CUET-UG Economics Sample Paper-2

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 price of Good A increases and the demand for Good B decreases, the two goods are:

(A) Substitutes

(B) Complementary

(C) Inferior

(D) Giffen

Q2. Which of the following is a property of an Indifference Map?

(A) The slope of the IC is constant throughout.

(B) Each IC represents the same level of satisfaction.

(C) Higher ICs represent higher levels of satisfaction as they contain more of at least one good.

(D) ICs must be parallel to each other.

Q3. Assertion : The demand for salt is generally inelastic. Reason (R): Salt has no close substitutes and occupies a tiny fraction of a consumer's budget.

(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.

Q4. A consumer's budget line shifts parallelly to the right when:

(A) Price of Good X falls.

(B) Price of Good Y falls.

(C) Income of the consumer increases.

(D) Prices of both goods increase proportionately.

Q5. Calculate the Price Elasticity of Demand if a 5% fall in price leads to a 15% increase in quantity demanded:

(A) 0.33

(B) 1.0

(C) 3.0

(D) 2.0

Q6. The "Law of Diminishing Returns" only applies when:

(A) All factors of production are variable.

(B) At least one factor of production is fixed.

(C) Technology is constantly improving.

(D) The firm is in the long run.

Q7. In the short run, if a firm produces zero output, its Total Cost will be:

(A) Zero

(B) Equal to Total Variable Cost

(C) Equal to Total Fixed Cost

(D) Infinite

Q8. Marginal Revenue (MR) is negative when:

(A) Total Revenue is increasing.

(B) Total Revenue is constant.

(C) Total Revenue is falling.

(D) Average Revenue is zero.

Q9. Which of the following describes the "Returns to Scale"?

(A) Change in output when one input is changed.

(B) Change in output when all inputs are changed in the same proportion.

(C) Relationship between AC and MC in the short run.

(D) The behavior of fixed costs as output increases.

Q10. A firm in a perfectly competitive market faces a horizontal demand curve. This implies:

(A) The firm can influence the price by changing its output.

(B) The firm can sell any amount of output at the prevailing market price.

(C) The firm has a unique product with no substitutes.

(D) Marginal Revenue is always less than Price.

Q11. The long-run equilibrium of a firm under Perfect Competition occurs where:

(A) $P = MC = AC$

(B) $P > MC$

(C) $P = AVC$

(D) $P = TFC$

Q12. If the price of a substitute good (like Tea) increases, the market demand curve for the original good (like Coffee) will:

(A) Shift to the left.

(B) Shift to the right.

(C) Show a downward movement along the curve.

(D) Show an upward movement along the curve.

Q13. Under perfect competition, the short-run supply curve of a firm is:

(A) The entire MC curve.

(B) The rising part of the MC curve above the minimum AVC.

(C) The rising part of the MC curve above the minimum AC.

(D) The falling part of the AVC curve.

Q14. What happens to the equilibrium price if there is a "decrease in demand" and an "increase in supply" simultaneously?

(A) Equilibrium price will definitely rise.

(B) Equilibrium price will definitely fall.

(C) Equilibrium price remains unchanged.

(D) Equilibrium price is indeterminate.

Q15. If the government imposes a "Price Ceiling" on a necessary good:

(A) Producers will earn higher profits.

(B) A black market may emerge due to shortages.

(C) There will be a surplus of the commodity.

(D) The market price will rise above the equilibrium.

Q16. Which of the following is an example of an "Intermediate Good"?

(A) Car purchased by a household.

(B) Coal used by a manufacturing firm to produce electricity.

(C) Machine purchased by a factory for production.

(D) Furniture bought by an office for long-term use.

Q17. GNP_{MP} is calculated as:

(A) $GDP_{MP}+$ Net Factor Income from Abroad (NFIA)

(B) $GDP_{MP}-$ Depreciation

(C) $GDP_{MP}-$ Net Indirect Taxes

(D) $NNP_{FC}+$ Depreciation

Q18. If the Nominal GDP is ₹ 600 and the Real GDP is ₹ 500, the GDP Deflator is:

(A) 83.33

(B) 110

(C) 120

(D) 150

Q19. Circular flow of income in a two-sector economy assumes:

(A) No savings by households.

(B) No government intervention.

(C) No foreign trade.

(D) All of the above.

Q20. Which of the following is not a component of Domestic Income (NDP_{FC})?

(A) Compensation of employees

(B) Operating Surplus

(C) Net Factor Income from Abroad

(D) Mixed income of self-employed

Q21. The "Lender of Last Resort" function of the Central Bank is primarily aimed at:

(A) Providing loans to the general public.

(B) Ensuring liquidity and stability for commercial banks.

(C) Funding the government's fiscal deficit.

(D) Managing the foreign exchange reserves.

Q22. To reduce the "Credit Creation" capacity of commercial banks, the RBI should:

(A) Lower the Statutory Liquidity Ratio (SLR).

(B) Buy securities in the Open Market.

(C) Increase the Cash Reserve Ratio (CRR).

(D) Decrease the Repo Rate.

Q23. The "Demand for Money" for speculative purposes is:

(A) Positively related to the rate of interest.

