

CUET-UG Economics Sample Paper-20

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 'Giffen Paradox' occurs when the negative Income Effect is:

- (A) Less than the Substitution Effect
- (B) Greater than the Substitution Effect
- (C) Equal to the Substitution Effect
- (D) Zero

Q2. If the price of Coffee rises and the demand for Tea rises, the Cross-Price Elasticity is:

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

Q3. The 'Law of Diminishing Marginal Utility' states that as consumption increases, MU:

- (A) Falls but remains positive initially
- (B) Falls and becomes negative immediately
- (C) Increases at a decreasing rate
- (D) Remains constant



- Q4.** When the demand curve is a rectangular hyperbola, elasticity of demand at every point is:
- (A) $e > 1$
 - (B) $e < 1$
 - (C) $e = 1$
 - (D) $e = 0$
- Q5.** The 'Short Run' is a period of time in which:
- (A) All factors are variable
 - (B) At least one factor is fixed
 - (C) All factors are fixed
 - (D) Technology is variable
- Q6.** If the total product (TP) curve is a straight line starting from the origin, then:
- (A) MP is increasing
 - (B) MP is decreasing
 - (C) MP is constant
 - (D) MP is zero
- Q7.** The 'Shut-down Point' for a firm in the short run is where:
- (A) $P = AC$
 - (B) $P = AVC$
 - (C) $P = AFC$
 - (D) $TR = TFC$
- Q8.** Internal Economies of Scale arise due to:
- (A) Growth of the entire industry
 - (B) Improvements in the firm's own production techniques
 - (C) Government subsidies to all firms



(D) Discovery of new raw material sources

Q9. In the long run, a perfectly competitive firm produces at the point where:

(A) $P = LMC = LAC$

(B) $P > LMC$

(C) $P < LAC$

(D) $MR = AFC$

Q10. The 'Supply Curve' of a firm is the upward-sloping part of its:

(A) Average Cost Curve

(B) Marginal Cost Curve above AVC

(C) Marginal Revenue Curve

(D) Total Cost Curve

Q11. An 'Increase in Supply' (Shift to the right) is caused by:

(A) Increase in price of the good

(B) Decrease in price of inputs

(C) Increase in excise duty

(D) Use of obsolete technology

Q12. In a 'Price Floor' situation, the government usually:

(A) Purchases the surplus to build buffer stocks

(B) Sells the surplus in the open market

(C) Limits the production of the good

(D) Lowers the taxes on the good

Q13. If demand is perfectly elastic, an increase in supply will lead to:

(A) Decrease in price, no change in quantity

(B) Increase in quantity, no change in price



- (C) Increase in both price and quantity
- (D) Decrease in quantity, price remains same

Q14. 'Personal Disposable Income' is calculated as:

- (A) Personal Income - Direct Taxes - Miscellaneous Fees
- (B) National Income - Undistributed Profits
- (C) Private Income - Corporate Tax
- (D) GDP + NFIA

Q15. Which of the following is an example of an 'Intermediate Good'?

- (A) Car purchased by a household
- (B) Coal used by a factory to produce steel
- (C) Machine installed in a factory
- (D) Mobile phone purchased by a student

Q16. The 'Circular Flow of Income' in a two-sector economy assumes:

- (A) There is no government or foreign trade
- (B) Households save all their income
- (C) Firms do not sell to households
- (D) There are no factor payments

Q17. Which index is used to measure the average change in prices of goods at the wholesale level?

- (A) CPI
- (B) WPI
- (C) GDP Deflator
- (D) Sensex

Q18. The 'Liquidity Preference Theory' was given by:



- (A) Adam Smith
- (B) J.M. Keynes
- (C) Milton Friedman
- (D) David Ricardo

Q19. If the Central Bank wants to 'Expand Credit', it should:

- (A) Raise the Bank Rate
- (B) Buy securities in the Open Market
- (C) Increase the SLR
- (D) Increase the Margin Requirement

Q20. M1 measure of money supply includes:

- (A) $C + DD + OD$
- (B) $M1 + PostOfficeSavings$
- (C) $M1 + TimeDeposits$
- (D) Total Post Office Deposits

Q21. Fiat Money is money that:

- (A) Has intrinsic value like gold
- (B) Is backed by government order/decreed
- (C) Is only used for international trade
- (D) Can be converted into silver on demand

Q22. The 'Psychological Law of Consumption' suggests that as income increases:

- (A) Consumption increases more than income
- (B) Consumption increases less than income
- (C) Consumption remains constant
- (D) Consumption decreases



- Q23.** The slope of the Consumption Curve is known as:
- (A) APC
 - (B) MPC
 - (C) APS
 - (D) MPS
- Q24.** If K (Multiplier) is 4, what is the value of MPS?
- (A) 0.25
 - (B) 0.75
 - (C) 0.50
 - (D) 1
- Q25.** The situation where $AD = AS$ but at a level lower than full employment is:
- (A) Under-employment equilibrium
 - (B) Over-full employment equilibrium
 - (C) Full employment equilibrium
 - (D) Hyperinflation
- Q26.** 'Borrowings' in the government budget are categorized under:
- (A) Revenue Receipts
 - (B) Capital Receipts
 - (C) Revenue Expenditure
 - (D) Non-plan Expenditure
- Q27.** A 'Direct Tax' is one whose 'Impact' and 'Incidence' lie on:
- (A) Different persons
 - (B) The same person
 - (C) The government



