

CUET-UG Economics Sample Paper-1

Duration: 1 Hour

Maximum Marks: 250

Instructions

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

Q1. If the Marginal Opportunity Cost is increasing, the Production Possibility Frontier will be:

- (A) Convex to the origin
- (B) Concave to the origin
- (C) A downward-sloping straight line
- (D) Parallel to the X-axis

Q2. A consumer is consuming two goods, X and Y. If $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$, how will the rational consumer react?

- (A) Increase consumption of X and decrease Y
- (B) Increase consumption of Y and decrease X
- (C) Decrease consumption of both X and Y
- (D) Increase consumption of both X and Y

Q3. Which of the following statements is incorrect regarding Indifference Curves?

- (A) Higher IC represents a higher level of satisfaction.
- (B) Two ICs can intersect if the consumer is irrational.
- (C) IC is convex to the origin due to diminishing Marginal Rate of Substitution.
- (D) IC does not touch either the X-axis or Y-axis.



- Q4.** If the price of a Good X rises by 10% and the quantity demanded of Good Y rises by 20%, the cross-price elasticity is:
- (A) +2, and the goods are substitutes.
 - (B) -2, and the goods are complements.
 - (C) +0.5, and the goods are substitutes.
 - (D) -0.5, and the goods are complements.
- Q5.** When the price of a commodity falls from ₹ 10 to ₹ 8, the total expenditure on the commodity remains unchanged. The price elasticity of demand is:
- (A) Greater than 1
 - (B) Less than 1
 - (C) Equal to 1
 - (D) Zero
- Q6.** In the context of the Law of Variable Proportions, when the Total Product (TP) reaches its maximum point:
- (A) Marginal Product (MP) is at its maximum.
 - (B) Average Product (AP) is equal to MP.
 - (C) Marginal Product (MP) is zero.
 - (D) Average Product (AP) is zero.
- Q7.** Why does the Marginal Cost (MC) curve intersect the Average Variable Cost (AVC) and Average Cost (AC) curves at their respective minimum points?
- (A) Because MC is the derivative of total cost.
 - (B) Because when MC is less than average, it pulls the average down; when higher, it pulls it up.
 - (C) Because of the Law of Diminishing Marginal Utility.
 - (D) Because Fixed Costs become zero at the minimum point.
- Q8.** Identify the correct sequence of the stages of production in the short run:



- (A) Increasing returns → Negative returns → Diminishing returns
- (B) Diminishing returns → Increasing returns → Negative returns
- (C) Increasing returns → Diminishing returns → Negative returns
- (D) Constant returns → Increasing returns → Negative returns

Q9. A firm's Average Fixed Cost (AFC) is ₹ 20 at 5 units of output. What will be the AFC at 10 units of output?

- (A) ₹ 20
- (B) ₹ 40
- (C) ₹ 10
- (D) ₹ 5

Q10. In a perfectly competitive market, if the market price is less than the minimum Average Variable Cost (AVC) in the short run, the firm should:

- (A) Continue to produce to cover fixed costs.
- (B) Increase the price to cover losses.
- (C) Shut down production immediately.
- (D) Expand production to achieve economies of scale.

Q11. The demand curve faced by an individual firm under Perfect Competition is:

- (A) Relatively elastic
- (B) Perfectly inelastic
- (C) Perfectly elastic
- (D) Downward sloping

Q12. If the price of a factor of production increases, the market supply curve for the finished product will likely:

- (A) Shift to the right
- (B) Shift to the left



- (C) Move downward along the same curve
- (D) Become horizontal

Q13. Under perfect competition, the "Price = Marginal Cost" condition for equilibrium ensures:

- (A) Allocative Efficiency
- (B) Productive Efficiency
- (C) Maximum Revenue
- (D) Zero Fixed Cost

Q14. Statement I: A price floor is the minimum legal price fixed by the government above the equilibrium price. Statement II: A price floor usually leads to a situation of excess demand.

- (A) Both statements are correct.
- (B) Both statements are incorrect.
- (C) Statement I is correct, Statement II is incorrect.
- (D) Statement I is incorrect, Statement II is correct.

Q15. If there is a simultaneous increase in both demand and supply, but the increase in demand is greater than the increase in supply, the equilibrium price will:

- (A) Fall
- (B) Rise
- (C) Remain constant
- (D) Become zero

Q16. Which of the following is not included in the estimation of National Income?

- (A) Brokerage on the sale of second-hand goods.
- (B) Imputed rent of owner-occupied houses.
- (C) Windfall gains like winning a lottery.



(D) Value of self-consumed services by a producer.

Q17. If GDP_{MP} is ₹ 1,000, Consumption of Fixed Capital is ₹ 100, and Net Indirect Taxes are ₹ 150, then NDP_{FC} is:

- (A) ₹ 750
- (B) ₹ 850
- (C) ₹ 900
- (D) ₹ 1,100

Q18. Real GDP is considered a better indicator of economic growth than Nominal GDP because:

- (A) It includes the impact of price changes.
- (B) It reflects changes in the physical quantity of output.
- (C) It is always higher than Nominal GDP.
- (D) It excludes the service sector.

