

# CUET-UG Economics Sample Paper-3

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 X falls and the demand for Good X also falls, the good is likely a:

- (A) Normal Good
- (B) Giffen Good
- (C) Luxury Good
- (D) Substitute Good

**Q2.** Which of the following conditions is satisfied at the point of consumer equilibrium using Ordinal Utility analysis?

- (A)  $MRS_{xy} = \frac{P_x}{P_y}$
- (B)  $MRS_{xy} > \frac{P_x}{P_y}$
- (C)  $MU_x = P_x$
- (D) Slope of IC < Slope of Budget Line

**Q3.** A demand curve is a rectangular hyperbola when:

- (A) Elasticity of demand is zero.
- (B) Elasticity of demand is unity ( $e_d = 1$ ) at all points.
- (C) Elasticity of demand is infinite.
- (D) The good is a necessity.



- Q4.** When the Price Elasticity of Demand is 2 and the price increases by 10%, the Total Expenditure will:
- (A) Increase
  - (B) Decrease
  - (C) Remain constant
  - (D) Become zero
- Q5.** The Vertical distance between the Total Cost (TC) and Total Variable Cost (TVC) curves:
- (A) Increases as output increases.
  - (B) Decreases as output increases.
  - (C) Remains constant and equals Total Fixed Cost.
  - (D) Is zero at the origin.
- Q6.** If a firm's Marginal Revenue (MR) is less than its Average Revenue (AR) at all levels of output, the AR curve must be:
- (A) Horizontal
  - (B) Upward sloping
  - (C) Downward sloping
  - (D) Perfectly elastic
- Q7.** In the "Stage of Diminishing Returns" (Stage II):
- (A) MP is rising and TP is falling.
  - (B) MP is falling but positive, and TP is rising at a diminishing rate.
  - (C) MP is zero and TP is at its minimum.
  - (D) Both MP and AP are negative.
- Q8.** Identify the correct statement:
- (A)  $ATC = AVC - AFC$



- (B)  $MC = \frac{\Delta TC}{\Delta Q}$
- (C)  $TFC$  is a U-shaped curve.
- (D)  $MC$  curve cuts  $AC$  from above.

**Q9.** Under Perfect Competition, a firm is in long-run equilibrium when it earns:

- (A) Abnormal profits
- (B) Normal profits only
- (C) Substantial losses
- (D) Super-normal profits

**Q10.** The supply curve of a perishable commodity (like fresh fish) in the very short period is:

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

**Q11.** If the government provides a subsidy to the producers of a good, the market supply curve will:

- (A) Shift to the left.
- (B) Shift to the right.
- (C) Remain unchanged.
- (D) Become vertical.

**Q12.** The "Price Effect" is a combination of:

- (A) Income Effect and Substitution Effect.
- (B) Wealth Effect and Interest Effect.
- (C) Substitution Effect and Multiplier Effect.
- (D) Income Effect and Inflation Effect.



- Q13.** What is the effect on Equilibrium Price if Demand increases and Supply decreases?
- (A) Price will fall.
  - (B) Price will remain constant.
  - (C) Price will rise.
  - (D) Effect on price is indeterminate.
- Q14.** Excess Demand (Shortage) occurs when the market price is:
- (A) Above the equilibrium price.
  - (B) Below the equilibrium price.
  - (C) Equal to the equilibrium price.
  - (D) Equal to the price floor.
- Q15.** When  $AR = MR$  at all levels of output, the Price Elasticity of Demand is:
- (A)  $e_d = 0$
  - (B)  $e_d = 1$
  - (C)  $e_d = \infty$
  - (D)  $e_d < 1$
- Q16.** Which of the following is not a part of the "Operating Surplus"?
- (A) Rent
  - (B) Interest
  - (C) Profit
  - (D) Wages and Salaries
- Q17.** If  $NNP_{FC}$  is ₹ 2,000 and Net Factor Income from Abroad (NFIA) is (-) ₹ 200, then  $NDP_{FC}$  is:
- (A) ₹ 1,800
  - (B) ₹ 2,200



(C) ₹ 2,000

(D) ₹ 1,600

**Q18.** Assertion : Real GDP is always lower than Nominal GDP. Reason (R): Nominal GDP is calculated at current year prices, while Real GDP is calculated at base year prices.

(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 false but R is true.