(D) Foreigners

- Q28.** The 'Budget Deficit' that includes the interest payments of the government is:
- (A) Primary Deficit
 - (B) Fiscal Deficit
 - (C) Revenue Deficit
 - (D) Trade Deficit
- Q29.** Which objective of the budget deals with reducing the gap between the rich and the poor?
- (A) Reallocation of resources
 - (B) Redistribution of income
 - (C) Economic stability
 - (D) Management of PSUs
- Q30.** If the Indian government fixes the exchange rate of the Rupee against the Dollar, it is a:
- (A) Flexible Exchange Rate
 - (B) Fixed Exchange Rate
 - (C) Floating Exchange Rate
 - (D) Dirty Floating
- Q31.** An 'Appreciation' of the domestic currency makes:
- (A) Exports cheaper
 - (B) Imports cheaper
 - (C) Both exports and imports expensive
 - (D) No impact on trade
- Q32.** BOP is a 'Flow' concept because it is measured:



- (A) At a point in time
- (B) Over a period of time
- (C) In terms of gold only
- (D) By the IMF

Q33. The 'Zamindari System' of land tenure was introduced by the British in:

- (A) 1793
- (B) 1850
- (C) 1901
- (D) 1947

Q34. The 'Planning Commission' was set up in India in the year:

- (A) 1947
- (B) 1950
- (C) 1951
- (D) 1956

Q35. The primary motive of Britishers behind developing infrastructure in India was:

- (A) Welfare of Indians
- (B) To facilitate the movement of British troops and raw materials
- (C) To promote Indian exports
- (D) To modernize Indian cities

Q36. Under 'Privatisation' in 1991, the government started selling equity of PSUs, a process known as:

- (A) Liberalisation
- (B) Globalisation
- (C) Disinvestment
- (D) Outsourcing



- Q37.** The 'General Agreement on Tariffs and Trade' (GATT) was succeeded by:
- (A) IMF
 - (B) World Bank
 - (C) WTO
 - (D) UNESCO
- Q38.** The 'Mid-day Meal' scheme was primarily aimed at:
- (A) Reducing unemployment
 - (B) Improving the nutritional status and school attendance of children
 - (C) Promoting agriculture
 - (D) Reducing the fiscal deficit
- Q39.** Human Capital and Human Development are:
- (A) Identical concepts
 - (B) Different: Human Capital treats humans as a means to increase productivity
 - (C) Different: Human Development treats humans as an end in themselves
 - (D) Both (B) and (C)
- Q40.** Rural credit in India is mainly dominated by:
- (A) Institutional sources (Banks, Co-operatives)
 - (B) Moneylenders
 - (C) Traders
 - (D) Relatives
- Q41.** The 'Montreal Protocol' (1987) was signed to:
- (A) Curb Carbon emissions
 - (B) Protect the Ozone layer
 - (C) Reduce poverty



(D) Regulate world trade

Q42. 'Disguised Unemployment' is most commonly found in:

- (A) Industrial Sector
- (B) Agricultural Sector
- (C) Service Sector
- (D) Banking Sector

Q43. The 'Reform Process' in Pakistan was started in:

- (A) 1978
- (B) 1988
- (C) 1991
- (D) 2001

Q44. Which of the following is a 'Social Indicator' of development?

- (A) GDP per capita
- (B) Life Expectancy at birth
- (C) Energy consumption
- (D) Steel production

Q45. China's 'Great Proletarian Cultural Revolution' (1966) was introduced by:

- (A) Deng Xiaoping
- (B) Mao Zedong
- (C) Xi Jinping
- (D) Sun Yat-sen

Q46. Which country has the highest share of the Service Sector in GDP among the three?

- (A) India



- (B) China
- (C) Pakistan
- (D) All are equal

Q47. The 'SAARC' was established in 1985 to promote:

- (A) Military alliance
- (B) Regional cooperation in South Asia
- (C) Trade with Europe
- (D) Use of a single currency

Q48. In which country is the density of population the lowest?

- (A) India
- (B) Pakistan
- (C) China
- (D) Bangladesh

Q49. 'Special Economic Zones' in China were created to:

- (A) Discourage imports
- (B) Attract Foreign Direct Investment (FDI)
- (C) Promote agriculture
- (D) Nationalize industries

Q50. Identify the correct statement:

- (A) India's HDI is higher than China's.
- (B) Pakistan has achieved better results in reducing poverty than India.
- (C) China's growth was mainly due to its focus on the manufacturing sector.
- (D) India started its reforms before China.



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

Concept: The Law of Demand states that price and quantity demanded are inversely related. However, **Giffen Goods** are a specific type of inferior good that violates this law. Whether a good is "Giffen" depends on the tug-of-war between two effects that occur when a price changes:

- **Substitution Effect (SE):** Always negative (consumers buy more of the relatively cheaper good).
- **Income Effect (IE):** For inferior goods, the income effect is positive (as real income rises due to a price fall, demand falls).

Solution: For a good to be a Giffen Good:

- (a) It must be an inferior good with a strong **negative income effect**.
- (b) The **Income Effect must be greater than the Substitution Effect**.