(B) Negatively related to the rate of interest.

(C) Unrelated to the rate of interest.

(D) Dependent only on income levels.

Q24. Fiat Money is money that:

(A) Is backed by gold reserves.

(B) Has intrinsic value equal to its face value.

(C) Is issued by order/authority of the government.

(D) Can only be used for international trade.

Q25. If the Marginal Propensity to Consume (MPC) is 0.6, the Marginal Propensity to Save (MPS) is:

(A) 0.6

(B) 1.6

(C) 0.4

(D) 1.0

Q26. In the 2-sector model, if $AD > AS$:

(A) Inventories will pile up and production will decrease.

(B) Inventories will fall and production will increase.

(C) Savings will automatically increase.

(D) The price level will fall immediately.

Q27. The "Investment Multiplier" (K) is defined as:

(A) $\Delta Y/\Delta I$

(B) $\Delta I/\Delta Y$

(C) C/Y

(D) S/Y

Q28. Statement I: Full employment means zero unemployment in the economy. Statement II: Structural unemployment exists even at the full employment level.

(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. Which of the following is a "Revenue Expenditure" of the government?

(A) Purchase of shares.

(B) Construction of a school building.

(C) Payment of salaries to government employees.

(D) Repayment of a loan from the World Bank.

Q30. A "Progressive Tax" is one where:

(A) The rate of tax remains constant as income rises.

(B) The rate of tax increases as income rises.

(C) The rate of tax decreases as income rises.

(D) Poor people pay more tax than rich people.

Q31. If the government's Total Expenditure is ₹ 5,000, Total Receipts (excluding borrowings) is ₹ 4,200, and Interest Payments are ₹ 300, the Fiscal Deficit is:

(A) ₹ 800

(B) ₹ 500

(C) ₹ 1,100

(D) ₹ 300

Q32. "Unilateral Transfers" in the Balance of Payments include:

(A) Export of software services.

(B) Foreign Direct Investment.

(C) Gifts, donations, and remittances.

(D) Repayment of international loans.

Q33. If the exchange rate of 1 US Dollar changes from ₹ 80 to ₹ 85, it indicates:

(A) Appreciation of the Indian Rupee.

(B) Depreciation of the Indian Rupee.

(C) Revaluation of the Indian Rupee.

(D) No change in the value of the Rupee.

Q34. Autonomous items in BOP are those which:

(A) Are determined by the profit motive.

(B) Are intended to cover the gap in the BOP.

(C) Are only recorded in the Capital Account.

(D) Are controlled by the Central Bank only.

Q35. The main objective of the "Zamindari System" during the British rule was:

(A) To modernize Indian agriculture.

(B) To collect the maximum possible land revenue for the British.

(C) To improve the economic condition of the tillers.

(D) To promote industrialization in rural areas.

Q36. Under the "Industrial Policy Resolution 1956", Schedule A industries were:

(A) Reserved exclusively for the private sector.

(B) Owned and managed by both public and private sectors.

(C) Owned exclusively by the State/Public sector.

(D) Open for foreign direct investment only.

Q37. The "Planning Commission" in India was replaced by:

(A) NITI Aayog

(B) Finance Commission

(C) National Development Council

(D) Ministry of Finance

Q38. Which of the following was a result of the Green Revolution?

(A) Increased dependence on food imports.

(B) Attainment of self-sufficiency in food grains.

(C) Uniform growth across all crops and regions.

(D) Decrease in the use of chemical fertilizers.

Q39. As part of the 1991 Reforms, "Devaluation" of the Rupee was done to:

(A) Increase imports.

(B) Increase exports and improve the BOP.

(C) Reduce the fiscal deficit.

(D) Control domestic inflation.

Q40. The "LPG" strategy stands for:

(A) Low Price Growth

(B) Liberalisation, Privatisation, Globalisation

(C) Land, Property, Growth

(D) Licensing, Planning, Governance

Q41. Which of the following is a major challenge for Rural Development in India?

(A) Over-mechanization of farms.

(B) Inadequate institutional credit and marketing facilities.

(C) Excessive surplus of agricultural labor in the IT sector.

(D) Very high literacy rates in villages.

Q42. "Human Capital" contributes to economic growth by:

(A) Increasing the quantity of labor only.

(B) Increasing the quality and productivity of labor.

(C) Reducing the need for technology.

(D) Increasing the physical stock of machines.

Q43. Which of the following is an example of "Non-Institutional" source of rural credit?

(A) Commercial Banks

(B) Regional Rural Banks

(C) Moneylenders

(D) Cooperatives

Q44. "Jobless Growth" refers to a situation where:

(A) GDP grows at a high rate but employment does not.

(B) GDP remains stagnant but employment grows.

(C) Both GDP and employment fall.

(D) Employment grows faster than GDP.