(D) A is true but R is false.

**Q19.** The "Value of Output" is equal to:

(A) *Sales* + Change in Stock

(B) *Sales* – Change in Stock

(C) *Sales* + Intermediate Consumption

(D) Net Value Added + Depreciation

**Q20.** Which of the following is a "Flow" concept?

(A) Capital

(B) Money Supply

(C) Investment

(D) Foreign Exchange Reserves

**Q21.** The "Reverse Repo Rate" is the rate at which:

(A) RBI lends money to commercial banks.

(B) Commercial banks park their surplus funds with the RBI.

(C) RBI lends to the government.

(D) Commercial banks lend to each other.

**Q22.** If the "Currency Deposit Ratio" increases, the money multiplier will:



- (A) Increase
- (B) Decrease
- (C) Remain unchanged
- (D) Become zero

**Q23.** The primary objective of "Selective Credit Controls" is:

- (A) To control the total volume of credit.
- (B) To influence the direction/flow of credit to specific sectors.
- (C) To increase the profit of the RBI.
- (D) To reduce the fiscal deficit.

**Q24.** In a situation of "Inflationary Gap," the government should:

- (A) Reduce taxes and increase spending.
- (B) Increase taxes and reduce spending.
- (C) Lower the Bank Rate.
- (D) Encourage the public to borrow more.

**Q25.** If  $MPC = 0$ , the value of the Multiplier ( $K$ ) is:

- (A) 0
- (B) 1
- (C)  $\infty$
- (D) 10

**Q26.** The "Ex-ante" consumption refers to:

- (A) Actual consumption in the economy.
- (B) Planned or desired consumption at different levels of income.
- (C) Consumption of luxury goods only.
- (D) Consumption that equals zero income.



- Q27.** The slope of the Consumption Curve is represented by:
- (A) APC
  - (B) MPC
  - (C) MPS
  - (D) APS
- Q28.** Which of the following can have a negative value?
- (A) APC
  - (B) APS
  - (C) MPC
  - (D) MPS
- Q29.** A "Budget Deficit" occurs when:
- (A) Total Expenditure > Total Receipts
  - (B) Revenue Expenditure > Revenue Receipts
  - (C) Capital Expenditure > Capital Receipts
  - (D) Borrowings > Interest Payments
- Q30.** Which of the following is a "Non-tax Revenue" for the government?
- (A) Wealth Tax
  - (B) Escheats
  - (C) Custom Duty
  - (D) Service Tax
- Q31.** Statement I: Devaluation is a deliberate increase in the value of domestic currency by the government.  
Statement II: Revaluation occurs under a fixed exchange rate system.
- (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.

**Q32.** "Import of Services" is recorded in the BOP on:

- (A) Debit side of Current Account
- (B) Credit side of Current Account
- (C) Debit side of Capital Account
- (D) Credit side of Capital Account

**Q33.** When the Balance of Trade is in "Deficit," it means:

- (A) Export of goods > Import of goods
- (B) Import of goods > Export of goods
- (C) Total Credits > Total Debits
- (D) Capital Outflow > Capital Inflow

**Q34.** Under a "Fixed Exchange Rate" system, the value of a currency is pegged to:

- (A) Only the US Dollar.
- (B) A basket of currencies or gold.
- (C) Market forces of demand and supply.
- (D) The inflation rate of the country.

**Q35.** The "Tiller of the soil" refers to:

- (A) The Zamindar
- (B) The actual cultivator/farmer
- (C) The British officials
- (D) The money lenders

**Q36.** In which year was the NITI Aayog established?

- (A) 1950



- (B) 1991
- (C) 2014
- (D) 2015

**Q37.** The "Small Scale Industries" (SSI) were defined in 1950 based on:

- (A) Number of employees.
- (B) Maximum investment allowed on assets.
- (C) Export potential.
- (D) Type of technology used.

**Q38.** The "New Economic Policy" (NEP) 1991 was also known as:

- (A) Structural Adjustment Programme
- (B) Command and Control Policy
- (C) Socialistic Pattern of Society
- (D) Mahalanobis Model

**Q39.** Which of the following was a "Qualitative" reform in the 1991 banking sector?

- (A) Reduction in SLR and CRR.
- (B) Permission for private and foreign banks to operate.
- (C) Fixing high interest rates by RBI.
- (D) Increasing the number of rural bank branches.

