.

(c) However, the equilibrium quantity will definitely increase.

Final Answer:

(C) Remain constant

Answer: (C)

Q12.

Solution

Concept: A **Price Ceiling** is a government-imposed maximum price that can be charged for a product or service. To be effective, it is set below the market equilibrium price to protect consumers from high costs of essential items.

Solution: Evaluating the options:

- **Minimum Support Price (MSP) and Minimum Wage:** These are examples of **Price Floors** (minimum price limits) designed to protect producers or workers.
- **Buffer Stocks:** This is a mechanism for price stabilization, not a direct price control.
- **Rent Control:** This is a classic example of a **Price Ceiling**. In India, various Rent Control Acts limit the maximum rent a landlord can charge, ensuring that housing remains affordable for tenants. Other common examples include price caps on life-saving medicines and essential food grains.

Final Answer:

(B) Rent Control on housing

Answer: (B)

Q13.

Solution

Concept: In the theory of production, an **Isoquant** (also known as an Equal Product Curve) is a curve that shows all the possible combinations of two inputs (typically Labor and Capital) that yield the same maximum total quantity of output.

Solution: Evaluating the terms:

- **Indifference Curve:** Represents combinations of two *goods* providing the same level of *satisfaction* (Consumer Theory).
- **Production Possibility Curve:** Shows combinations of two *outputs* an economy can produce with given resources.
- **Budget Line:** Shows combinations of goods a consumer can afford with a given income.
- **Isoquant:** Derived from 'Iso' (Equal) and 'Quant' (Quantity). It represents the **locus of input combinations** that result in a constant level of output.

Final Answer:

(B) Isoquant

Answer: (B)

Q14.

Solution

Concept: Under **Perfect Competition**, a firm is a 'Price Taker,' meaning it can sell any amount of the commodity at the prevailing market price determined by industry demand and supply.
Solution: Since the price (P) remains constant for every unit sold:

- **Average Revenue (AR):** $TR/Q = (P \times Q)/Q = P$.
- **Marginal Revenue (MR):** The additional revenue from selling one more unit is equal to the price (P).

Because $P = AR = MR$ and the price is fixed, the Marginal Revenue curve is a **horizontal straight line** parallel to the X-axis (Quantity axis), representing perfectly elastic demand for the firm's product.
Final Answer:

$$\boxed{\text{(C) Horizontal straight line}}$$

Answer: (C)

Q15.

Solution

Concept: **Economic Profit** is calculated by subtracting both explicit and implicit costs (Total Economic Cost) from Total Revenue. When Economic Profit is zero, the firm is said to be earning **Normal Profit**.
Solution: Economic Profit (π) can be expressed as:

$$\pi = TR - TC$$

For profit to be zero:

$$TR - TC = 0 \implies TR = TC$$

Dividing both sides by quantity (Q):

$$\frac{TR}{Q} = \frac{TC}{Q} \implies AR = AC$$

When Average Revenue (AR) equals Average Cost (AC), the firm covers all its costs (including the opportunity cost of the entrepreneur's own resources). While accounting profit might be positive, the **Economic Profit is zero**.
Final Answer:

$$\boxed{\text{(B) } AR = AC}$$

Answer: (B)

Q16.

Solution

Concept: The **GDP Deflator** is a measure of the level of prices of all new, domestically produced, final goods and services in an economy. It is used to eliminate the effect of price changes and determine the actual growth in production.

Solution: The formula for the GDP Deflator is:

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

- **Nominal GDP:** Measured at current market prices.
- **Real GDP:** Measured at base-year (constant) prices.

The ratio specifically compares the value of production in the current year at current prices to the value of that same production at base-year prices.

Final Answer:

(B) Nominal GDP and Real GDP

Answer: (B)

Q17.

Solution

Concept: In macroeconomics, variables are classified based on the time dimension:

- **Flow Variables:** Measured over a specific period of time (e.g., per month, per year).
- **Stock Variables:** Measured at a specific point in time.