Q45. The "Montreal Protocol" is related to:

(A) Global warming

(B) Depletion of the Ozone layer

(C) Bio-diversity conservation

(D) Reduction of fiscal deficit

Q46. "Maternal Mortality Rate" is a key indicator used to measure:

(A) Educational status

(B) Health status

(C) Environmental sustainability

(D) Poverty level

Q47. In India, people who move between being self-employed and unemployed are often part of:

(A) Formal sector

(B) Informal sector

(C) Public sector

(D) Foreign sector

Q48. The "Commune System" of farming was a characteristic feature of:

(A) Indian reforms

(B) Pakistani reforms

(C) Chinese development strategy

(D) British agricultural policy

Q49. Assertion : China's growth rate slowed down after the 2010s. Reason (R): China shifted its focus from export-led growth to domestic consumption-led growth.

(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.

Q50. The Human Development Index (HDI) is a composite index of:

(A) Income, Health, and Education

(B) Income, Defense, and Industry

(C) Population, Area, and GDP

(D) Exports, Imports, and Inflation

Detailed Solutions

Q1.

Solution

Concept: When the price of one good changes and the demand for another good changes in the opposite direction, the two goods are called complementary goods. This is because the change in the price of one good negatively affects the demand for the other good.

Solution: In this case, if the price of Good A increases and the demand for Good B decreases, it indicates that the two goods are complementary. This is because when the price of one good increases, it decreases the consumption of both the goods that are often consumed together.

Thus, the two goods are complementary.

Final Answer:

$$\boxed{\text{Complementary.}}$$

Answer: (B)

Q2.

Solution

Concept: Indifference maps represent combinations of goods that give the consumer the same level of satisfaction. The properties of these curves reflect the consumer's preferences.

Solution: Indifference curves have the following properties: - They represent different levels of satisfaction. - They are convex to the origin due to the Law of Diminishing Marginal Rate of Substitution (MRS). - Higher ICs represent higher levels of satisfaction as they contain more of at least one good, which leads to greater utility.

The correct statement about the properties of Indifference Curves is that higher ICs represent higher levels of satisfaction as they contain more of at least one good.

Final Answer:

$$\boxed{\text{Higher ICs represent higher levels of satisfaction as they contain more of at least one good.}}$$

Answer: (C)

Q3.

Solution

Concept: The elasticity of demand for a good depends on several factors, such as the availability of substitutes, the necessity of the good, and the portion of the consumer's budget spent on it.

Solution: The demand for salt is generally inelastic because: 1. Salt has no close substitutes. 2. It occupies a tiny fraction of the consumer's budget, so a price change does not significantly affect the quantity demanded.

Thus, the assertion that the demand for salt is inelastic is true, and the reason given (that salt has no close substitutes and occupies a small fraction of the budget) is the correct explanation.

Final Answer:

$$\boxed{\text{Both A and R are true and R is the correct explanation of A.}}$$

Answer: (A)

Q4.

Solution

Concept: The budget line represents the combinations of two goods that a consumer can afford given their income and the prices of the goods. When the income of a consumer increases, the budget line shifts to the right, indicating the ability to purchase more goods.

Solution: When the income of the consumer increases, the entire budget line shifts parallelly to the right. This means that the consumer can now afford more of both goods, but the relative prices of the goods remain the same.

Thus, the consumer's budget line shifts parallelly to the right when their income increases.

Final Answer:

$$\boxed{\text{Income of the consumer increases.}}$$

Answer: (C)

Q5.

Solution

Concept: Price elasticity of demand (PED) measures the responsiveness of the quantity demanded to a change in price. It is calculated using the formula:

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

Solution: Given: - A 5% fall in price - A 15% increase in quantity demanded
We can calculate the Price Elasticity of Demand as:

$$\text{PED} = \frac{15\%}{5\%} = 3.0$$

Thus, the Price Elasticity of Demand is 3.0.
Final Answer:

$$\boxed{3.0.}$$

Answer: (C)

Q6.

Solution

Concept: The Law of Diminishing Returns refers to the situation where, after a certain point, each additional unit of input contributes less to the total output, assuming that at least one factor of production is fixed.
Solution: The "Law of Diminishing Returns" only applies when at least one factor of production is fixed, as it describes the impact of adding more of a variable input (like labor) to a fixed input (like machinery). In the long run, all factors of production are variable, so the law does not apply. Thus, the law applies when at least one factor of production is fixed.
Final Answer:

$$\boxed{\text{At least one factor of production is fixed.}}$$

Answer: (B)

Q7.

Solution

Concept: Total cost consists of both fixed and variable costs. In the short run, even when a firm produces zero output, it still incurs total fixed costs.

Solution: If a firm produces zero output in the short run, its Total Cost is equal to its Total Fixed Cost, as fixed costs do not change with the level of output. Variable costs are zero when output is zero.

Thus, in the short run, if a firm produces zero output, its Total Cost will be equal to its Total Fixed Cost.

Final Answer:

$$\boxed{\text{Equal to Total Fixed Cost.}}$$

Answer: (C)

Q8.

Solution

Concept: Marginal Revenue (MR) is the additional revenue gained from selling one more unit of output. When MR is negative, it indicates that total revenue is falling.

Solution: When Marginal Revenue (MR) is negative, it means that total revenue is falling, because each additional unit of output sold results in a decrease in total revenue. This typically happens in markets where firms face a downward-sloping demand curve, such as monopolies or oligopolies.

Thus, Marginal Revenue is negative when Total Revenue is falling.