Q19. Assertion : Externalities are not taken into account while calculating GDP.
Reason (R): GDP only measures the market value of final goods and services produced within the domestic territory.

- (A) Both A and R are true and R is the correct explanation of A.
- (B) Both A and R are true but R is not the correct explanation of A.
- (C) A is true but R is false.
- (D) A is false but R is true.

Q20. Which of the following is a "Stock" variable?

- (A) Interest on capital
- (B) Wealth
- (C) Number of births during a year
- (D) Export of goods



- Q21.** High-powered money consists of:
- (A) Currency held by the public + Cash reserves of banks
 - (B) Demand deposits + Time deposits
 - (C) Currency held by the public + Demand deposits
 - (D) Total assets of the RBI
- Q22.** If the Legal Reserve Ratio (LRR) is 20%, what is the value of the Money Multiplier?
- (A) 2
 - (B) 5
 - (C) 10
 - (D) 20
- Q23.** Which quantitative tool is used by the Central Bank to influence the total volume of credit by buying or selling government securities?
- (A) Bank Rate
 - (B) Margin Requirement
 - (C) Open Market Operations
 - (D) Moral Suasion
- Q24.** During a recession, the Central Bank is likely to:
- (A) Raise the Reverse Repo Rate
 - (B) Sell securities in the open market
 - (C) Lower the Repo Rate
 - (D) Increase the Cash Reserve Ratio
- Q25.** According to the Keynesian theory, if the economy is operating at less than full employment, an increase in AD will lead to:
- (A) Increase in Price level only



- (B) Increase in Output and Employment only
- (C) Increase in both Output and Price level
- (D) No change in Output

Q26. If the value of the multiplier is 4, the Marginal Propensity to Save (MPS) is:

- (A) 0.25
- (B) 0.75
- (C) 0.40
- (D) 0.80

Q27. The point where the Aggregate Demand curve intersects the 45° line is known as:

- (A) Break-even point
- (B) Effective Demand point
- (C) Full employment point
- (D) Inflationary point

Q28. Statement I: Induced investment depends on the level of income in the economy.
Statement II: Autonomous investment is generally made by the government sector for social welfare.

- (A) Both statements are correct.
- (B) Both statements are incorrect.
- (C) Statement I is correct, Statement II is incorrect.
- (D) Statement I is incorrect, Statement II is correct.

Q29. Disinvestment by the government is classified as:

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



(D) Capital Expenditure

Q30. Which of the following is an example of a "Direct Tax"?

(A) Goods and Services Tax (GST)

(B) Corporate Tax

(C) Excise Duty

(D) Custom Duty

Q31. If the Interest Payments are ₹ 40,000 and the Fiscal Deficit is ₹ 1,20,000, then the Primary Deficit is:

(A) ₹ 1,60,000

(B) ₹ 80,000

(C) ₹ 40,000

(D) ₹ 1,20,000

Q32. Which of the following would lead to a "Credit" entry in the Capital Account of India's BOP?

(A) Import of machinery from Germany

(B) Purchase of shares of a foreign company by an Indian resident

(C) Foreign Direct Investment (FDI) into India

(D) Remittances sent by Indians working abroad

Q33. When the value of domestic currency rises in terms of foreign currency due to market forces, it is called:

(A) Devaluation

(B) Appreciation

(C) Depreciation

(D) Revaluation

Q34. A "Managed Floating" exchange rate system is also popularly known as:



- (A) Clean Floating
- (B) Dirty Floating
- (C) Pegged Floating
- (D) Fixed Floating

Q35. On the eve of Independence, India's occupational structure was characterized by:

- (A) High concentration of workforce in the service sector.
- (B) High concentration of workforce in the agricultural sector.
- (C) Balanced growth across all sectors.
- (D) Dominance of the manufacturing sector.

Q36. The "Karve Committee" (1955) was associated with:

- (A) Large scale industries
- (B) Small scale industries
- (C) Foreign trade reforms
- (D) Land reforms

Q37. Which of the following was not a goal of the Five-Year Plans in India?

- (A) Growth
- (B) Modernization
- (C) Self-reliance
- (D) Promotion of imports

Q38. The "Great Leap Forward" (GLF) in China focused on:

- (A) Extensive land reforms
- (B) Widespread industrialization in every backyard
- (C) Implementation of the One-child policy
- (D) Introduction of GST in China



- Q39.** The 1991 reforms introduced "Liberalization." Which of the following was not a part of industrial sector reforms under Liberalization?
- (A) Abolition of industrial licensing for most sectors.
 - (B) Decrease in the role of the public sector.
 - (C) Increase in the number of industries reserved for the public sector.
 - (D) De-reservation of items produced by small-scale industries.
- Q40.** "Navratnas" refers to:
- (A) Nine high-performing private companies.
 - (B) Nine specific agricultural crops for export.
 - (C) Nine profit-making Public Sector Enterprises.
 - (D) Nine social welfare schemes of the 1990s.
- Q41.** Which of the following is a "flow" indicator of human capital?
- (A) Literacy rate
 - (B) Life expectancy
 - (C) Expenditure on education
 - (D) Stock of doctors in the country
- Q42.** What was the main reason for the "Crisis of 1991" in India?
- (A) Failure of the Green Revolution.
 - (B) High inflation and huge burden of external debt.
 - (C) Excessive growth of the IT sector.
 - (D) Massive surplus in the Balance of Payments.
- Q43.** Which type of rural credit is usually required for buying tractors and land development?
- (A) Short-term credit
 - (B) Medium-term credit



- (C) Long-term credit
- (D) Micro-credit

Q44. Self-Help Groups (SHGs) help in rural development by:

- (A) Providing large scale industrial loans.
- (B) Promoting thrift and providing small loans without collateral.
- (C) Directly selling crops to the international market.
- (D) Replacing the need for NABARD.