Solution: Evaluating the options:

- **Monthly income:** Flow (measured per month).
- **Capital formation:** Flow (investment over a period).
- **Consumption expenditure:** Flow (spending over a period).
- **Foreign Exchange Reserves: Stock**. This represents the total amount of foreign currency held by the central bank at a particular moment in time.

Final Answer:

(C) Foreign Exchange Reserves

Answer: (C)

Q18.

Solution

Concept: National Income can be measured in two ways depending on the prices used for valuation: **Nominal** (current prices) and **Real** (constant prices).

Solution:

- **National Income at Current Prices:** Value of goods and services produced in a year, estimated using the prices prevailing in that same year.
- **National Income at Constant Prices:** Value of goods and services estimated using the prices of a fixed base year. This is also known as **Real National Income**.

Real National Income is considered a better indicator of economic growth because it reflects changes in the actual quantity of goods and services produced, rather than changes caused by inflation.

Final Answer:

(B) Real National Income

Answer: (B)

Q19.

Solution

Concept: Value Added refers to the addition of value to the intermediate goods (raw materials) by a firm through its productive activities. It is calculated using the Product Method (or Value Added Method) of national income accounting to avoid the problem of double counting.

Solution: The formula for Value Added is:

$$\text{Value Added} = \text{Value of Output} - \text{Value of Intermediate Consumption}$$

Given:

- Value of Final Goods (Output) = 1000
- Value of Intermediate Goods = 600

Calculation:

$$\text{Value Added} = 1000 - 600 = 400$$

Thus, the firm has added 400 worth of value to the raw materials during the production process.

Final Answer:

(C) 400

Answer: (C)

Q20.

Solution

Concept: **Net Factor Income from Abroad (NFIA)** is the component that distinguishes Domestic Income from National Income. It accounts for the net flow of factor earnings (wages, interest, profit) across national borders.

Solution: NFIA is the difference between:

(a) **Factor income received from abroad:** Income earned by normal residents of a country from the rest of the world.

(b) **Factor income paid to abroad:** Income earned by non-residents within the domestic territory paid to the rest of the world.

The formula is:

$$\text{NFIA} = \text{Factor Income Received} - \text{Factor Income Paid}$$

Note: Option (A) refers to Net Exports (NX), which is used for calculating expenditure-based GDP, but it is not the same as NFIA.

Final Answer:

(B) Factor income received from abroad and Factor income paid to abroad

Answer: (B)

Q21.

Solution

Concept: Money performs several functions, categorized as primary and secondary. The ability to save wealth for future use is a key secondary function that overcomes the problem of perishability found in the barter system.

Solution: Evaluating the functions of money:

- **Medium of Exchange:** Facilitates the sale and purchase of goods and services.
- **Measure of Value:** Acts as a common unit of account to express prices.
- **Store of Value:** This function allows individuals to hold their wealth/purchasing power in the form of money to be used at a future date. Money is a liquid asset that can be stored with relatively low storage costs and stable value (compared to perishable goods).
- **Standard for Deferred Payments:** Facilitates credit transactions and future contracts.

Final Answer:

(C) Store of Value

Answer: (C)

Q22.

Solution

Concept: The **Reverse Repo Rate** is a qualitative tool used by the Central Bank (RBI in India) to control the money supply and liquidity in the banking system.

Solution:

- **Repo Rate:** The rate at which the RBI lends money to commercial banks.
- **Reverse Repo Rate:** The rate at which commercial banks can **park their excess liquidity/surplus funds with the RBI** to earn interest.

When the RBI increases the Reverse Repo Rate, it becomes more attractive for banks to deposit money with the RBI rather than lending it to the public, thereby reducing the money supply in the economy and helping to control inflation.

Final Answer:

(B) Commercial banks park their surplus funds with RBI

Answer: (B)

Q23.