Final Answer:

$$\boxed{\text{Total Revenue is falling.}}$$

Answer: (C)

Q9.

Solution

Concept: Returns to Scale describe the relationship between the increase in input and the resulting change in output when all inputs are increased proportionally.

Solution: Returns to Scale refers to the change in output when all inputs are increased in the same proportion. If the increase in output is greater than the increase in inputs, it is called increasing returns to scale. If the increase in output is less than the increase in inputs, it is decreasing returns to scale.

Thus, Returns to Scale describes the change in output when all inputs are changed in the same proportion.

Final Answer:

$$\boxed{\text{Change in output when all inputs are changed in the same proportion.}}$$

Answer: (B)

Q10.

Solution

Concept: In perfect competition, the firm faces a horizontal demand curve because it is a price taker and cannot influence the price. The firm can sell any amount of output at the market price.

Solution: When a firm in a perfectly competitive market faces a horizontal demand curve, it implies that the firm can sell any amount of output at the prevailing market price. The firm has no control over the price and must accept it as given. Marginal Revenue (MR) is equal to the price in perfect competition, so MR is constant and equal to the price.

Thus, the firm can sell any amount of output at the prevailing market price.

Final Answer:

$$\boxed{\text{The firm can sell any amount of output at the prevailing market price.}}$$

Answer: (B)

Q11.

Solution

Concept: In perfect competition, the long-run equilibrium occurs when firms are producing at the most efficient level, where price equals marginal cost and average cost.

Solution: In the long run, firms in a perfectly competitive market will produce at the point where:
- Price P equals Marginal Cost MC, as this ensures that firms are maximizing their profit by equating the cost of producing one more unit with the revenue it generates. - Price also equals Average Cost AC, as firms will enter or exit the market until there is no economic profit, which occurs when price equals average cost.

Thus, the long-run equilibrium occurs where $P = MC = AC$.

Final Answer:

$$\boxed{\text{P = MC = AC.}}$$

Answer: (A)

Q12.

Solution

Concept: When the price of a substitute good increases, consumers tend to switch to the other good, increasing the demand for the original good.

Solution: If the price of a substitute good, such as tea, increases, consumers will shift their demand to the original good, coffee. This results in an increase in the demand for coffee, causing the market demand curve for coffee to shift to the right.

Thus, the correct answer is that the demand curve for the original good will shift to the right.

Final Answer:

$$\boxed{\text{Shift to the right.}}$$

Answer: (B)

Q13.

Solution

Concept: Under perfect competition, the supply curve of a firm in the short run is the rising part of its Marginal Cost (MC) curve above the minimum Average Variable Cost (AVC).

Solution: In the short run, a firm will produce output as long as the price it receives for the good is above the minimum Average Variable Cost (AVC). Below this price, the firm will shut down to minimize losses. Therefore, the short-run supply curve of a perfectly competitive firm is the portion of the MC curve that lies above the minimum AVC.

Thus, the short-run supply curve of a firm is the rising part of the MC curve above the minimum AVC.

Final Answer:

$$\boxed{\text{The rising part of the MC curve above the minimum AVC.}}$$

Answer: (B)

Q14.

Solution

Concept: When both demand and supply shift simultaneously, one market variable (price or quantity) will change in a predictable direction, while the other remains indeterminate without knowing the exact magnitude of the shifts.

Solution: - A **decrease in demand** (a leftward shift of the demand curve) exerts downward pressure on the price because there are fewer buyers for the good. - An **increase in supply** (a rightward shift of the supply curve) also exerts downward pressure on the price because more goods are available in the market.

Since both forces (decreased demand and increased supply) pull the equilibrium price downward, the price will definitely fall, regardless of which shift is larger. The equilibrium quantity, however, is indeterminate in this case because the decrease in demand tends to lower quantity, while the increase in supply tends to raise quantity.

Thus, the equilibrium price will definitely fall.

Final Answer:

$$\boxed{\text{Equilibrium price will definitely fall.}}$$

Answer: (B)

Q15.

Solution

Concept: A price ceiling is a government-imposed limit on how high a price can be charged for a good or service. It is usually set below the equilibrium price to make goods affordable for consumers.

Solution: When the government imposes a price ceiling on a necessary good, it typically leads to a shortage, as the price is artificially kept below the equilibrium. This can cause consumers to demand more of the good than producers are willing to supply at the lower price, creating shortages. This may also lead to the emergence of a black market where the good is sold at a higher price.

Thus, if the government imposes a price ceiling on a necessary good, a black market may emerge due to shortages.

Final Answer:

$$\boxed{\text{A black market may emerge due to shortages.}}$$

Answer: (B)

Q16.

Solution

Concept: Intermediate goods are those goods that are used in the production of other goods and services, as opposed to final goods which are purchased by the end consumer.

Solution: An intermediate good is one that is used as an input in the production of another good. For example, coal used by a manufacturing firm to produce electricity is an intermediate good because it is used in the production process. In contrast, a car purchased by a household or a machine purchased by a factory is a final good.

Thus, the correct example of an intermediate good is coal used by a manufacturing firm to produce electricity.