In this scenario, when the price falls, the "wealth effect" (feeling richer) is so strong that the consumer reduces consumption of the inferior good significantly more than they increased it due to the "substitution effect" (the good being cheaper). This results in a demand curve that slopes **upward**.

Final Answer:

(B) Greater than the Substitution Effect

Answer: (B)



Q2.

Solution

Concept: Cross-Price Elasticity of Demand (E_{xy}) measures the responsiveness of the quantity demanded for one good to a change in the price of another good.

$$E_{xy} = \frac{\% \text{ Change in Quantity of X}}{\% \text{ Change in Price of Y}}$$

Solution: The sign of the cross-price elasticity indicates the relationship between the two goods:

- **Substitutes:** If the price of Coffee (Y) rises, consumers switch to Tea (X). Both variables move in the **same direction** (positive/positive). Therefore, the elasticity is **positive**.
- **Complements:** If the price of one rises, the demand for the other falls (e.g., Bread and Butter). The variables move in opposite directions, resulting in **negative** elasticity.

Since Coffee and Tea are substitutes, an increase in the price of Coffee leads to an increase in the demand for Tea.

Final Answer:

(A) Positive

Answer: (A)

Q3.

Solution

Concept: The **Law of Diminishing Marginal Utility (DMU)** is a fundamental principle of consumer behavior. It states that as a consumer consumes more and more units of a specific commodity, the utility (satisfaction) derived from each successive unit goes on declining.

Solution: The behavior of Marginal Utility (MU) follows a specific trajectory:

- As the first few units are consumed, the intensity of desire for the commodity decreases, causing MU to **fall**.
- However, as long as the Total Utility (TU) is increasing, the MU **remains positive**.
- When TU reaches its maximum, MU becomes zero (Point of Satiation).
- If consumption continues beyond this point, MU becomes negative (Disutility).

Final Answer:

(A) Falls but remains positive initially

Answer: (A)



Q4.

Solution

Concept: A **Rectangular Hyperbola** is a curve under which all rectangular areas formed by the coordinates of any point on the curve are equal. In the context of a demand curve, this means the total expenditure ($P \times Q$) remains constant at all prices.

Solution: When the demand curve is a rectangular hyperbola:

- The percentage change in quantity demanded is exactly equal to the percentage change in price.
- Using the Total Outlay Method, if total expenditure remains unchanged regardless of the change in price, the price elasticity of demand is unitary.

Mathematically, for a rectangular hyperbola $P \cdot Q = k$ (where k is a constant). The elasticity (e) is calculated as:

$$e = \frac{dQ}{dP} \cdot \frac{P}{Q} = 1$$

Final Answer:

$$(C) e = 1$$

Answer: (C)

Q5.

Solution

Concept: In production theory, the distinction between the "Short Run" and the "Long Run" is not based on a specific calendar time (like 6 months or a year), but on the **variability of inputs**.

Solution:

- **Short Run:** A period of time where the firm cannot change the quantity of all its inputs. Usually, factors like land, heavy machinery, or factory size are **fixed**, while factors like labor and raw materials are **variable**. Therefore, production can only be increased by increasing variable inputs.
- **Long Run:** A period where **all factors of production** become variable. The firm can change its entire scale of production.

Final Answer:

(B) At least one factor is fixed

Answer: (B)



Q6.

Solution

Concept: Marginal Product (MP) is the slope of the Total Product (TP) curve. Mathematically, it is the rate of change of TP with respect to the variable input (L):

$$MP = \frac{d(TP)}{dL}$$

Solution: If the TP curve is a **straight line passing through the origin**, it follows the equation of a linear function:

$$TP = m \cdot L$$

where m is the constant slope.

Since the slope (m) of a straight line is constant at every point:

- The marginal contribution of every additional unit of labor remains the same.
- Therefore, MP is **constant**.
- This represents a situation of constant returns to a factor, where $AP = MP$.

Final Answer:

(C) MP is constant

Answer: (C)

Q7.

Solution

Concept: In the short run, a firm faces two types of costs: Fixed Costs (FC) and Variable Costs (VC). Even if the firm produces zero output, it must pay its fixed costs (rent, insurance, etc.). Therefore, the firm will continue to operate as long as it can at least cover its operating (variable) expenses.

Solution: The **Shut-down Point** is the specific market price and output level where:

- **Price (P) equals Minimum Average Variable Cost (AVC).**
- At this point, the firm's total revenue is just enough to cover its total variable costs ($TR = TVC$).
- If the price falls even slightly below this point ($P < AVC$), the firm will minimize its losses by shutting down, as continuing production would mean losing more than just its fixed costs.

Final Answer:

(B) $P = AVC$

Answer: (B)



Q8.

Solution

Concept: Economies of Scale refer to the cost advantages that a business enjoys when its scale of production increases. These are broadly classified into two categories:

- **Internal Economies:** Advantages unique to a specific firm as it expands.
- **External Economies:** Advantages enjoyed by all firms in an industry as the industry grows.

Solution: Internal Economies of Scale arise from factors **within the individual firm**. These include:

- **Technical Economies:** Using better machinery or improving production techniques.
- **Managerial Economies:** Hiring specialized managers to handle different departments.
- **Marketing Economies:** Spreading advertising costs over a larger volume of output.
- **Financial Economies:** Large firms often get loans at lower interest rates.

Options (A), (C), and (D) are examples of External Economies because they benefit the entire industry or multiple firms simultaneously, regardless of an individual firm's own actions.