Solution

Concept: The **Money Multiplier** process determines the total amount of money the banking system generates with each rupee of reserves. The relationship is defined by 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:

- Total Deposits = 10,000
- Initial Deposit = 1,000

Substitute the values into the formula:

$$10,000 = 1,000 \times \frac{1}{\text{LRR}}$$

$$\frac{10,000}{1,000} = \frac{1}{\text{LRR}}$$

$$10 = \frac{1}{\text{LRR}} \implies \text{LRR} = \frac{1}{10} = 0.10 \text{ or } 10\%$$

An LRR of 10% means banks must keep 10% of their deposits as reserves and can lend out the remaining 90%.

Final Answer:

$$\boxed{\text{(B) } 10\%}$$

Answer: (B)

Q24.

Solution

Concept: A **Monetary Authority** is the entity that controls the money supply in a nation, typically with the objectives of managing inflation, interest rates, and currency stability. In most countries, this role is performed by a Central Bank.

Solution: In India, the **Reserve Bank of India (RBI)**, established in 1935, acts as the central bank and the sole monetary authority. Its responsibilities include:

- Issuing currency notes.
- Formulating and implementing monetary policy.
- Acting as the "Lender of Last Resort" for commercial banks.
- Managing the country's foreign exchange reserves.

The Ministry of Finance handles fiscal policy, while NITI Aayog is a policy think-tank. The State Bank of India is a commercial bank, not a monetary authority.

Final Answer:

(C) Reserve Bank of India

Answer: (C)

Q25.

Solution

Concept: The **Marginal Propensity to Consume (MPC)** is the ratio of change in consumption (ΔC) to the change in total income (ΔY). It measures how much of every additional rupee of income is spent on consumption.

$$MPC = \frac{\Delta C}{\Delta Y}$$

Solution: According to Keynes' Psychological Law of Consumption:

- When income increases, consumption also increases, but by **less than** the increase in income. Therefore, $MPC < 1$.
- Since change in consumption is rarely negative in response to a positive change in income, $MPC > 0$.

Thus, the value of MPC always **lies between 0 and 1**. If $MPC = 0$, the entire additional income is saved; if $MPC = 1$, the entire additional income is spent.

Final Answer:

(B) 0 and 1

Answer: (B)

Q26.

Solution

Concept: In macroeconomics, investment can be classified as **Induced** (driven by profit and income levels) or **Autonomous** (independent of income).
Solution: In the basic **Keynesian model** of income determination, especially in the short run:

- Investment is assumed to be **Autonomous**. This means it is not influenced by changes in the level of national income.
- On a graph, the autonomous investment curve is represented as a horizontal straight line parallel to the X-axis (Income axis).
- It is influenced by factors other than income, such as interest rates, business expectations, and technological advancements.

While induced investment exists in reality, for the purpose of the simple Keynesian framework, investment is treated as a constant fixed amount.
Final Answer:

(B) Autonomous

Answer: (B)

Q27.

Solution

Concept: Equilibrium in the Keynesian model is achieved when Aggregate Demand (AD) equals Aggregate Supply (AS). When there is a mismatch, the economy undergoes an adjustment process through changes in inventory levels.
Solution: When **Aggregate Demand (AD) is less than Aggregate Supply (AS)**:

- Consumers and firms are buying fewer goods than what the producers have planned to produce.
- This results in unsold stock, leading to an **unintended increase in inventories**.
- To clear this unwanted inventory, producers will reduce production in the subsequent period, leading to a fall in income and employment until $AD = AS$.

Final Answer:

(A) Increase in inventory

Answer: (A)

Q28.