Final Answer:

$$\boxed{\text{Coal used by a manufacturing firm to produce electricity.}}$$

Answer: (B)

Q17.

Solution

Concept: Gross National Product at Market Price (GNP MP) is the total market value of all final goods and services produced by the country's residents, both domestically and abroad.

Solution: The formula for calculating GNP MP is:

$$GNP_{MP} = GDP_{MP} + \text{Net Factor Income from Abroad (NFIA)}.$$

This formula adjusts the GDP (which only includes domestic production) by adding the income earned by residents from abroad and subtracting the income earned by foreigners within the country.

Thus, the correct formula for GNP MP is GDP_{MP}+ Net Factor Income from Abroad (NFIA).

Final Answer:

$$\boxed{\text{GNP}_{\text{MP}} = \text{GDP}_{\text{MP}} + \text{NFIA}}$$

Answer: (A)

Q18.

Solution

Concept: The GDP deflator is a measure of the level of prices of all new, domestically produced, final goods and services in an economy. It is calculated as the ratio of Nominal GDP to Real GDP.

Solution: The GDP deflator is calculated using the following formula:

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

Given: - Nominal GDP = ₹ 600 - Real GDP = ₹ 500

The GDP Deflator is:

$$\text{GDP Deflator} = \frac{600}{500} \times 100 = 120.$$

Thus, the GDP deflator is 120.

Final Answer:

$$\boxed{120.}$$

Answer: (C)

Q19.

Solution

Concept: In a two-sector economy, the circular flow of income assumes no savings, government intervention, or foreign trade. This simplifies the model to focus only on households and firms.

Solution: The circular flow of income in a two-sector economy assumes no savings by households, no government intervention, and no foreign trade. This basic model assumes that all income generated in the economy is spent on goods and services produced by firms, and there are no leakages or injections from outside the system.

Thus, the correct answer is that all of the assumptions listed hold true in the two-sector model.

Final Answer:

$$\boxed{\text{All of the above.}}$$

Answer: (D)

Q20.

Solution

Concept: Domestic Income (NDP FC) includes all income generated within the domestic economy, excluding net factor income from abroad.

Solution: Domestic income, or NDP FC, consists of compensation of employees, operating surplus, and mixed income of self-employed individuals. Net Factor Income from Abroad (NFIA) is excluded from Domestic Income, as it reflects income from foreign sources.

Thus, Net Factor Income from Abroad is not a component of Domestic Income.

Final Answer:

$$\boxed{\text{Net Factor Income from Abroad.}}$$

Answer: (C)

Q21.

Solution

Concept: The "Lender of Last Resort" function of a central bank refers to the role it plays in providing emergency liquidity to the banking system during a financial crisis or liquidity shortfall.

Solution: The central bank's "Lender of Last Resort" function is aimed at ensuring liquidity and stability for commercial banks. When banks face a shortage of funds, they can borrow from the central bank to meet their short-term obligations, thereby preventing a banking panic or collapse. This ensures the stability of the financial system.

Thus, the correct answer is that the primary aim is to ensure liquidity and stability for commercial banks.

Final Answer:

$$\boxed{\text{Ensuring liquidity and stability for commercial banks.}}$$

Answer: (B)

Q22.

Solution

Concept: Credit creation capacity refers to the ability of commercial banks to generate loans and deposits based on their reserves. The central bank controls credit creation through tools such as the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

Solution: To reduce the credit creation capacity of commercial banks, the Reserve Bank of India (RBI) can increase the Cash Reserve Ratio (CRR). CRR is the portion of commercial banks' total deposits that must be kept with the RBI in reserve. By increasing CRR, the RBI reduces the amount of funds available for banks to lend, thereby reducing credit creation.

Thus, the correct answer is to increase the Cash Reserve Ratio (CRR).

Final Answer:

$$\boxed{\text{Increase the Cash Reserve Ratio (CRR).}}$$

Answer: (C)

Q23.

Solution

Concept: The demand for money for speculative purposes is influenced by the interest rate, as higher interest rates increase the opportunity cost of holding money rather than earning interest.

Solution: The "Demand for Money" for speculative purposes is negatively related to the rate of interest. When interest rates are high, people prefer to hold less money and invest in interest-bearing assets. Conversely, when interest rates are low, people prefer to hold more money to speculate on future interest rate changes.

Thus, the correct answer is that the demand for money for speculative purposes is negatively related to the rate of interest.

Final Answer:

$$\boxed{\text{Negatively related to the rate of interest.}}$$

Answer: (B)

Q24.

Solution

Concept: Fiat money is currency that has no intrinsic value but is accepted as money because the government has declared it to be legal tender.

Solution: Fiat money is issued by order of the government and has value because the government mandates its use as a medium of exchange. Unlike commodity money, fiat money is not backed by physical assets like gold and has no intrinsic value.

Thus, fiat money is money that is issued by the government by order or authority.

Final Answer:

$$\boxed{\text{Is issued by order/authority of the government.}}$$

Answer: (C)

Q25.

Solution

Concept: The Marginal Propensity to Consume (MPC) is the proportion of any additional income that is spent on consumption. The Marginal Propensity to Save (MPS) is the proportion of any additional income that is saved.