Final Answer:

(B) Improvements in the firm's own production techniques

Answer: (B)

Q9.

Solution

Concept: In a **Perfectly Competitive** market, firms are "price takers." In the long run, the entry and exit of firms ensure that all firms earn only **Normal Profits**.

Solution: Long-run equilibrium for a competitive firm occurs when:

- The profit-maximization condition is met: $P = MR = LMC$.
- The zero-economic-profit (Normal Profit) condition is met: $P = LAC$.

Combining these, the equilibrium is at the point where $P = LMC = LAC$. This point also represents the minimum of the Long-run Average Cost (LAC) curve, meaning the firm is producing at its optimum capacity.

Final Answer:

(A) $P = LMC = LAC$

Answer: (A)



Q10.

Solution

Concept: A supply curve shows the relationship between the price of a good and the quantity a firm is willing to supply. This is derived from the firm's marginal cost.

Solution: A firm will maximize profit by producing where $P = MC$, provided the price is high enough to cover variable costs.

- If $P < AVC$, the firm shuts down and supplies zero.
- If $P \geq AVC$, the firm follows its Marginal Cost (MC) curve to decide quantity.

Therefore, the firm's short-run **supply curve** is defined as the **upward-sloping portion of the Marginal Cost Curve that lies above the minimum Average Variable Cost (AVC)**.

Final Answer:

(B) Marginal Cost Curve above AVC

Answer: (B)

Q11.

Solution

Concept: It is crucial to distinguish between a "Change in Quantity Supplied" (movement along the curve due to price) and a "**Change in Supply**" (shift of the curve due to non-price factors).

Solution: An ****Increase in Supply**** (rightward shift) means producers are willing to sell more at the same price. This happens when:

- **Decrease in price of inputs:** Lower costs of production (e.g., cheaper raw materials or labor) increase profit margins, encouraging more supply.
- **Improved Technology:** Increases efficiency and lowers per-unit cost.
- **Decrease in Taxes:** Lower excise duties reduce the cost of bringing goods to market.

Option (A) leads to a movement *along* the curve, while (C) and (D) would cause a *decrease* (leftward shift) in supply.

Final Answer:

(B) Decrease in price of inputs

Answer: (B)



Q12.

Solution

Concept: A **Price Floor** (or Minimum Support Price) is a government-mandated minimum price set above the equilibrium market price. It is usually implemented to protect the interests of producers (like farmers).

Solution: When a Price Floor is set above the equilibrium:

- The quantity supplied exceeds the quantity demanded, creating a **surplus** in the market.
- To make the price floor effective and prevent the price from crashing due to excess supply, the **government usually purchases the surplus** from the producers.
- These purchases are then used to build **buffer stocks** for food security or distributed through the Public Distribution System (PDS).

Final Answer:

(A) Purchases the surplus to build buffer stocks

Answer: (A)

Q13.

Solution

Concept: Perfectly Elastic Demand is represented by a horizontal demand curve parallel to the X-axis ($E_d = \infty$). At this specific price, consumers are willing to buy any amount, but even a tiny increase in price would drop demand to zero.

Solution: When the demand curve is horizontal:

- An **increase in supply** shifts the supply curve to the right (S_1 to S_2).
- Because the demand curve is horizontal, the new intersection point occurs at the **same price level**.
- However, the equilibrium point moves further to the right along the quantity axis.
- Therefore, the **equilibrium quantity increases**, but the **equilibrium price remains unchanged**.

Final Answer:

(B) Increase in quantity, no change in price

Answer: (B)



Q14.

Solution

Concept: Personal Disposable Income (PDI) represents the actual amount of money that households have available to either spend on consumption or save, after all their legal obligations to the government have been met.

Solution: To arrive at PDI from Personal Income, we must subtract payments that are mandatory and reduce the household's spending power:

- **Personal Tax Payments:** Such as Income Tax.
- **Non-tax Payments:** Miscellaneous fees, fines, and penalties paid to the government.

The formula is:

$$PDI = \text{Personal Income} - \text{Direct Taxes} - \text{Miscellaneous Receipts of Govt.}$$

Final Answer:

(A) Personal Income - Direct Taxes - Miscellaneous Fees

Answer: (A)

Q15.

Solution

Concept: The distinction between **Intermediate Goods** and **Final Goods** depends on the end-use of the product. Intermediate goods are those used for resale or as raw materials for further production in the same year.

Solution:

- **Coal used by a factory:** This is an intermediate good because it is used as a raw material/fuel to produce another good (steel). It loses its identity in the production process.
- **Car/Mobile phone:** These are final consumer goods when purchased by households/students.
- **Machine:** This is a final capital good because it is an investment and is not "used up" or resold within the year.

Final Answer:

(B) Coal used by a factory to produce steel

Answer: (B)



Q16.

Solution

Concept: A **Two-Sector Economy** is a simplified model used to understand the flow of money and goods between the basic units of an economy.

Solution: The basic assumptions of a two-sector circular flow model are:

- There are only two sectors: **Households** and **Firms**.
- **Closed Economy:** There is no government intervention (taxes/spending) and no foreign trade (exports/imports).
- Households provide factor services and spend their entire income on consumption (no savings).
- Firms sell their entire output to households.