Solution

Concept: The Savings function (S) is derived from the Consumption function (C). If the consumption function is $C = \bar{C} + bY$, then the savings function is:

$$S = -\bar{C} + (1 - b)Y$$

Where $\bar{C}$ represents **Autonomous Consumption** (consumption when income is zero).
Solution: Given the savings function:

$$S = -40 + 0.2Y$$

By comparing this with the standard form $S = -\bar{C} + (1 - b)Y$:

- $-\bar{C} = -40 \implies \bar{C} = 40$
- $1 - b$ (MPS) $= 0.2$

Since $\bar{C}$ is autonomous consumption, its value is 40. Note that autonomous consumption is always positive because some minimum consumption is necessary for survival even at zero income (financed through dissaving).
Final Answer:

(B) 40

Answer: (B)

Q29.

Solution

Concept: In macroeconomics, **Full Employment** does not imply a state of zero unemployment. It is a situation where all those who are able and willing to work at the prevailing wage rate find work.
Solution: Full employment equilibrium involves:

- **Absence of Involuntary Unemployment:** Every person willing to work at the current wage has a job.
- **Natural Rate of Unemployment:** Even at full employment, there exists some "frictional" or "structural" unemployment due to people changing jobs or changes in the structure of the economy.

Therefore, both statement (B) and (C) are correct descriptions of this economic state.
Final Answer:

(D) Both (B) and (C)

Answer: (D)

Q30.

Solution

Concept: Economies use two main types of policy to influence economic activity: **Monetary Policy** and **Fiscal Policy**. While Monetary Policy is managed by the Central Bank, Fiscal Policy is the domain of the Government.

Solution: **Fiscal Policy** refers to the use of the government budget to influence the economy. Its primary instruments are:

- **Government Spending (Expenditure):** Spending on infrastructure, subsidies, and welfare.
- **Taxation (Revenue):** Direct and indirect taxes collected from individuals and corporations.

Option (A) refers to Monetary Policy. Option (C) refers to Trade Policy. Option (D) refers to Agricultural/Pricing Policy.

Final Answer:

(B) Government spending and taxation

Answer: (B)

Q31.

Solution

Concept: Government receipts are classified into **Revenue Receipts** and **Capital Receipts**.

- **Revenue Receipts:** Neither create a liability nor reduce an asset (e.g., tax).
- **Capital Receipts:** Either create a liability (e.g., borrowing) or **reduce an asset** (e.g., disinvestment or recovery of loans).

Solution: When the Central Government recovers a loan it previously gave to state governments or other parties:

(a) The loan was an **asset** for the government because it yielded interest.

(b) Recovery of the principal amount leads to a **reduction in that asset**.

Therefore, it is categorized as a **Capital Receipt**.

Final Answer:

(B) Capital Receipt

Answer: (B)

Q32.

Solution

Concept: The **Effective Revenue Deficit (ERD)** was introduced in the Indian Union Budget to give a more accurate picture of the government's consumption expenditure. It acknowledges that some revenue expenditures actually result in the creation of physical assets.

Solution: The formula for Effective Revenue Deficit is:

$$\text{ERD} = \text{Revenue Deficit} - \text{Grants for creation of capital assets}$$

- **Revenue Deficit:** The excess of total revenue expenditure over total revenue receipts.
- **The Logic:** Certain grants given by the Center to States are recorded as "Revenue Expenditure" in the Center's budget. However, if the States use these grants to build roads or schools (Capital Assets), it is not "pure" consumption. Subtracting these grants gives the "Effective" deficit.

Final Answer:

(B) Grants for creation of capital assets

Answer: (B)

Q33.

Solution

Concept: Tax systems are classified based on the relationship between the tax rate and the tax base (income). The three main types are:

- **Progressive Tax:** Tax rate increases as income increases.
- **Regressive Tax:** Tax rate decreases as income increases.
- **Proportional Tax:** Tax rate remains the same regardless of income.

Solution: In a **Proportional Tax** system (also known as a flat tax), every taxpayer pays the same percentage of their income as tax. For example, if the tax rate is 10%, a person earning 10,000 pays 1,000, and a person earning 100,000 pays 10,000. While the absolute amount increases, the **tax rate remains constant**.