Solution: Since MPC and MPS are complementary, they must sum to 1. That is:

$$\text{MPC} + \text{MPS} = 1.$$

Given that MPC = 0.6, we can calculate MPS as:

$$\text{MPS} = 1 - 0.6 = 0.4.$$

Thus, the MPS is 0.4.

Final Answer:

$$\boxed{0.4.}$$

Answer: (C)

Q26.

Solution

Concept: In the 2-sector model, aggregate demand (AD) represents the total demand for goods and services in the economy, while aggregate supply (AS) represents the total output produced by the economy.

Solution: If aggregate demand (AD) is greater than aggregate supply (AS), inventories will fall because firms cannot produce enough to meet the demand. To restore equilibrium, firms will increase production, leading to an increase in output and potentially prices.

Thus, the correct answer is that inventories will fall, and production will increase.

Final Answer:

$$\boxed{\text{Inventories will fall and production will increase.}}$$

Answer: (B)

Q27.

Solution

Concept: The investment multiplier measures the change in income resulting from an increase in investment. It is calculated as the ratio of the change in income (ΔY) to the change in investment (ΔI).

Solution: The formula for the investment multiplier is:

$$K = \frac{\Delta Y}{\Delta I}.$$

This formula shows that the investment multiplier is the ratio of the change in output (income) to the change in investment.

Thus, the correct answer is $\frac{\Delta Y}{\Delta I}$.

Final Answer:

$$\boxed{\frac{\Delta Y}{\Delta I}.}$$

Answer: (A)

Q28.

Solution

Concept: Full employment refers to the situation where all resources in the economy are fully employed, but it does not mean zero unemployment. Structural unemployment can exist even at full employment.

Solution: Statement I is incorrect because full employment does not imply zero unemployment, as structural unemployment may still exist. Structural unemployment occurs when there is a mismatch between workers' skills and available jobs. Statement II is correct because structural unemployment exists even when the economy is at full employment.

Thus, the correct answer is that Statement I is incorrect, but Statement II is correct.

Final Answer:

$$\boxed{\text{Statement I is incorrect, Statement II is correct.}}$$

Answer: (D)

Q29.

Solution

Concept: Revenue expenditure refers to government spending that does not result in the creation of assets, such as salaries, subsidies, and interest payments.

Solution: The payment of salaries to government employees is a revenue expenditure because it represents ongoing costs that do not create long-term assets. In contrast, the purchase of shares and the construction of buildings are capital expenditures.

Thus, the correct answer is the payment of salaries to government employees.

Final Answer:

$$\boxed{\text{Payment of salaries to government employees.}}$$

Answer: (C)

Q30.

Solution

Concept: A progressive tax is one in which the rate of taxation increases as the taxable income increases. This is designed to reduce income inequality by taxing higher incomes at higher rates.

Solution: A progressive tax means that as a person's income rises, they pay a higher percentage of their income in taxes. This helps reduce the income gap between the rich and the poor.

Thus, a progressive tax is one where the rate of tax increases as income rises.

Final Answer:

$$\boxed{\text{The rate of tax increases as income rises.}}$$

Answer: (B)

Q31.

Solution

Concept: The Fiscal Deficit represents the total borrowing requirements of the government, which is the difference between total expenditure and total receipts (excluding borrowings). The primary deficit is the fiscal deficit excluding interest payments.

Solution: We are given: - Total Expenditure = ₹ 5,000 - Total Receipts (excluding borrowings) = ₹ 4,200 - Interest Payments = ₹ 300

The Fiscal Deficit is calculated as:

$$\text{Fiscal Deficit} = \text{Total Expenditure} - \text{Total Receipts}$$

Substituting the given values:

$$\text{Fiscal Deficit} = 5,000 - 4,200 = 800.$$

Thus, the Fiscal Deficit is ₹ 800.

Final Answer:

$$\boxed{₹\ 800.}$$

Answer: (A)

Q32.

Solution

Concept: Unilateral transfers refer to transfers made by one country to another without receiving anything in return. These transfers include gifts, remittances, and donations.

Solution: Unilateral transfers in the Balance of Payments (BOP) include gifts, donations, and remittances, as they represent one-way transfers of money or goods from one country to another. Examples include remittances sent by migrants working abroad or gifts provided by foreign governments.

Thus, the correct answer is that unilateral transfers include gifts, donations, and remittances.

Final Answer:

$$\boxed{\text{Gifts, donations, and remittances.}}$$

Answer: (C)

Q33.

Solution

Concept: The exchange rate measures the value of one currency in terms of another. If the value of the domestic currency rises relative to a foreign currency, it is called appreciation.

Solution: If the exchange rate of 1 US Dollar changes from ₹ 80 to ₹ 85, it means that the value of the Indian Rupee has fallen in terms of the US Dollar. This is because you now need more Rupees to buy 1 US Dollar, indicating a depreciation of the Indian Rupee.

Thus, the correct answer is that the Indian Rupee has depreciated.

Final Answer:

$$\boxed{\text{Depreciation of the Indian Rupee.}}$$

Answer: (B)

Q34.