Final Answer:

(A) There is no government or foreign trade

Answer: (A)

Q17.

Solution

Concept: Price indices are used to track inflation and purchasing power by measuring price changes over time for a specific basket of goods and services.

Solution: The **Wholesale Price Index (WPI)** measures the changes in the prices of goods sold and traded in bulk by wholesale entities to other businesses.

- Unlike the Consumer Price Index (CPI), which reflects retail prices paid by consumers, WPI focuses on the **wholesale level**.
- It is often used as a key indicator of inflation in the early stages of the supply chain.
- **GDP Deflator** measures the price level of all new, domestically produced, final goods and services in an economy.

Final Answer:

(B) WPI

Answer: (B)



Q18.

Solution

Concept: The demand for money is not just for transactions but also depends on how people prefer to hold their wealth (liquidity).

Solution: The **Liquidity Preference Theory** was proposed by **John Maynard Keynes** in his 1936 book, *"The General Theory of Employment, Interest and Money."*

- According to Keynes, people hold money for three motives: **Transactionary, Precautionary, and Speculative.**
- The theory suggests that the rate of interest is determined by the demand for and supply of money. Interest is viewed as the "reward" for parting with liquidity for a specified period.

Final Answer:

(B) J.M. Keynes

Answer: (B)

Q19.

Solution

Concept: Credit expansion (or "Cheap Money Policy") is used by the Central Bank to increase the money supply and stimulate economic activity. This is done by making it easier and cheaper for commercial banks to lend money.

Solution: To **Expand Credit**, the Central Bank must increase the cash reserves of commercial banks.

- **Open Market Operations (OMO):** When the Central Bank **buys securities**, it pays out cash to the banks/public, thereby increasing the liquidity in the banking system.
- Raising the Bank Rate, increasing SLR, or increasing Margin Requirements are all "tight money" policies used to *contract* credit by making borrowing more expensive or restricted.

Final Answer:

(B) Buy securities in the Open Market

Answer: (B)



Q20.

Solution

Concept: The Reserve Bank of India (RBI) uses four measures of money supply ($M1$, $M2$, $M3$, and $M4$), ranging from most liquid to least liquid. $M1$ is known as "Narrow Money."

Solution: The components of $M1$ are:

- **C:** Currency (notes and coins) held by the public.
- **DD:** Net Demand Deposits held by commercial banks.
- **OD:** "Other" Deposits with the RBI (deposits from international financial institutions, etc.).

$M1$ is the most liquid measure because these components can be directly used for transactions.

Final Answer:

$$(A) C + DD + OD$$

Answer: (A)

Q21.

Solution

Concept: Money can be classified based on its origin and backing. Unlike commodity money (which has value because of the material it is made of), modern currency functions differently.

Solution: Fiat Money is a type of currency that is not backed by a physical commodity, such as gold or silver.

- It derives its value from **government order or decree** (the word *fiat* is Latin for "let it be done").
- It is accepted as a medium of exchange because the government declares it to be legal tender.
- Most modern paper currencies, like the Rupee or the Dollar, are forms of fiat money.

Final Answer:

$$(B) \text{ Is backed by government order/decree}$$

Answer: (B)



Q22.

Solution

Concept: Proposed by J.M. Keynes, the **Fundamental Psychological Law of Consumption** describes the relationship between aggregate income and aggregate consumption expenditure.

Solution: The law states that as income increases, consumption also increases, but **not by as much as the increase in income**.

- Mathematically, the Marginal Propensity to Consume (MPC) is positive but less than one ($0 < MPC < 1$).
- This happens because as people become wealthier, they satisfy their immediate needs and begin to **save** a larger portion of their incremental income.

Final Answer:

(B) Consumption increases less than income

Answer: (B)

Q23.

Solution

Concept: The Consumption Function is usually expressed as $C = \bar{C} + bY$, where \bar{C} is autonomous consumption and b is the slope of the curve.

Solution: The slope of any curve represents the rate of change. In the case of the consumption curve, the slope indicates how much consumption changes when there is a change in income. This is defined as the **Marginal Propensity to Consume (MPC)**.

- Formula: $MPC = \frac{\Delta C}{\Delta Y}$
- It represents the ratio of change in consumption to the change in income.
- In a linear consumption function, this slope remains constant.

Final Answer:

(B) MPC

Answer: (B)



Q24.

Solution

Concept: The Investment Multiplier (K) measures the relationship between an initial increment in investment and the resulting increase in national income. It is inversely related to the Marginal Propensity to Save (MPS).

Solution: The relationship is given by the formula:

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

Given that $K = 4$, we can substitute the value into the equation:

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

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

Alternatively, since $MPC + MPS = 1$, if $MPS = 0.25$, then $MPC = 0.75$.

Final Answer:

(A) 0.25

Answer: (A)

Q25.

Solution

Concept: In Keynesian economics, equilibrium occurs when Aggregate Demand (AD) equals Aggregate Supply (AS). However, this equilibrium does not necessarily guarantee that all resources in the economy are fully utilized.

Solution:

- **Under-employment equilibrium** refers to a situation where the equality between AD and AS is established at a level of output **less than the full employment level**.
- This implies that even though the economy is in balance, there is involuntary unemployment because the demand is insufficient to employ all willing workers.
- To correct this, Keynes suggested increasing AD through government intervention.