Final Answer:

(C) Tax rate remains constant regardless of income

Answer: (C)

Q34.

Solution

Concept: Transactions in the Balance of Payments (BOP) are categorized into **Autonomous** and **Accommodating** items.

- **Autonomous Items:** Independent of the state of the BOP.
- **Accommodating Items:** Undertaken to cover the gap (deficit or surplus) in the BOP.

Solution: **Autonomous Items** (often called 'Above the Line' items) are international economic transactions that take place due to **economic motives or profit maximization**. These include exports, imports, and private investments. They are not influenced by whether the BOP is in equilibrium or not; rather, they are the *cause* of a BOP surplus or deficit.

Final Answer:

(B) Profit maximization or economic motives

Answer: (B)

Q35.

Solution

Concept: To measure the overall strength or value of a domestic currency against a basket of several foreign currencies (rather than just one), economists use effective exchange rates.

Solution: The **Nominal Effective Exchange Rate (NEER)** is an index that provides a **weighted average of bilateral nominal exchange rates** of the domestic currency against the currencies of its major trading partners.

- It is "Nominal" because it uses market exchange rates without adjusting for price levels.
- It is "Effective" because it accounts for a basket of currencies, weighted by their importance in the country's international trade.

Note: If NEER is adjusted for inflation differentials, it is called the Real Effective Exchange Rate (REER).

Final Answer:

(B) A weighted average of bilateral nominal exchange rates

Answer: (B)

Q36.

Solution

Concept: During the British colonial rule, the development of modern industry was slow. However, a few heavy industries were established by Indian entrepreneurs towards the beginning of the 20th century.

Solution: The **Tata Iron and Steel Company (TISCO)** was incorporated in **1907** by Jamsetji Tata and established by Dorabji Tata in Sakchi (now Jamshedpur), Bihar (currently in Jharkhand).

- It began production of pig iron in 1911 and steel in 1912.
- Its establishment was a milestone in the history of Indian industrialization, providing a domestic base for the iron and steel industry which is the backbone of all other industries.

Final Answer:

(B) 1907

Answer: (B)

Q37.

Solution

Concept: At the time of independence, the land tenure system was characterized by intermediaries (like Zamindars) and a highly skewed distribution of land ownership. Land reforms were introduced to bring about equity in agriculture.

Solution: Land Ceiling refers to fixing the maximum size of land which could be owned by an individual or a family.

- The purpose of this policy was to **reduce the concentration of land ownership** in a few hands.
- Land possessed by a person above the ceiling limit was claimed by the government and redistributed among landless laborers and small farmers.
- This was intended to promote social justice and equity in the rural economy.

Final Answer:

(B) Reduce the concentration of land ownership

Answer: (B)

Q38.

Solution

Concept: Small Scale Industries (SSI) were given special importance in India's industrial policy (especially after the Karve Committee report in 1955) because they are labor-intensive and promote rural development.

Solution: The definition of an SSI has changed over time to reflect the changing value of the rupee and technological needs.

- In **1950**, a small-scale industrial unit was one which invested a maximum of **5 Lakh**.
- At present, the investment limit has been significantly increased (up to 1 Crore for micro and 10 Crore for small enterprises under the revised MSME definitions).

Final Answer:

(A) 5 Lakh

Answer: (A)

Q39.

Solution

Concept: The **Most Favoured Nation (MFN)** principle is the first article of the General Agreement on Tariffs and Trade (GATT), which governs the World Trade Organization (WTO). Despite the name, it actually prohibits "favouritism."

Solution: Under the MFN clause:

- A country cannot normally discriminate between its trading partners.
- If a country grants someone a special favour (such as a lower customs duty rate for one of their products), they have to do the same for **all other WTO members**.
- It ensures **non-discrimination** and a level playing field for all member nations in international trade.