Solution

Concept: Autonomous items in the Balance of Payments (BOP) refer to transactions that occur due to economic forces such as trade, investment, and lending, rather than government intervention.

Solution: Autonomous items in the BOP are those that are determined by the profit motive, such as exports, imports, foreign investments, and loans. These items are recorded in both the current account and the capital account of the BOP. They are not controlled by the Central Bank but are driven by market forces.

Thus, the correct answer is that autonomous items are determined by the profit motive.

Final Answer:

$$\boxed{\text{Are determined by the profit motive.}}$$

Answer: (A)

Q35.

Solution

Concept: The Zamindari System was a land revenue system introduced by the British during their colonial rule. It aimed to maximize revenue collection.

Solution: The main objective of the Zamindari System was to collect the maximum possible land revenue for the British. Under this system, zamindars (landlords) were given the responsibility of collecting taxes from peasants and remitting them to the British government. This system did not focus on improving the economic condition of the tillers or modernizing agriculture but was designed to extract revenue from agriculture.

Thus, the correct answer is that the main objective was to collect the maximum possible land revenue for the British.

Final Answer:

$$\boxed{\text{To collect the maximum possible land revenue for the British.}}$$

$\boxed{\textbf{Answer: (B)}}$

Q36.

Solution

Concept: The Industrial Policy Resolution of 1956 in India was aimed at setting a clear framework for industrial development, with a focus on the role of the public sector in the economy.

Solution: Under the Industrial Policy Resolution of 1956, Schedule A industries were those industries that were reserved exclusively for the public sector. These industries were considered crucial for the economic development of the country and were placed under the control of the state to ensure that they would be developed in the public interest.

Thus, the correct answer is that Schedule A industries were owned exclusively by the State/Public sector.

Final Answer:

$$\boxed{\text{Owned exclusively by the State/Public sector.}}$$

$\boxed{\textbf{Answer: (C)}}$

Q37.

Solution

Concept: The Planning Commission was the apex body for economic planning in India. It was replaced by the NITI Aayog in 2015 to foster a more decentralized approach to planning and development.

Solution: The Planning Commission in India was replaced by NITI Aayog (National Institution for Transforming India) in 2015. The primary goal of NITI Aayog is to involve states in the planning process and to focus on cooperative federalism and sustainable development. Unlike the Planning Commission, which had a top-down approach, NITI Aayog emphasizes a bottom-up approach to policy formulation.

Thus, the correct answer is that the Planning Commission was replaced by NITI Aayog.

Final Answer:

$\boxed{\text{NITI Aayog.}}$

Answer: (A)

Q38.

Solution

Concept: The Green Revolution was a period of significant technological advancement in agriculture, primarily focused on increasing food production and achieving food security in India.

Solution: The Green Revolution in India led to the attainment of self-sufficiency in food grains, particularly wheat and rice. It introduced high-yielding varieties (HYVs) of crops, increased the use of chemical fertilizers, and improved irrigation techniques. While it was highly successful in increasing food production, it also led to uneven growth across regions and crops.

Thus, the correct answer is that the result of the Green Revolution was the attainment of self-sufficiency in food grains.

Final Answer:

$\boxed{\text{Attainment of self-sufficiency in food grains.}}$

Answer: (B)

Q39.

Solution

Concept: Devaluation is the deliberate downward adjustment of a country's currency value relative to foreign currencies. It is used to address trade imbalances.

Solution: As part of the 1991 reforms, India devalued its currency to make exports cheaper and more competitive on the international market. The devaluation of the Rupee was aimed at increasing exports and improving the Balance of Payments (BOP) by boosting demand for Indian goods abroad.

Thus, the correct answer is that the devaluation of the Rupee was done to increase exports and improve the BOP.

Final Answer:

$$\boxed{\text{Increase exports and improve the BOP.}}$$

Answer: (B)

Q40.

Solution

Concept: The "LPG" strategy refers to the economic reforms introduced in India in 1991, which focused on liberalization, privatization, and globalization to open up the economy.

Solution: The "LPG" strategy stands for Liberalisation, Privatisation, and Globalisation. These reforms aimed at reducing government control over the economy, encouraging private sector participation, and integrating India into the global economy through trade liberalization and foreign investment.

Thus, the correct answer is that the LPG strategy stands for Liberalisation, Privatisation, and Globalisation.

Final Answer:

$$\boxed{\text{Liberalisation, Privatisation, Globalisation.}}$$

Answer: (B)

Q41.

Solution

Concept: Rural development faces various challenges, including inadequate infrastructure, lack of financial services, and the over-reliance on agricultural labor.

Solution: The major challenge for rural development in India is the inadequate institutional credit and marketing facilities. Many farmers lack access to institutional credit (e.g., loans from banks) and are forced to depend on informal sources of credit, which often come with high interest rates. Additionally, poor marketing facilities prevent farmers from getting fair prices for their produce.
Thus, the correct answer is that inadequate institutional credit and marketing facilities are a major challenge for rural development.

Final Answer:

$$\boxed{\text{Inadequate institutional credit and marketing facilities.}}$$

Answer: (B)

Q42.