Q45. The "Golden Revolution" in India is related to:

- (A) Cereals
- (B) Horticulture and Honey
- (C) Fish production
- (D) Milk production

Q46. "Casualization of workforce" refers to:

- (A) Shift from self-employment to regular salaried employment.
- (B) Shift from regular salaried employment to casual wage work.
- (C) Increase in the number of people working in the formal sector.
- (D) Decrease in the unemployment rate.

Q47. The "Environment" performs four vital functions. Which of the following is not one of them?

- (A) Supplies resources
- (B) Assimilates waste
- (C) Sustains life
- (D) Provides financial capital

Q48. Which country has the highest Life Expectancy among India, China, and Pakistan?



- (A) India
- (B) China
- (C) Pakistan
- (D) India and Pakistan have equal life expectancy.

Q49. Statement I: Pakistan shifted its focus towards privatization in the late 1980s.
Statement II: India, China, and Pakistan all introduced economic reforms in the same year.

- (A) Both statements are correct.
- (B) Both statements are incorrect.
- (C) Statement I is correct, Statement II is incorrect.
- (D) Statement I is incorrect, Statement II is correct.

Q50. The main reason for the decline in the growth rate of the Chinese economy in recent years is:

- (A) Sudden shift to agriculture.
- (B) High population growth.
- (C) Rise in domestic demand and aging population.
- (D) Complete closure of foreign trade.



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

Concept: The Production Possibility Frontier (PPF) shows the maximum combination of two goods that an economy can produce with its available resources. The shape of the PPF depends on the marginal opportunity cost (MOC), which is the cost of producing one more unit of a good in terms of the other good.

Solution: When the Marginal Opportunity Cost (MOC) is increasing, it indicates that as more of one good is produced, more resources are diverted from the production of the other good. This leads to a higher opportunity cost, causing the PPF to bend outward. The shape of the PPF is convex to the origin when the MOC is increasing, as the opportunity cost increases with the production of more units of a good.

Thus, the correct answer is that the PPF will be convex to the origin.

Final Answer:

Convex to the origin.

Answer: (A)

Q2.**Solution**

Concept: The Law of Equi-Marginal Utility states that a rational consumer will allocate their income between goods in such a way that the marginal utility per unit of currency spent is equal for all goods. This maximizes the consumer's satisfaction.

Solution: In this case, we are given that $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$, meaning the marginal utility per unit of currency spent on good Y is greater than that spent on good X. To maximize utility, the rational consumer will react by increasing consumption of good Y and decreasing consumption of good X. This is because the consumer gets more satisfaction per rupee spent on good Y than on good X. Thus, the correct answer is that the consumer will increase consumption of Y and decrease consumption of X.

Final Answer:

Increase consumption of Y and decrease X.

Answer: (B)



Q3.

Solution

Concept: Indifference curves (ICs) represent combinations of two goods that give the consumer the same level of satisfaction. ICs have several key properties: they are convex to the origin, they do not intersect, and they never touch the axes.

Solution: The incorrect statement here is that two indifference curves can intersect if the consumer is irrational. In fact, ICs cannot intersect because it would violate the assumption of consistent preferences. If two ICs intersected, it would imply that a consumer could be indifferent between two combinations of goods that provide different levels of satisfaction, which is not possible under rational behavior.

Thus, the correct answer is that two ICs can intersect if the consumer is irrational, which is an incorrect statement.

Final Answer:

Two ICs can intersect if the consumer is irrational.

Answer: (B)

Q4.

Solution

Concept: Cross-price elasticity of demand measures the responsiveness of the quantity demanded of one good to a change in the price of another good. It helps to determine whether two goods are substitutes or complements.

Solution: Cross-price elasticity is calculated as:

$$\text{Cross-price elasticity} = \frac{\% \text{ change in quantity demanded of Y}}{\% \text{ change in price of X}}$$

Here, the price of Good X rises by 10

$$\frac{20\%}{10\%} = 2.$$

Since the cross-price elasticity is positive, the goods are substitutes. Therefore, the correct answer is that the cross-price elasticity is +2, and the goods are substitutes.

Final Answer:

+2, and the goods are substitutes.

Answer: (A)



Q5.

Solution

Concept: Price elasticity of demand (PED) measures how responsive the quantity demanded of a good is to a change in its price. When PED is equal to 1, total expenditure remains constant when the price changes.

Solution: When the price of a commodity falls from ₹ 10 to ₹ 8 and total expenditure remains unchanged, it means that the price elasticity of demand is unitary, or equal to 1. This is because total expenditure (price multiplied by quantity) is constant at different price levels when PED is equal to 1.

Thus, the price elasticity of demand is equal to 1.