**Q40.** The "Outsourcing" boom in India is a result of:

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

**Q41.** "Human Capital" and "Human Development" are:



- (A) Identical concepts.
- (B) Human capital treats humans as a means to an end (productivity); Human development treats humans as an end in themselves.
- (C) Human capital is a social concept; Human development is purely economic.
- (D) Human capital is for the poor; Human development is for the rich.

**Q42.** Which sector has the highest share in the "Occupational Structure" of India currently?

- (A) Agriculture
- (B) Industry
- (C) Services
- (D) Construction

**Q43.** "Operation Flood" is associated with the development of:

- (A) Fisheries
- (B) Poultry
- (C) Dairy (Milk)
- (D) Wheat

**Q44.** Which of the following is a reason for the increasing "Informalisation" of the Indian workforce?

- (A) Rigid labor laws in the formal sector.
- (B) High growth of the public sector.
- (C) Excess of skilled labor.
- (D) Decrease in the use of technology.

**Q45.** The "Carrying Capacity" of the environment means:

- (A) The ability of the environment to provide limitless resources.
- (B) The rate of resource extraction should not exceed the rate of resource regeneration.



- (C) The amount of pollution a person can tolerate.
- (D) The total weight of all living organisms.

**Q46.** Which of the following is an effect of "Global Warming"?

- (A) Increase in the ozone layer.
- (B) Rise in sea levels due to melting of polar ice.
- (C) Increase in agricultural productivity globally.
- (D) Cooling of the earth's core.

**Q47.** The "Great Proletarian Cultural Revolution" in China (1966) was introduced by:

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

**Q48.** Comparing India and China, which country has a higher "GNI per capita" (PPP)?

- (A) India
- (B) China
- (C) Both are equal
- (D) Pakistan is higher than both

**Q49.** Statement I: India and Pakistan both followed a "Mixed Economy" model.  
Statement II: China's reform process was "gradual" compared to the "shock therapy" of other nations.

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

**Q50.** The "One-Child Policy" in China has led to:



- (A) A surge in the young working population.
- (B) An aging population and a decline in the future labor force.
- (C) A decrease in the urban-rural divide.
- (D) Complete eradication of poverty.



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

**Concept:** The relationship between price and demand for a good determines whether the good is a normal good, Giffen good, or other types. In this case, we are looking at a situation where both the price and demand fall simultaneously.

**Solution:** If the price of Good X falls and the demand for Good X also falls, this suggests that the good is a **Giffen Good**. Giffen goods are a unique case where a fall in price leads to a decrease in quantity demanded, contrary to the law of demand. This happens because the income effect outweighs the substitution effect, and consumers may end up buying less of the good as it becomes "cheaper" due to the reduced purchasing power.

Thus, the good is likely a **Giffen Good**.

**Final Answer:**

Giffen Good.

**Answer: (B)**

**Q2.****Solution**

**Concept:** Ordinal utility analysis looks at the ranking of consumer preferences without measuring the actual satisfaction levels. The point of consumer equilibrium is when the consumer has allocated their income optimally between goods.

**Solution:** In ordinal utility analysis, consumer equilibrium is reached when the **Marginal Rate of Substitution (MRS)** between two goods equals the **price ratio** of those goods. This condition ensures that the consumer is getting the maximum utility from their given income.

Thus, the condition for equilibrium using ordinal utility analysis is:

$$MRS_{xy} = \frac{P_x}{P_y}.$$

Therefore, the correct answer is that the equilibrium condition is  $MRS_{xy} = \frac{P_x}{P_y}$ .

**Final Answer:**

$$MRS_{xy} = \frac{P_x}{P_y}.$$

**Answer: (A)**



Q3.

**Solution**

**Concept:** A rectangular hyperbola is a special kind of demand curve where elasticity remains constant and equal to 1 at all points.

**Solution:** A demand curve is a rectangular hyperbola when the elasticity of demand is constant and equal to unity ( $e_d = 1$ ) at all points. This means that for every percentage change in price, the percentage change in quantity demanded is the same, and the total expenditure (price  $\times$  quantity) remains constant along the curve.

Thus, the correct answer is that the demand curve is a rectangular hyperbola when elasticity of demand is unity.

**Final Answer:**

Elasticity of demand is unity ( $e_d = 1$ ) at all points.