Final Answer:

(A) Under-employment equilibrium

Answer: (A)



Q26.

Solution

Concept: Government receipts are divided into Revenue Receipts and Capital Receipts. **Capital Receipts** are those receipts of the government which either create a liability or cause a reduction in assets.

Solution: Borrowings (whether from the public, RBI, or foreign bodies) are categorized as ****Capital Receipts**** because:

- They **create a liability** for the government, as the borrowed amount must be repaid with interest in the future.
- Unlike Revenue Receipts (like taxes), they are non-recurring in nature and affect the financial position of the state.

Final Answer:

(B) Capital Receipts

Answer: (B)

Q27.

Solution

Concept: In taxation, we distinguish between two terms:

- **Impact:** The person who is legally responsible for paying the tax to the government (initial burden).
- **Incidence:** The person who actually bears the money burden of the tax (final burden).

Solution: In a **Direct Tax** (like Income Tax or Corporate Tax), the **Impact and Incidence lie on the same person.**

- The person from whom the tax is collected is also the one who suffers the loss of purchasing power.
- Direct taxes cannot be shifted to others.
- Conversely, in Indirect Taxes (like GST), the impact is on the seller, but the incidence is shifted to the final consumer.

Final Answer:

(B) The same person

Answer: (B)



Q28.

Solution

Concept: Government deficits measure the gap between total expenditure and specific types of receipts. Understanding whether interest on past debt is included is key to distinguishing between Fiscal and Primary deficits.

Solution: The **Fiscal Deficit** is the difference between the government's total expenditure and its total receipts (excluding borrowings). It represents the total borrowing requirements of the government from all sources.

- **Fiscal Deficit** includes the burden of interest payments on accumulated debt from previous years.
- **Primary Deficit**, on the other hand, is calculated as:

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

- Therefore, the deficit that *includes* interest payments is the Fiscal Deficit.

Final Answer:

(B) Fiscal Deficit

Answer: (B)

Q29.

Solution

Concept: The government uses its "Fiscal Policy" (taxation and spending) to achieve social and economic goals. One of the primary social goals is ensuring "Equity."

Solution: The objective of **Redistribution of Income** (also known as the "Distribution Function") aims to reduce inequalities in wealth and income.

- The government achieves this by imposing **Progressive Taxes** (higher tax rates on the rich).
- The revenue collected is then spent on **subsidies, social welfare programs, and free services** (like health and education) for the poor.
- This "robbing Peter to pay Paul" mechanism (in a legal, policy sense) helps bridge the gap between the rich and the poor.

Final Answer:

(B) Redistribution of income

Answer: (B)



Q30.

Solution

Concept: The foreign exchange rate system is categorized based on how the value of a currency is determined in the international market.

Solution: When the **government or the central bank** of a country officially sets and maintains the exchange rate against another currency (or a basket of currencies/gold), it is called a ****Fixed Exchange Rate system****.

- In this system, the government intervenes to prevent any fluctuations.
- If the rate is adjusted upward by the government, it is called *Revaluation*; if adjusted downward, it is called *Devaluation*.
- Conversely, in a **Flexible (Floating)** system, the market forces of demand and supply determine the rate.

Final Answer:

(B) Fixed Exchange Rate

Answer: (B)

Q31.

Solution

Concept: Appreciation occurs when the value of the domestic currency increases in terms of a foreign currency under a flexible exchange rate system (e.g., the rate changes from \$1 = 80 to \$1 = 70).

Solution: When the domestic currency (Rupee) appreciates:

- **Imports become cheaper:** You now need fewer Rupees to buy the same amount of foreign goods. For example, a product costing \$1 now costs 70 instead of 80.
- **Exports become more expensive:** Foreigners now have to pay more of their currency to buy the same Indian goods, which usually leads to a fall in exports.

Final Answer:

(B) Imports cheaper

Answer: (B)



Q32.

Solution

Concept: In economics, variables are classified into two categories:

- **Stock Concepts:** Measured at a specific point in time (e.g., Wealth, Capital).
- **Flow Concepts:** Measured over a specific period of time (e.g., Income, Investment).

Solution: The **Balance of Payments (BOP)** is a systematic record of all economic transactions between the residents of a country and the rest of the world **over a period of time**, usually a financial year.

- It captures the movement of goods, services, and assets across borders during that interval.
- Because it has a time dimension (per year or per quarter), it is classified as a **Flow** concept.
- Conversely, the "Foreign Exchange Reserve" held on a particular date would be a *Stock* concept.

Final Answer:

(B) Over a period of time

Answer: (B)

Q33.

Solution

Concept: The Zamindari System, also known as the **Permanent Settlement**, was a land revenue system introduced by the British East India Company to ensure a fixed and regular income from land.

Solution: The system was introduced by **Lord Cornwallis in 1793** in the provinces of Bengal, Bihar, and Odisha.

- Under this system, the "Zamindars" (landlords) were recognized as the legal owners of the land.
- They were required to pay a fixed amount of revenue to the British government on a specific date.
- This system led to the immense exploitation of the actual tillers (peasants), as the Zamindars often extracted much higher rents than the fixed revenue amount.

Final Answer:

(A) 1793

Answer: (A)



Q34.

Solution

Concept: After Independence, India opted for a "Planned Economic Development" model to modernize the economy and achieve self-reliance. This required a centralized body to assess resources and formulate development plans.