Final Answer:

Equal to 1.

Answer: (C)

Q6.

Solution

Concept: In the Law of Variable Proportions, Total Product (TP) increases, reaches a maximum, and then decreases as more units of a variable input are added, while other inputs remain fixed.

Solution: When Total Product (TP) reaches its maximum, the Marginal Product (MP) of the variable input becomes zero. This is because any additional unit of input will not increase the total output, and beyond this point, MP becomes negative. At the maximum point of TP, the Average Product (AP) is equal to the Marginal Product (MP), and MP is zero.

Thus, when the Total Product reaches its maximum point, the Marginal Product (MP) is zero.

Final Answer:

Marginal Product (MP) is zero.

Answer: (C)



Q7.

Solution

Concept: Marginal Cost (MC) is the cost of producing one more unit of a good. The MC curve intersects the Average Variable Cost (AVC) and Average Cost (AC) curves at their minimum points because of the relationship between MC and these averages.

Solution: When Marginal Cost is less than average, it pulls the average down, and when MC is greater than average, it pulls the average up. As a result, the MC curve intersects the AVC and AC curves at their minimum points. This is because the MC is the "pulling force" that either increases or decreases the averages based on its position relative to the averages.

Thus, the reason MC intersects both AVC and AC at their minimum points is that when MC is below the average, it pulls the average down, and when MC is above the average, it pulls the average up.

Final Answer:

Because when MC is less than average, it pulls the average down; when higher, it pulls it up.

Answer: (B)

Q8.

Solution

Concept: In the short run, a firm experiences different returns to the variable factor. Initially, when the variable input is increased, the firm experiences increasing returns, followed by diminishing returns, and eventually negative returns.

Solution: The correct sequence of the stages of production in the short run is: increasing returns, diminishing returns, and negative returns. Initially, when the firm increases the input, it gets a higher output per additional unit of input (increasing returns). After a certain point, the firm experiences diminishing returns as the output increases at a decreasing rate. Eventually, when the firm overuses the input, it experiences negative returns, where the output starts to decline.

Thus, the correct sequence is Increasing returns → Diminishing returns → Negative returns.

Final Answer:

Increasing returns → Diminishing returns → Negative returns.

Answer: (C)



Q9.

Solution

Concept: Average Fixed Cost (AFC) is calculated by dividing total fixed cost by the number of units produced. As output increases, AFC decreases because fixed costs are spread over more units.

Solution: If the AFC is ₹ 20 at 5 units of output, the total fixed cost is:

$$\text{Total Fixed Cost} = \text{AFC} \times \text{Output} = 20 \times 5 = ₹ 100.$$

At 10 units of output, the AFC will be:

$$\text{AFC} = \frac{\text{Total Fixed Cost}}{\text{Output}} = \frac{100}{10} = ₹ 10.$$

Thus, the AFC at 10 units of output is ₹ 10.

Final Answer:

₹ 10.

Answer: (C)

Q10.

Solution

Concept: In perfect competition, if the market price falls below the minimum Average Variable Cost (AVC), the firm should shut down in the short run to minimize losses.

Solution: If the market price is below the minimum AVC, the firm cannot cover its variable costs. Continuing production would result in a greater loss than shutting down. Therefore, the firm should shut down production immediately when the price is less than the minimum AVC.

Thus, the correct action is to shut down production immediately.

Final Answer:

Shut down production immediately.

Answer: (C)



Q11.

Solution

Concept: In perfect competition, firms are price takers, meaning they cannot influence the market price and must accept the price as given. The demand curve faced by an individual firm is horizontal at the market price level, indicating that the firm can sell any amount at the prevailing price.

Solution: In a perfectly competitive market, the demand curve faced by an individual firm is perfectly elastic. This means that the firm can sell as much as it wants at the market price, but if it tries to charge a higher price, it will sell nothing. Therefore, the demand curve is perfectly elastic, represented as a horizontal line.

Since the firm is a price taker, the correct answer is that the demand curve is perfectly elastic.

Final Answer:

Perfectly elastic.

Answer: (C)

Q12.

Solution

Concept: The market supply curve represents the total quantity of a good that all firms in the market are willing to produce at different price levels. When the price of a factor of production (such as labor or raw materials) increases, the cost of production for firms increases, leading to a shift in the supply curve.

Solution: When the price of a factor of production increases, the cost of producing the good increases for the firms. As a result, firms are willing to supply less at each price level, causing the market supply curve to shift to the left. This indicates a decrease in the total quantity supplied at any given price, as it is now more expensive for firms to produce the same quantity of goods.

Thus, when the price of a factor of production increases, the market supply curve will shift to the left, indicating a reduction in supply.

Final Answer:

Shift to the left.

Answer: (B)



Q13.

Solution

Concept: Under perfect competition, firms produce at the point where Price equals Marginal Cost ($P = MC$). This condition ensures that resources are allocated efficiently, as the price consumers are willing to pay for a good reflects the marginal cost of producing it.

Solution: The condition $P = MC$ ensures that the economy's resources are being used in the most efficient way possible. When price equals marginal cost, it implies that the value consumers place on the last unit of the good (as reflected by the price) is exactly equal to the cost incurred by firms to produce that unit (as reflected by the marginal cost). This condition is necessary for achieving allocative efficiency, meaning that goods are distributed in a way that maximizes total societal welfare.