**Answer: (B)**

Q4.

**Solution**

**Concept:** Price elasticity of demand measures the responsiveness of quantity demanded to changes in price. If demand is elastic, total expenditure moves in the opposite direction of price changes. If demand is inelastic, total expenditure moves in the same direction as price changes.

**Solution:** Given that the Price Elasticity of Demand is 2 and the price increases by 10  
The formula for the effect on total expenditure ( $TE$ ) is:

$$\text{Percentage change in Total Expenditure} = \text{Price Elasticity} \times \text{Percentage change in Price.}$$

Here, the elasticity  $e_d = 2$  and the price increase is 10

$$\text{Percentage change in TE} = 2 \times 10\% = 20\%.$$

Since the price increases and demand is elastic ( $e_d > 1$ ), total expenditure will decrease because the percentage increase in price is more than offset by the percentage decrease in quantity demanded. Thus, total expenditure will \*\*decrease\*\*.

**Final Answer:**

Decrease.

**Answer: (B)**



Q5.

**Solution**

**Concept:** Total Cost (TC) consists of both Total Fixed Cost (TFC) and Total Variable Cost (TVC). The vertical distance between the TC and TVC curves represents the Total Fixed Cost (TFC) at any given level of output.

**Solution:** The Total Fixed Cost (TFC) does not change with the level of output, meaning the vertical distance between the Total Cost (TC) and Total Variable Cost (TVC) curves remains constant. This distance represents the fixed cost incurred by the firm, which is the same regardless of the output level.

Thus, the vertical distance between the TC and TVC curves remains constant and equals the Total Fixed Cost (TFC).

**Final Answer:**

Remains constant and equals Total Fixed Cost.

Answer: (C)

Q6.

**Solution**

**Concept:** Marginal Revenue (MR) and Average Revenue (AR) are key concepts in understanding the behavior of a firm's revenue curve. In a monopoly or imperfect competition, MR is always less than AR.

**Solution:** If a firm's Marginal Revenue (MR) is less than its Average Revenue (AR) at all levels of output, the AR curve must be downward sloping. This is because, in a monopolistic market, the firm has to lower the price in order to sell more output, which results in MR being less than AR. Thus, the AR curve must be downward sloping.

**Final Answer:**

Downward sloping.

Answer: (C)



Q7.

**Solution**

**Concept:** The "Stage of Diminishing Returns" refers to the stage in production where each additional unit of input results in less and less additional output, leading to decreasing marginal returns.

**Solution:** In Stage II (the stage of diminishing returns), the Marginal Product (MP) is still positive but falling, and the Total Product (TP) is increasing at a diminishing rate. This is because, although additional units of the variable input (like labor) are contributing to output, the additional contribution (MP) decreases as more of the variable input is added.

Thus, the correct answer is that MP is falling but positive, and TP is rising at a diminishing rate.

**Final Answer:**

MP is falling but positive, and TP is rising at a diminishing rate.

**Answer: (B)**

Q8.

**Solution**

**Concept:** The relationship between Average Total Cost (ATC), Average Variable Cost (AVC), and Average Fixed Cost (AFC) is fundamental in cost theory.

**Solution:** The correct formula for calculating the Average Total Cost (ATC) is:

$$ATC = AVC + AFC.$$

Therefore, the statement  $ATC = AVC - AFC$  is incorrect. The Marginal Cost (MC) is calculated as the change in total cost ( $\Delta TC$ ) divided by the change in output ( $\Delta Q$ ).

Thus, the correct statement is that  $MC = \frac{\Delta TC}{\Delta Q}$ .

**Final Answer:**

$$MC = \frac{\Delta TC}{\Delta Q}.$$

**Answer: (B)**



Q9.

**Solution**

**Concept:** In the long-run equilibrium under perfect competition, firms earn only normal profits. This is because any super-normal profits or losses will lead to entry or exit of firms from the market, pushing the market towards a state of normal profits.

**Solution:** In the long-run equilibrium under perfect competition, firms are in a situation where price equals marginal cost ( $P = MC$ ) and average cost ( $P = AC$ ). In this situation, firms earn only normal profits, as any excess profits would attract new firms, and any losses would lead to firms exiting the market.

Thus, the correct answer is that firms earn normal profits only in the long-run equilibrium.

**Final Answer:**

Normal profits only.