Solution: The **Planning Commission** was established in **March 1950** by a resolution of the Government of India.

- The Prime Minister served as the *ex-officio* Chairman.
- Its primary function was to formulate the **Five-Year Plans**, the first of which was launched in 1951.
- On January 1, 2015, the Planning Commission was replaced by the **NITI Aayog** (National Institution for Transforming India) to better reflect the modern needs of the Indian economy.

Final Answer:

(B) 1950

Answer: (B)

Q35.

Solution

Concept: While the British introduced the railways, telegraphs, and modern postal services in India, these developments were not intended for the social or economic upliftment of the Indian population.

Solution: The **primary motive** behind infrastructure development was to serve the **colonial interests** of the British Empire:

- **Railways:** Were developed to transport British troops across the country quickly to maintain control and to move raw materials (like cotton) from the hinterlands to the ports for export to Britain.
- **Roads:** Were constructed primarily to mobilize the army within India.
- **Telegraph:** Was introduced to maintain law and order and facilitate rapid communication for administrative and military purposes.

These improvements incidentally benefited Indians later, but the intent was purely exploitative.

Final Answer:

(B) To facilitate the movement of British troops and raw materials

Answer: (B)



Q36.

Solution

Concept: The New Economic Policy (NEP) of 1991 introduced the LPG model: Liberalisation, Privatisation, and Globalisation. Privatisation involves the transfer of ownership, management, and control of public sector enterprises to the private sector.

Solution: The specific process of selling a part of the equity of Public Sector Undertakings (PSUs) to the public or the private sector is called **Disinvestment**.

- The objective was to improve financial discipline and facilitate modernization.
- It aimed at reducing the government's budgetary burden and introducing private-sector efficiency into these units.
- If the government sells more than 51% of the shares, it results in a transfer of management and control to the private sector.

Final Answer:

(C) Disinvestment

Answer: (C)

Q37.

Solution

Concept: Following World War II, GATT was established in 1948 to reduce trade barriers. However, it was a provisional agreement that only covered trade in goods. A more permanent and powerful body was needed to oversee the expanding global economy.

Solution: The **World Trade Organization (WTO)** succeeded GATT as the global watchdog for international trade.

- The WTO was established on **January 1, 1995**, following the conclusion of the Uruguay Round of negotiations.
- Unlike GATT, the WTO is a permanent institution with its own legal personality.
- It covers not only trade in **goods** but also trade in **services** and **intellectual property rights**.

Final Answer:

(C) WTO

Answer: (C)



Q38.

Solution

Concept: The Mid-day Meal Scheme (now known as PM POSHAN) is a school meal program designed to improve the "Human Capital" of the country by addressing health and education simultaneously.

Solution: The scheme has two primary, interlinked objectives:

- **Nutrition:** To protect children from classroom hunger and tackle malnutrition in the growing population.
- **Education:** To increase **enrollment and attendance** rates in schools, particularly among children from disadvantaged sections, by providing an incentive to come to school.

It also helps in promoting social equality as children from all castes and classes sit and eat together.

Final Answer:

(B) Improving the nutritional status and school attendance of children

Answer: (B)

Q39.

Solution

Concept: While both terms relate to the improvement of human qualities, their underlying philosophy differs significantly.

Solution: The distinction lies in how they perceive the role of humans in the economy:

- **Human Capital** considers education and health as a means to increase **labor productivity**. It views humans as a resource or "means to an end" (the end being higher production).
- **Human Development** is based on the idea that education and health are integral to human well-being. It treats humans as an "**end in themselves**". Even if a person does not contribute to productivity, they have a right to be literate and healthy.

Since both (B) and (C) correctly describe these differences, (D) is the most comprehensive answer.

Final Answer:

(D) Both (B) and (C)

Answer: (D)



Q40.

Solution

Concept: The landscape of rural credit in India has shifted significantly since the nationalization of banks in 1969 and the "Social Banking" approach.

Solution: Historically, rural credit was dominated by non-institutional sources (moneylenders and traders) who charged exorbitant interest rates. However, in the modern Indian economy:

- **Institutional sources** (Commercial Banks, Regional Rural Banks (RRBs), and Co-operatives) now account for the **majority (over 60-70%)** of the total rural credit.
- The Self-Help Group (SHG)-Bank Linkage Programme and the establishment of NABARD (1982) have further strengthened the dominance of institutional credit.

Final Answer:

(A) Institutional sources (Banks, Co-operatives)

Answer: (A)

Q41.

Solution

Concept: Global environmental accords are designed to address specific ecological crises. The discovery of the "ozone hole" led to one of the most successful international treaties in history.

Solution: The **Montreal Protocol** is an international treaty designed to protect the **Ozone layer**.

- It focuses on phasing out the production and consumption of **Ozone-Depleting Substances (ODS)**, such as Chlorofluorocarbons (CFCs) and Halons.
- While the *Kyoto Protocol* or the *Paris Agreement* focus on carbon emissions and global warming, the Montreal Protocol specifically targets the chemical substances that thin the stratospheric ozone layer.

Final Answer:

(B) Protect the Ozone layer

Answer: (B)



Q42.

Solution

Concept: Disguised Unemployment is a phenomenon where more people are engaged in an activity than are actually required. If some people are removed, the total productivity remains unchanged.