Thus, under perfect competition, the "Price = Marginal Cost" condition for equilibrium ensures allocative efficiency.

Final Answer:

Allocative Efficiency.

Answer: (A)

Q14.

Solution

Concept: A price floor is a minimum price set by the government, typically above the equilibrium price, to ensure that producers receive a minimum price for their goods or services. A price floor creates a surplus when the price is set above the equilibrium.

Solution: A price floor leads to excess supply (or a surplus), not excess demand. This happens because when the price is set above the equilibrium, the quantity supplied by producers exceeds the quantity demanded by consumers at that price. The government may set a price floor to protect producers, but this typically results in a situation where there are more goods available than consumers are willing to buy.

Thus, Statement I is correct, as a price floor is indeed a minimum legal price set above the equilibrium price. However, Statement II is incorrect because a price floor leads to a surplus (excess supply), not excess demand.

Final Answer:

Statement I is correct, Statement II is incorrect.

Answer: (C)



Q15.

Solution

Concept: The equilibrium price in a market is determined by both supply and demand. If both demand and supply increase simultaneously, the equilibrium price will be influenced by the relative changes in demand and supply.

Solution: If there is a simultaneous increase in both demand and supply, but the increase in demand is greater than the increase in supply, the equilibrium price will rise. This is because the greater shift in demand increases the pressure on price, even as the supply curve shifts to the right. The increase in supply would tend to lower prices, but the larger increase in demand causes the price to increase.

Thus, when the increase in demand is greater than the increase in supply, the equilibrium price will rise.

Final Answer:

Rise.

Answer: (B)

Q16.

Solution

Concept: National Income measures the total value of all final goods and services produced within a country in a given period. Certain items are excluded from National Income calculation as they are not part of productive activity.

Solution: Windfall gains, such as winning a lottery, are not included in National Income, as they are not derived from any productive economic activity. While second-hand goods, imputed rent of owner-occupied houses, and self-consumed services by producers are considered part of National Income, windfall gains are considered transfers and not part of production.

Thus, the correct answer is that windfall gains like winning a lottery are not included in the estimation of National Income.

Final Answer:

Windfall gains like winning a lottery.

Answer: (C)



Q17.

Solution

Concept: Net Domestic Product at Factor Cost (NDPFC) is derived from Gross Domestic Product at Market Price (GDPMP) by adjusting for depreciation and net indirect taxes (NIT).

Solution: To calculate NDPFC, we subtract the consumption of fixed capital (depreciation) and add the net indirect taxes (NIT) to GDPMP:

$$NDP_{FC} = GDP_{MP} - \text{Consumption of Fixed Capital} + \text{Net Indirect Taxes.}$$

Substituting the given values:

$$NDP_{FC} = 1000 - 100 + 150 = 1050.$$

So, the correct answer is ₹ 1,050.

Final Answer:

1,100.

Answer: (D)

Q18.

Solution

Concept: Real GDP is adjusted for inflation, making it a more accurate indicator of economic growth as it reflects the actual increase in output rather than just changes in prices.

Solution: Real GDP removes the effects of inflation, allowing for a comparison of the economy's output over time without the distortion caused by price changes. Nominal GDP, on the other hand, is measured using current prices and can be influenced by inflation, making it a less reliable indicator of actual growth.

Since Real GDP adjusts for price changes, it is a better indicator of economic growth than Nominal GDP.

Final Answer:

It reflects changes in the physical quantity of output.

Answer: (B)



Q19.

Solution

Concept: GDP measures the market value of final goods and services produced within a country. It does not include externalities, as it only focuses on market transactions.

Solution: Statement A is true: GDP does not account for externalities such as pollution, because these are not market transactions. Statement R is also true: GDP measures only the market value of final goods and services produced within the country's domestic territory, excluding externalities like pollution, which are not priced in the market.

Thus, both statements are true, and Statement R provides the correct explanation of Statement A.

Final Answer:

Both A and R are true and R is the correct explanation of A.

Answer: (A)

Q20.

Solution

Concept: A "stock" variable is measured at a particular point in time, while a "flow" variable is measured over a period of time.

Solution: Wealth is a stock variable because it represents the total value of assets held at a specific point in time. In contrast, interest on capital, the number of births in a year, and exports of goods are flow variables, as they are measured over a period of time.

Therefore, wealth is the correct "stock" variable.

Final Answer:

Wealth.

Answer: (B)



Q21.

Solution

Concept: High-powered money, also known as the monetary base, consists of currency in circulation and the reserves held by commercial banks with the central bank.

Solution: High-powered money includes: - Currency held by the public: This is the physical currency (coins and banknotes) that is in circulation. - Cash reserves of banks: These are the reserves that commercial banks hold with the central bank, which they use to meet reserve requirements and settle interbank transactions.

Therefore, the correct answer is that high-powered money consists of currency held by the public plus the cash reserves of banks.

Final Answer:

Currency held by the public + Cash reserves of banks.

Answer: (A)

Q22.

Solution

Concept: The Money Multiplier is the inverse of the Legal Reserve Ratio (LRR) and shows how much the money supply will increase based on an increase in high-powered money.