Answer: (B)

Q10.

**Solution**

**Concept:** In the very short period, the supply curve for a perishable commodity like fresh fish is highly inelastic. This is because the quantity of the commodity cannot change much in response to price changes in the very short run.

**Solution:** The supply of perishable commodities like fresh fish is **perfectly inelastic** in the very short period because the stock of the commodity cannot be adjusted quickly to changes in price. There is only a limited quantity of fresh fish available, and producers cannot increase or decrease supply rapidly.

Thus, the correct answer is that the supply curve is perfectly inelastic in the very short period.

**Final Answer:**

Perfectly inelastic.

Answer: (B)



Q11.

**Solution**

**Concept:** A subsidy to producers lowers their cost of production, which incentivizes them to produce more of the good at each price level. This shifts the supply curve to the right.

**Solution:** When the government provides a subsidy to producers, it reduces their production costs. This allows producers to supply more of the good at each price level, effectively shifting the market supply curve to the right.

Thus, the correct answer is that the supply curve will shift to the right.

**Final Answer:**

Shift to the right.

**Answer: (B)**

Q12.

**Solution**

**Concept:** The "Price Effect" refers to the change in quantity demanded of a good due to a change in its price, and it is the combination of the income effect and substitution effect.

**Solution:** - The **Substitution Effect** occurs when a change in the price of a good makes it more or less attractive relative to other goods, leading to a change in quantity demanded. - The **Income Effect** occurs when a change in the price of a good alters the consumer's purchasing power, leading to a change in the quantity of the good demanded.

Together, these two effects combine to form the **Price Effect**, which explains how the quantity demanded responds to a change in price.

Thus, the correct answer is that the Price Effect is a combination of the Income Effect and Substitution Effect.

**Final Answer:**

Income Effect and Substitution Effect.

**Answer: (A)**



Q13.

**Solution**

**Concept:** Simultaneous changes in demand and supply affect the equilibrium price in different ways. The effect on price depends on the relative magnitude of the shifts in both curves.

**Solution:** - **Increase in demand** tends to push the equilibrium price up. - **Decrease in supply** also tends to push the equilibrium price up because there is less of the good available at each price level.

Since both the increase in demand and decrease in supply put upward pressure on the price, the equilibrium price will rise.

Thus, the correct answer is that the equilibrium price will definitely rise.

**Final Answer:**

Price will rise.

Answer: (C)

Q14.

**Solution**

**Concept:** Excess demand, or a shortage, occurs when the quantity demanded of a good exceeds the quantity supplied at a given price.

**Solution:** Excess demand occurs when the market price is **below** the equilibrium price. At this lower price, consumers demand more of the good than producers are willing to supply. As a result, there is a shortage.

Thus, the correct answer is that excess demand occurs when the market price is below the equilibrium price.

**Final Answer:**

Below the equilibrium price.

Answer: (B)

Q15.

**Solution**

**Concept:** Price elasticity of demand (PED) is a measure of how responsive the quantity demanded is to changes in price. When  $AR = MR$ , the price elasticity of demand is unitary.

**Solution:** When  $AR = MR$  at all levels of output, the price elasticity of demand is **unitary**, meaning  $e_d = 1$ . In this case, a change in price leads to an exactly proportional change in quantity demanded, so total revenue remains constant.

Thus, the correct answer is that the price elasticity of demand is  $e_d = 1$ .

**Final Answer:**

$e_d = 1$ .

Answer: (B)



Q16.

**Solution**

**Concept:** Operating surplus refers to the surplus generated from the production process before accounting for wages and salaries, which are considered as labor costs.

**Solution:** The **Operating Surplus** is the sum of rents, profits, and interest. Wages and salaries, on the other hand, are not included in operating surplus because they are payments to labor, not capital.

Thus, the correct answer is that **wages and salaries** are not part of the operating surplus.

**Final Answer:**

Wages and Salaries.

**Answer: (D)**

Q17.

**Solution**

**Concept:** Net Domestic Product at Factor Cost (NDP<sub>FC</sub>) is derived by subtracting depreciation from Gross Domestic Product (GDP). Net Factor Income from Abroad (NFIA) is used to adjust GDP to calculate NNP<sub>FC</sub>.