Solution: This is a hallmark characteristic of the **Agricultural Sector** in developing economies like India.

- It occurs due to the lack of alternative employment opportunities and high population pressure on land.
- For example, if a small plot of land requires only 3 workers but the entire family of 5 is working on it, the 2 extra workers are "disguisedly unemployed."
- Their **Marginal Productivity (MP)** is zero.

Final Answer:

(B) Agricultural Sector

Answer: (B)

Q43.

Solution

Concept: China, India, and Pakistan followed different timelines for their economic reforms. Understanding these dates is crucial for comparative economic analysis.

Solution: The **Reform Process in Pakistan** was initiated in **1988**.

- For comparison: China started its reforms in **1978**, and India started its major economic reforms in **1991**.
- Pakistan's reforms were largely driven by the Structural Adjustment Programme dictated by the IMF and World Bank.

Final Answer:

(B) 1988

Answer: (B)



Q44.

Solution

Concept: Development indicators are broadly classified into **Economic Indicators** (related to production, income, and infrastructure) and **Social Indicators** (related to quality of life, health, and education).

Solution:

- **Life Expectancy at birth** is a **Social Indicator** as it reflects the health status, nutritional levels, and medical facilities available to the population.
- **GDP per capita** is an economic indicator of income.
- **Energy consumption** and **Steel production** are economic indicators of industrial growth and infrastructure.

Final Answer:

(B) Life Expectancy at birth

Answer: (B)

Q45.

Solution

Concept: The Great Proletarian Cultural Revolution was a socio-political movement in China aimed at preserving "true" Communist ideology by purging remnants of capitalist and traditional elements from Chinese society.

Solution: The movement was launched by **Mao Zedong** in 1966.

- Under this campaign, students and professionals (known as the Red Guards) were sent to work and learn from the countryside.
- It followed the "Great Leap Forward" (1958), which was Mao's earlier campaign for rapid industrialization.
- Deng Xiaoping (Option A) is actually known for the "Open Door Policy" and economic reforms that began in 1978, effectively moving away from Mao's radical policies.

Final Answer:

(B) Mao Zedong

Answer: (B)



Q46.

Solution

Concept: Developing economies typically transition from Agriculture to Industry and then to Services. However, the path taken by India, China, and Pakistan varies significantly in terms of sectoral contribution to GDP.

Solution: Among the three nations, **India** has the highest share of the **Service Sector** in its GDP.

- India's service sector contributes over **50-55%** to its GDP, largely driven by IT, banking, and telecommunications.
- **China** has a much stronger emphasis on the **Secondary (Manufacturing) Sector**, often referred to as the "World's Factory."
- **Pakistan** also has a high service sector share (often exceeding 50%), but India's service-led growth model is more pronounced and globally dominant in terms of value addition.

Final Answer:

(A) India

Answer: (A)

Q47.

Solution

Concept: Regional blocs are formed by neighboring countries to promote mutual growth, cultural ties, and economic stability within a specific geographic area.

Solution: The **South Asian Association for Regional Cooperation (SAARC)** was established in **1985** in Dhaka, Bangladesh.

- Its primary objective is to promote **regional cooperation in South Asia** in areas like agriculture, rural development, science, and technology.
- The eight member states include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- It is not a military alliance (like NATO) nor does it use a single currency (like the Eurozone).

Final Answer:

(B) Regional cooperation in South Asia

Answer: (B)



Q48.

Solution

Concept: Density of Population refers to the number of persons living per unit of land area (usually per square kilometer). It depends on both the total population and the total geographical land area.

Solution: Among the given countries, **China** has the lowest population density.

- While China has a massive population, it also possesses a **vast land area** (the third or fourth largest in the world).
- In contrast, countries like **India** and **Pakistan** have high populations relative to their land mass.
- **Bangladesh** is one of the most densely populated countries in the world due to its very high population living in a relatively small geographic area.

Final Answer:

(C) China

Answer: (C)

Q49.

Solution

Concept: A Special Economic Zone (SEZ) is a specifically defined geographical area that has economic laws that are more liberal than a country's typical economic laws.

Solution: China introduced **SEZs** as part of its "Open Door Policy" in 1978 to **attract Foreign Direct Investment (FDI)**.

- These zones offered tax incentives, high-quality infrastructure, and duty-free import of raw materials to foreign investors.
- The goal was to boost exports and bring in modern technology from the West.
- Famous examples include Shenzhen, which transformed from a small village into a global manufacturing hub.

Final Answer:

(B) Attract Foreign Direct Investment (FDI)

Answer: (B)



Q50.

Solution

Concept: Comparative analysis of India, China, and Pakistan requires looking at the timing of reforms, sectoral shifts, and social indicators.

Solution: Let's evaluate the statements:

- **(A) Incorrect:** China's Human Development Index (HDI) is significantly higher than India's.
- **(B) Incorrect:** While Pakistan initially reduced poverty faster in the 1980s, India has made more substantial and consistent progress in recent decades.
- **(C) Correct:** China's rapid economic growth is largely attributed to its "Export-oriented Manufacturing" strategy, often being called the "World's Factory."
- **(D) Incorrect:** China started its reforms in 1978, while India started its major reforms in 1991.

Final Answer:

(C) China's growth was mainly due to its focus on the manufacturing sector.

Answer: (C)



Answer Key

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