Solution: The Money Multiplier formula is:

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

Given that the LRR is 20

$$\text{Money Multiplier} = \frac{1}{0.20} = 5.$$

Thus, the value of the Money Multiplier is 5.

Final Answer:

5.

Answer: (B)



Q23.

Solution

Concept: Open Market Operations (OMOs) are the buying and selling of government securities by the central bank to influence the money supply in the economy.

Solution: The central bank conducts OMOs to control the volume of credit in the economy. By buying government securities, the central bank injects money into the economy, increasing the money supply. Conversely, selling government securities reduces the money supply.

Thus, the quantitative tool used by the central bank to influence the total volume of credit by buying or selling government securities is Open Market Operations.

Final Answer:

Open Market Operations.

Answer: (C)

Q24.

Solution

Concept: During a recession, the central bank uses various tools to stimulate the economy, including adjusting interest rates and reserve requirements.

Solution: To stimulate the economy during a recession, the central bank typically lowers the Repo Rate (the rate at which commercial banks borrow from the central bank). Lowering the Repo Rate makes borrowing cheaper for banks, encouraging them to lend more, which can boost investment and consumption.

Thus, the correct action during a recession is to lower the Repo Rate.

Final Answer:

Lower the Repo Rate.

Answer: (C)



Q25.

Solution

Concept: According to Keynesian theory, an increase in Aggregate Demand (AD) will increase output and employment in an economy that is not operating at full employment.

Solution: When the economy is operating at less than full employment, an increase in AD will lead to a rise in both output and employment. This is because businesses will increase production to meet the higher demand, leading to the hiring of more workers and an increase in overall economic activity.

Thus, according to Keynesian theory, the correct outcome of an increase in AD in an underemployed economy is an increase in both output and price level.

Final Answer:

Increase in both Output and Price level.

Answer: (C)

Q26.

Solution

Concept: The Money Multiplier is related to the Marginal Propensity to Save (MPS) by the formula:

$$\text{Money Multiplier} = \frac{1}{MPS}$$

Solution: We are given that the Money Multiplier is 4, and we need to find the MPS. Using the formula:

$$4 = \frac{1}{MPS}$$

we can solve for MPS:

$$MPS = \frac{1}{4} = 0.25$$

Thus, the Marginal Propensity to Save (MPS) is 0.25.

Final Answer:

0.25.

Answer: (A)



Q27.

Solution

Concept: The 45° line represents the points where aggregate demand equals aggregate supply in the economy. The point where the AD curve intersects the 45° line shows the equilibrium output level.

Solution: The point where the Aggregate Demand curve intersects the 45° line is called the Effective Demand point. This is the point where the total expenditure on goods and services in the economy equals the total output, or the equilibrium point.

Thus, the point where the AD curve intersects the 45° line is known as the Effective Demand point.

Final Answer:

Effective Demand point.

Answer: (B)

Q28.

Solution

Concept: Induced investment depends on the level of income in the economy, while autonomous investment is not influenced by the current income level and is typically driven by factors such as government policy.

Solution: Induced investment refers to investment that varies with the level of income and output in the economy. As income increases, businesses invest more due to higher demand for goods and services. On the other hand, autonomous investment is investment that occurs regardless of the level of income, such as government investment for infrastructure development.

Therefore, the correct interpretation is that Statement I is correct, as induced investment does depend on the level of income. Statement II is also correct in describing autonomous investment, particularly government-driven.

The correct answer is Both statements are correct.

Answer: (A)

Q29.

Solution

Concept: Disinvestment refers to the process of selling or liquidating government-owned assets or shares in public sector enterprises.

Solution: Disinvestment by the government is classified as a capital receipt because it represents a transfer of ownership of assets, which results in a one-time inflow of money. This is not a regular revenue stream, making it a capital receipt rather than a revenue receipt.

Thus, disinvestment by the government is classified as a capital receipt.

Final Answer:

Capital Receipt.

Answer: (B)



Q30.

Solution

Concept: Direct taxes are taxes that are levied directly on individuals or firms, and they are paid directly to the government.

Solution: Corporate Tax is a direct tax because it is levied on the income or profits of companies, and it is directly paid by the corporation to the government. In contrast, Goods and Services Tax (GST), excise duty, and custom duty are indirect taxes, as they are collected by intermediaries (such as sellers) from the consumers.

The correct answer is that Corporate Tax is an example of a direct tax.

Final Answer:

Corporate Tax.

Answer: (B)

Q31.

Solution

Concept: The primary deficit is calculated by subtracting interest payments from the fiscal deficit. The fiscal deficit represents the total borrowing requirements of the government, and the primary deficit excludes the interest payments.

Solution: We are given the following: - Fiscal Deficit = ₹ 1,20,000 - Interest Payments = ₹ 40,000
The primary deficit is calculated as:

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

Substituting the given values:

$$\text{Primary Deficit} = 1,20,000 - 40,000 = 80,000.$$

Thus, the primary deficit is ₹ 80,000.

Final Answer:

₹ 80,000.

Answer: (B)



Q32.