**Solution:** We are given: -  $NNP_{FC} = 2000 - NFIA = -200$

To calculate  $NDP_{FC}$ , we use the formula:

$$NDP_{FC} = NNP_{FC} - NFIA$$

Substituting the given values:

$$NDP_{FC} = 2000 - (-200) = 2000 + 200 = 2200.$$

Thus, the value of  $NDP_{FC}$  is ₹ 2,200.

**Final Answer:**

₹ 2,200.

**Answer: (B)**



Q18.

**Solution**

**Concept:** Real GDP is calculated by adjusting Nominal GDP for inflation using a price index. Real GDP is expressed in constant prices, while Nominal GDP is calculated at current prices.

**Solution:** Since Nominal GDP is calculated at current year prices, it will always be greater than or equal to Real GDP, which is adjusted for inflation and calculated at constant prices (base year prices).

Thus, the assertion is true that Real GDP is always lower than Nominal GDP.

**Final Answer:**

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

**Answer: (A)**

Q19.

**Solution**

**Concept:** The "Value of Output" refers to the total market value of goods produced, and it is calculated as the sum of sales and changes in stock.

**Solution:** The **\*\*Value of Output\*\*** is calculated as the total sales of goods and services plus any change in the stock of goods. The value of output can be thought of as the value added by production, including any unsold inventory or stock changes.

Thus, the correct formula for the Value of Output is:

$$\text{Value of Output} = \text{Sales} + \text{Change in Stock.}$$

**Final Answer:**

Sales + Change in Stock.

**Answer: (A)**



Q20.

**Solution**

**Concept:** Flow concepts are measured over a period of time, while stock concepts are measured at a particular point in time. Investment is a flow concept because it refers to the change in capital over time.

**Solution:** **Investment** is a flow concept because it refers to the addition to the capital stock during a given period, such as money spent on new factories or machines. Money supply, capital, and foreign exchange reserves are all stock concepts because they represent the total amount at a particular point in time.

Thus, the correct answer is that **Investment** is a flow concept.

**Final Answer:**

Investment.

Answer: (C)

Q21.

**Solution**

**Concept:** The Reverse Repo Rate is the rate at which the Reserve Bank of India (RBI) borrows money from commercial banks. It is a tool used by the RBI to control liquidity in the economy.

**Solution:** The Reverse Repo Rate is the rate at which commercial banks lend their surplus funds to the RBI. In other words, when commercial banks have excess reserves, they can park their funds with the RBI at this rate. The RBI uses this tool to manage money supply and interest rates in the economy.

Thus, the correct answer is that the Reverse Repo Rate is the rate at which commercial banks park their surplus funds with the RBI.

**Final Answer:**

Commercial banks park their surplus funds with the RBI.

Answer: (B)



Q22.

**Solution**

**Concept:** The currency deposit ratio (CDR) is the proportion of currency held by the public relative to deposits in the banking system. The money multiplier measures the effect of an increase in reserves on the total money supply.

**Solution:** The money multiplier ( $M$ ) is given by the formula:

$$M = \frac{1 + C}{R + C},$$

where: -  $C$  is the currency deposit ratio, -  $R$  is the reserve ratio.

If the currency deposit ratio increases, the numerator ( $1 + C$ ) increases, leading to a decrease in the money multiplier. This is because as the public holds more currency relative to deposits, the banking system can create less money through lending.

Thus, the correct answer is that if the "Currency Deposit Ratio" increases, the money multiplier will decrease.

**Final Answer:**

Decrease.

**Answer: (B)**

Q23.

**Solution**

**Concept:** Selective Credit Controls are measures taken by the central bank to direct credit to certain sectors of the economy. These controls are used to influence the distribution of credit in the economy.

**Solution:** The primary objective of "Selective Credit Controls" is to influence the direction or flow of credit to specific sectors. For example, the RBI may provide easier credit terms for agriculture or manufacturing while restricting credit to speculative activities or sectors experiencing a bubble. Thus, the correct answer is that the primary objective of Selective Credit Controls is to influence the direction of credit to specific sectors.

**Final Answer:**

To influence the direction/flow of credit to specific sectors.

**Answer: (B)**



Q24.

**Solution**

**Concept:** An inflationary gap occurs when aggregate demand exceeds aggregate supply at the full employment level of output, leading to upward pressure on prices.