Solution

Concept: Human capital refers to the skills, knowledge, and abilities of individuals, which contribute to economic growth by increasing labor productivity.

Solution: Human capital contributes to economic growth by increasing the quality and productivity of labor. Higher levels of education, skill development, and health improve the ability of the workforce to perform tasks more efficiently, which leads to higher output per worker and overall economic growth.
Thus, the correct answer is that human capital contributes to economic growth by increasing the quality and productivity of labor.

Final Answer:

$$\boxed{\text{Increasing the quality and productivity of labor.}}$$

Answer: (B)

Q43.

Solution

Concept: Non-institutional sources of rural credit refer to informal lenders who provide credit without being part of formal financial institutions like banks or cooperatives.

Solution: Moneylenders are an example of non-institutional sources of rural credit. They lend money informally and typically charge higher interest rates compared to formal institutions. Commercial banks, Regional Rural Banks, and Cooperatives are institutional sources of credit, as they are part of the formal financial system.

Thus, the correct answer is that moneylenders are a non-institutional source of rural credit.

Final Answer:

$$\boxed{\text{Moneylenders.}}$$

Answer: (C)

Q44.

Solution

Concept: "Jobless growth" refers to a situation where the economy experiences an increase in output (GDP) but does not generate enough employment opportunities to match the growth.

Solution: Jobless growth occurs when GDP grows at a high rate but employment does not increase at the same pace. This can happen due to technological advances, increased productivity, or labor-saving innovations that allow businesses to expand without hiring additional workers.

Thus, the correct answer is that jobless growth occurs when GDP grows at a high rate but employment does not.

Final Answer:

$$\boxed{\text{GDP grows at a high rate but employment does not.}}$$

Answer: (A)

Q45.

Solution

Concept: The Montreal Protocol is an international treaty aimed at reducing the depletion of the ozone layer by phasing out the use of ozone-depleting chemicals.

Solution: The Montreal Protocol, signed in 1987, is focused on protecting the ozone layer by phasing out substances that contribute to ozone depletion, such as chlorofluorocarbons (CFCs). It is considered one of the most successful environmental agreements ever signed.

Thus, the correct answer is that the Montreal Protocol is related to the depletion of the ozone layer.

Final Answer:

$$\boxed{\text{Depletion of the Ozone layer.}}$$

Answer: (B)

Q46.

Solution

Concept: Maternal Mortality Rate (MMR) is an important indicator used to assess the health status of a country, particularly regarding the safety and health of women during childbirth.

Solution: The Maternal Mortality Rate (MMR) measures the number of maternal deaths per 100,000 live births. It is used to gauge the quality of a country's healthcare system, particularly in terms of maternal health and access to safe delivery services.

Thus, the correct answer is that the Maternal Mortality Rate is a key indicator of health status.

Final Answer:

$\boxed{\text{Health status.}}$

Answer: (B)

Q47.

Solution

Concept: In India, many individuals who move between being self-employed and unemployed are part of the informal sector, which consists of unorganized or casual labor.

Solution: In India, people who move between being self-employed and unemployed are often part of the informal sector. The informal sector includes workers who are not employed by formal institutions and do not have regular salaries, such as street vendors, casual laborers, and small business owners.

Thus, the correct answer is that such individuals are part of the informal sector.

Final Answer:

$\boxed{\text{Informal sector.}}$

Answer: (B)

Q48.

Solution

Concept: The Commune System of farming was a collectivized agricultural policy implemented in China, aiming for communal ownership and collective farming.

Solution: The "Commune System" was introduced in China as part of the Great Leap Forward, aiming to consolidate land and resources into collective farming units. This system was designed to increase agricultural production but faced many challenges, leading to inefficiencies and food shortages.

Thus, the correct answer is that the Commune System of farming was a characteristic feature of China's development strategy.

Final Answer:

$\boxed{\text{Chinese development strategy.}}$

Answer: (C)

Q49.

Solution

Concept: China's growth rate slowed after the 2010s due to a shift in focus from export-led growth to domestic consumption-driven growth.

Solution: China's growth rate slowed down after the 2010s as it shifted its economic strategy from export-led growth to domestic consumption-driven growth. This transition was part of efforts to reduce reliance on foreign markets and foster sustainable, balanced growth. However, this shift led to slower overall growth compared to the previous rapid expansion.

Thus, the correct answer is that both statements are true, and Statement R provides the correct explanation for Statement A.

Final Answer:

$$\boxed{\text{Both A and R are true and R is the correct explanation of A.}}$$

$\boxed{\textbf{Answer: (A)}}$

Q50.

Solution

Concept: The Human Development Index (HDI) is a composite index that measures a country's overall achievement in terms of income, health, and education.

Solution: The Human Development Index (HDI) is a composite index that combines three key dimensions: income (measured by Gross National Income per capita), health (life expectancy), and education (mean years of schooling and expected years of schooling). HDI is used to assess the overall development of a country and compare it with other nations.

Thus, the correct answer is that HDI is a composite index of income, health, and education.

Final Answer:

$$\boxed{\text{Income, Health, and Education.}}$$

$\boxed{\textbf{Answer: (A)}}$

Answer Key

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