Solution

Concept: In the Balance of Payments (BOP), the capital account records transactions involving the movement of capital in and out of the country, such as Foreign Direct Investment (FDI), portfolio investment, and remittances.

Solution: A "credit" entry in the capital account represents an inflow of capital into the country. This includes foreign investments such as Foreign Direct Investment (FDI) into India. FDI refers to investments made by foreign entities in domestic businesses, and it leads to an inflow of foreign capital into India.

Thus, the correct answer is Foreign Direct Investment (FDI) into India.

Final Answer:

Foreign Direct Investment (FDI) into India.

Answer: (C)

Q33.

Solution

Concept: When the value of the domestic currency rises relative to a foreign currency, it is known as appreciation. This is the opposite of depreciation, where the value of the domestic currency falls.

Solution: Appreciation occurs when the value of the domestic currency increases in terms of foreign currency due to market forces. This typically happens when there is an increase in demand for the domestic currency or a decrease in supply.

Thus, the correct term for when the value of the domestic currency rises in terms of foreign currency is appreciation.

Final Answer:

Appreciation.

Answer: (B)



Q34.

Solution

Concept: A "managed floating" exchange rate system is a type of exchange rate regime where the currency value is primarily determined by market forces, but the central bank may intervene occasionally to stabilize the currency.

Solution: A "managed floating" exchange rate system is also known as "dirty floating." In this system, the exchange rate is allowed to fluctuate according to market forces, but the central bank intervenes when necessary to prevent excessive volatility. The term "clean floating" refers to a system where there is no intervention by the central bank.

Thus, the "Managed Floating" exchange rate system is popularly known as dirty floating.

Final Answer:

Dirty Floating.

Answer: (B)

Q35.

Solution

Concept: On the eve of Independence, India's economy was largely agrarian, with a significant portion of the workforce engaged in agriculture.

Solution: On the eve of Independence, India's occupational structure was characterized by a high concentration of the workforce in the agricultural sector. The majority of the Indian population was engaged in farming and agricultural activities, while the industrial and service sectors were underdeveloped.

Thus, the correct answer is the high concentration of the workforce in the agricultural sector.

Final Answer:

High concentration of workforce in the agricultural sector.

Answer: (B)



Q36.

Solution

Concept: The "Karve Committee" (1955) was a committee formed in India to recommend measures for the development and promotion of small-scale industries.

Solution: The Karve Committee, set up in 1955, focused on the development of small-scale industries in India. Its recommendations aimed at enhancing the role of small-scale industries in the country's industrialization process. The committee suggested measures such as providing financial assistance and technical support to small industries.

Thus, the Karve Committee was associated with small-scale industries.

Final Answer:

Small scale industries.

Answer: (B)

Q37.

Solution

Concept: The Five-Year Plans in India had several goals, including economic growth, modernization, and self-reliance. However, promoting imports was not one of the goals, as the focus was on reducing dependence on foreign goods.

Solution: The primary goals of the Five-Year Plans in India were to promote growth, modernization, and self-reliance. The government aimed to build a strong industrial base and reduce the reliance on imports. The promotion of imports contradicts the goal of self-reliance and was not part of the Five-Year Plans.

Thus, the correct answer is that promoting imports was not a goal of the Five-Year Plans in India.

Final Answer:

Promotion of imports.

Answer: (D)



Q38.

Solution

Concept: The "Great Leap Forward" (GLF) was a series of economic and social reforms initiated by China in the late 1950s with the aim of rapidly industrializing the country.

Solution: The Great Leap Forward (GLF) focused on widespread industrialization, particularly in rural areas, through the creation of communes and backyard furnaces to produce steel. The program aimed to boost both industrial and agricultural production, but it faced many challenges, including inefficient practices and poor planning, leading to a disaster.

Thus, the GLF in China focused on widespread industrialization in every backyard.

Final Answer:

Widespread industrialization in every backyard.

Answer: (B)

Q39.

Solution

Concept: The 1991 economic reforms in India were designed to liberalize the economy, reduce the role of the public sector, and promote private sector participation.

Solution: Under the Liberalization reforms of 1991, India abolished industrial licensing for most sectors, reduced the number of industries reserved for the public sector, and promoted competition. The reduction of the public sector's role and the de-reservation of items produced by small-scale industries were significant parts of these reforms.

Thus, the correct answer is that the increase in the number of industries reserved for the public sector was not part of industrial sector reforms under Liberalization.

Final Answer:

Increase in the number of industries reserved for the public sector.

Answer: (C)



Q40.

Solution

Concept: "Navratnas" refers to a group of nine high-performing public sector enterprises (PSEs) in India, recognized for their ability to operate independently and contribute significantly to the economy.

Solution: Navratnas are a group of nine public sector enterprises in India that have been given additional powers by the government to enhance their performance. These enterprises were recognized for their strong financial performance, independence, and potential to contribute to the economic growth of the country.

Thus, "Navratnas" refers to nine profit-making Public Sector Enterprises.

Final Answer:

Nine profit-making Public Sector Enterprises.

Answer: (C)

Q41.

Solution

Concept: Human capital refers to the skills, knowledge, and experience possessed by individuals. Flow indicators measure changes in human capital over time, while stock indicators refer to the accumulation of human capital at a particular point in time.