There are limited exceptions (like Free Trade Agreements), but the general rule is that all partners are treated equally as the "most favoured" partner.

Final Answer:

(B) Non-discrimination between trading partners

Answer: (B)

Q40.

Solution

Concept: The **Economic Crisis of 1991** was a watershed moment in Indian history, leading to the introduction of Liberalisation, Privatisation, and Globalisation (LPG) reforms. It was a multifaceted crisis involving both internal and external factors.

Solution: The crisis was characterized by the following:

- **Balance of Payments (BOP) Crisis:** Foreign exchange reserves fell to a critical level (about $1.2 billion), which was only **enough to pay for two weeks of essential imports**.
- **Inflation:** The annual rate of inflation reached as high as **16.7%**, making essential goods unaffordable for the common man.
- **Fiscal Imbalance:** The government was living beyond its means, with the **fiscal deficit** reaching approximately 8.4% of the GDP.

Since all these factors were present simultaneously, the situation was a severe systemic collapse that required immediate intervention from the IMF and World Bank.

Final Answer:

(D) All of the above

Answer: (D)

Q41.

Solution

Concept: The Indian workforce is divided into the **Formal (Organised)** and **Informal (Unorganised)** sectors. The classification is based on the number of workers and the social security benefits provided.

Solution: In India, the **Formal Sector** includes:

- All public sector establishments.
- Private sector establishments that employ **10 or more hired workers**.

Workers in this sector enjoy social security benefits (like pension and provident fund) and are protected by labor laws. In contrast, street vendors, own-account farmers, and domestic helps belong to the **Informal Sector**, which is characterized by the absence of regular income and legal protection.

Final Answer:

(B) An establishment with 10 or more hired workers

Answer: (B)

Q42.

Solution

Concept: There is a subtle but vital distinction between **Human Capital** and **Human Development**.

- **Human Capital** treats humans as a *means* to an end (increasing productivity/income).
- **Human Development** is based on the idea that education and health are integral to human well-being.

Solution: Human Development is considered an **end in itself**. It suggests that even if health and education do not result in higher labor productivity, they are essential because they expand human choices and allow people to lead a meaningful life. It is a holistic concept that goes beyond purely economic measures like GDP.

Final Answer:

(B) End in itself

Answer: (B)

Q43.

Solution

Concept: The workforce is categorized by the nature of employment into: **Self-employed**, **Regular Salaried employees**, and **Casual Wage laborers**.

Solution: Self-employment is a situation where workers own and operate an enterprise to earn their livelihood.

- More than 50% of the Indian workforce is self-employed.
- This includes **owners of small shops**, farmers, and independent professionals (like a CA with their own firm).
- **Note:** Doctors in government hospitals and MNC workers are "Regular Salaried," while construction workers are usually "Casual Wage" laborers.

Final Answer:

(B) Owners of small shops/enterprises

Answer: (B)

Q44.

Solution

Concept: **Global Warming** refers to the long-term increase in the Earth's average surface temperature due to human activities. This phenomenon is caused by the "Greenhouse Effect."
Solution: The primary cause of global warming is the increased concentration of **Greenhouse Gases (GHGs)** in the atmosphere.

- These gases, such as **Carbon Dioxide** (CO_2), Methane (CH_4), and Nitrous Oxide (N_2O), trap the sun's heat in the atmosphere, preventing it from escaping back into space.
- Major sources include the burning of fossil fuels, deforestation, and industrial processes.
- Gases like Oxygen, Nitrogen, and Argon are the main constituents of the atmosphere but do not contribute to the greenhouse effect.

Final Answer:

$$\boxed{\text{(B) Greenhouse gases (like } CO_2\text{)}}$$

Answer: (B)

Q45.

Solution

Concept: To promote rural prosperity and provide institutional credit to farmers and rural artisans, the government established a specialized apex body to coordinate all rural financial activities.
Solution: The **National Bank for Agriculture and Rural Development (NABARD)** is the apex regulatory body for the overall regulation and licensing of regional rural banks and apex cooperative banks in India.