Solution: Expenditure on education is a flow indicator because it measures the ongoing investment in human capital. It represents the resources being spent to enhance the skills and knowledge of the population over time. On the other hand, literacy rate, life expectancy, and stock of doctors are stock indicators, as they reflect the accumulated state of human capital.

Thus, expenditure on education is a "flow" indicator of human capital.

Final Answer:

Expenditure on education.

Answer: (C)



Q42.

Solution

Concept: The "Crisis of 1991" in India was a major economic crisis that required urgent reforms to address the fiscal deficit, foreign exchange shortage, and high inflation.

Solution: The main reason for the Crisis of 1991 in India was the high inflation coupled with a huge burden of external debt. The government struggled to meet its foreign debt obligations, leading to a foreign exchange crisis. This resulted in the depletion of foreign reserves, forcing India to seek assistance from the International Monetary Fund (IMF).

Thus, the correct answer is that the crisis was primarily caused by high inflation and the huge burden of external debt.

Final Answer:

High inflation and huge burden of external debt.

Answer: (B)

Q43.

Solution

Concept: Rural credit refers to loans given to farmers and rural entrepreneurs for agricultural activities, land development, and other rural investments.

Solution: For buying tractors and land development, farmers typically require long-term credit. This is because these are capital-intensive investments that require larger sums of money and need to be repaid over a long period, typically many years.

Thus, long-term credit is usually required for buying tractors and land development.

Final Answer:

Long-term credit.

Answer: (C)



Q44.

Solution

Concept: Self-Help Groups (SHGs) are community-based organizations in rural areas that help in poverty alleviation, primarily by providing small loans to members without the need for collateral.

Solution: Self-Help Groups (SHGs) help in rural development by promoting thrift (saving small amounts of money) and providing small loans to their members without collateral. These loans are typically used for income-generating activities or to meet personal needs, fostering economic empowerment in rural areas.

Thus, the correct answer is that SHGs promote thrift and provide small loans without collateral.

Final Answer:

Promoting thrift and providing small loans without collateral.

Answer: (B)

Q45.

Solution

Concept: The "Golden Revolution" in India refers to a period of rapid growth in the production of horticultural products, particularly fruits, vegetables, and honey.

Solution: The Golden Revolution in India is primarily related to horticulture and honey production. During this period, there was a significant increase in the cultivation of fruits, vegetables, and the production of honey, contributing to the diversification of agriculture and improving the livelihoods of farmers.

Thus, the correct answer is that the Golden Revolution is related to horticulture and honey.

Final Answer:

Horticulture and Honey.

Answer: (B)



Q46.

Solution

Concept: "Casualization of workforce" refers to a shift in employment patterns, where there is an increase in the number of workers employed in temporary or contract-based work rather than regular salaried jobs.

Solution: Casualization of the workforce refers to the shift from regular salaried employment to casual wage work. This typically involves a rise in temporary, part-time, or contract-based jobs that lack job security and benefits associated with regular employment.

Thus, the correct answer is that casualization refers to the shift from regular salaried employment to casual wage work.

Final Answer:

Shift from regular salaried employment to casual wage work.

Answer: (B)

Q47.

Solution

Concept: The environment performs several vital functions that are necessary to sustain life and the well-being of the planet, including supplying resources, assimilating waste, and sustaining life.

Solution: The environment performs four key functions: supplying resources, assimilating waste, sustaining life, and regulating the climate. However, providing financial capital is not a function of the environment. Financial capital is related to economic systems and markets, not the natural environment.

Thus, the correct answer is that the environment does not provide financial capital.

Final Answer:

Provides financial capital.

Answer: (D)



Q48.

Solution

Concept: Life expectancy is a key indicator of health and longevity, and it varies across countries depending on factors such as healthcare, lifestyle, and economic development.

Solution: Among India, China, and Pakistan, China has the highest life expectancy. China's healthcare system and economic development have contributed to a higher life expectancy compared to India and Pakistan.

Thus, the country with the highest life expectancy among India, China, and Pakistan is China.

Final Answer:

China.

Answer: (B)

Q49.

Solution

Concept: Privatization refers to the transfer of government-owned assets to the private sector. Pakistan's focus on privatization and economic reforms aligns with the broader trend in developing countries during the late 1980s.

Solution: Pakistan shifted its focus towards privatization in the late 1980s to reduce the role of the public sector in the economy. However, the statement about India, China, and Pakistan introducing economic reforms in the same year is incorrect. While India and China did introduce reforms in the early 1990s, they did so at different times, and not all three countries implemented reforms in the same year.

Thus, Statement I is correct, and Statement II is incorrect.

Final Answer:

Statement I is correct, Statement II is incorrect.

Answer: (C)



Q50.

Solution

Concept: The Chinese economy has undergone significant changes, including the shift to a more market-oriented approach. However, recent economic slowdown has been driven by various internal factors.

Solution: The main reason for the decline in the growth rate of the Chinese economy in recent years is the rise in domestic demand and an aging population. This has led to slower economic growth as the labor force shrinks, and the demand for goods and services changes.

Thus, the correct answer is the rise in domestic demand and an aging population.

Final Answer:

Rise in domestic demand and aging population.

Answer: (C)



Answer Key

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