- Established in **1982** on the recommendations of the Shivaraman Committee.
- It coordinates the activities of all institutions involved in the **rural credit delivery system**.
- While the RBI is the central bank of the country, it delegated the specific function of rural credit and supervision of rural banks to NABARD.

Final Answer:

$$\boxed{\text{(B) NABARD}}$$

Answer: (B)

Q46.

Solution

Concept: Life expectancy at birth is a key indicator of the health status and quality of life in a country. It reflects the average number of years a newborn is expected to live if prevailing patterns of mortality at the time of its birth remain the same throughout its life.
Solution: Among the three neighboring nations, **China** has consistently maintained the highest life expectancy.

- **China:** Life expectancy is approximately 77–78 years.
- **India:** Life expectancy is approximately 69–70 years.
- **Pakistan:** Life expectancy is approximately 66–67 years.

China's superior performance is attributed to its early investments in public health, nutrition, and the successful implementation of its "Barefoot Doctors" program and rural health cooperatives.
Final Answer:

(B) China

Answer: (B)

Q47.

Solution

Concept: The **Great Leap Forward (GLF)** campaign, initiated in China in 1958, aimed at industrializing the country on a massive scale. A key component of this was the transformation of the agrarian structure.
Solution: The **Commune System** was a form of **Collective Farming**.

- Under this system, individual land ownership was abolished, and people were organized into large units called communes to cultivate land collectively.
- By 1958, there were 26,000 communes covering almost all of the farm population.
- It allowed the government to utilize rural labor for both large-scale farming and small-scale industrial projects in the countryside.

Final Answer:

(B) Collective Farming

Answer: (B)

Q48.

Solution

Concept: The allocation of resources in a national budget reflects a country's priorities. Economists often analyze the trade-off between "guns and butter" (defense vs. social welfare).
Solution: Pakistan's economic development has often been hindered by its disproportionately high military spending. This is criticized because:

- **Relative to GDP:** A large share of national income is diverted away from productive sectors like education and health.
- **External Debt:** High defense spending often necessitates borrowing, leading to a debt trap.
- **Foreign Exchange Reserves:** Spending on imported military hardware depletes scarce foreign currency needed for essential imports.

The high expenditure across all these metrics limits the "fiscal space" available for human development and infrastructure.
Final Answer:

(D) All of the above

Answer: (D)

Q49.

Solution

Concept: Following the economic reforms initiated by Deng Xiaoping in 1978, China adopted an export-led growth strategy. This shifted the economy's focus from agriculture toward mass industrialization.
Solution: China's rapid growth in the 1980s and 90s was primarily driven by the **Manufacturing (Secondary) sector**.

- Known as the "World's Factory," China leveraged its abundant cheap labor and established Special Economic Zones (SEZs) to attract foreign investment.
- The share of the secondary sector in GDP and employment rose significantly during this period.
- While the agricultural reforms provided the initial momentum, it was the massive scale of industrial production and exports that sustained double-digit growth rates for decades.

Final Answer:

(B) Manufacturing (Secondary) sector

Answer: (B)

Q50.

Solution

Concept: Human Development Indicators are statistical measures used to assess the socio-economic development of a country. They go beyond simple economic growth to look at the quality of life, health, and knowledge of the population.

Solution: All the options provided are standard indicators used to measure human development:

- **GDP per capita:** Measures the economic standard of living and purchasing power.
- **Infant Mortality Rate (IMR):** A key indicator of the quality of healthcare, nutrition, and sanitation.
- **Literacy Rate:** Measures the level of education and access to knowledge within the society.

These components are integrated into the **Human Development Index (HDI)**, which ranks countries based on a composite score of health, education, and income.

Final Answer:

(D) All of the above

Answer: (D)

Answer Key

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