**Solution:** In the case of an inflationary gap, the government should take measures to reduce inflation. The appropriate fiscal policy response is to **\*\*increase taxes and reduce government spending\*\***, which would decrease aggregate demand and help close the inflationary gap.

Thus, the correct answer is that the government should increase taxes and reduce spending in an inflationary gap.

**Final Answer:**

Increase taxes and reduce spending.

**Answer: (B)**

Q25.

**Solution**

**Concept:** The multiplier effect is the ratio of change in national income to the change in investment. The multiplier depends on the marginal propensity to consume (MPC), and it is given by the formula:

$$K = \frac{1}{1 - MPC}$$

**Solution:** If  $MPC = 0$ , then the multiplier  $K$  will be:

$$K = \frac{1}{1 - 0} = 1.$$

Therefore, the value of the multiplier will be 0 if the MPC is zero because no income is spent on consumption.

Thus, the correct answer is that the multiplier will be 0 when  $MPC = 0$ .

**Final Answer:**

0.

**Answer: (A)**



Q26.

**Solution**

**Concept:** Ex-ante consumption refers to the planned or desired consumption by individuals or households, based on their expected income.

**Solution:** Ex-ante consumption is the planned or desired consumption at different levels of income, before actual consumption takes place. It reflects the consumer's expectations about their future income and their desired spending at those income levels.

Thus, the correct answer is that ex-ante consumption refers to planned or desired consumption at different levels of income.

**Final Answer:**

Planned or desired consumption at different levels of income.

**Answer: (B)**

Q27.

**Solution**

**Concept:** The slope of the consumption curve indicates the relationship between consumption and income. It is represented by the marginal propensity to consume (MPC).

**Solution:** The slope of the consumption curve is represented by the **Marginal Propensity to Consume (MPC)**, which measures the change in consumption resulting from a change in income. It is the ratio of the change in consumption to the change in income.

Thus, the correct answer is that the slope of the consumption curve is represented by MPC.

**Final Answer:**

MPC.

**Answer: (B)**



Q28.

**Solution**

**Concept:** The Average Propensity to Consume (APC) and the Average Propensity to Save (APS) are the ratios of consumption and saving to income, respectively. The Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) measure the change in consumption and saving for a given change in income.

**Solution:** While APC and APS are usually positive, **MPS** (Marginal Propensity to Save) can have a negative value in the case of dis-saving, when individuals consume more than their income. This is possible during times of economic distress, where people use their savings to meet their consumption needs.

Thus, the correct answer is that MPS can have a negative value.

**Final Answer:**

MPS.

**Answer: (D)**

Q29.

**Solution**

**Concept:** A budget deficit occurs when a government's total expenditure exceeds its total receipts (excluding borrowings). This means the government needs to borrow to meet its spending needs.

**Solution:** A budget deficit occurs when total expenditure exceeds total receipts. This indicates that the government is spending more than it is receiving in revenue, leading to borrowing requirements. Thus, the correct answer is that a budget deficit occurs when total expenditure is greater than total receipts.

**Final Answer:**

Total Expenditure > Total Receipts.

**Answer: (A)**

Q30.

**Solution**

**Concept:** Non-tax revenue refers to income received by the government from sources other than taxes. It includes fees, fines, and profits from government enterprises.

**Solution:** **Escheats** refer to the property that reverts to the government when there are no legal heirs. It is a form of non-tax revenue, as it does not come from taxes or government-imposed levies.

Thus, the correct answer is that **Escheats** are a form of non-tax revenue for the government.

**Final Answer:**

Escheats.

**Answer: (B)**



Q31.

**Solution**

**Concept:** Devaluation refers to the deliberate reduction in the value of a country's currency relative to other currencies. Revaluation, on the other hand, refers to an increase in the currency's value under a fixed exchange rate system.

**Solution:** - **Statement I**: Devaluation is the deliberate **decrease** in the value of the currency by the government, not an increase. Therefore, Statement I is incorrect. - **Statement II**: Revaluation occurs under a fixed exchange rate system, where the government or central bank adjusts the currency's value. This statement is correct.

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

**Final Answer:**

Statement I is incorrect, Statement II is correct.

**Answer: (D)**

Q32.

**Solution**

**Concept:** "Import of Services" refers to the payment made by a country to foreign providers for services rendered, and it is recorded in the current account of the Balance of Payments (BOP).

**Solution:** Imports of services involve payments that are made to foreign entities for services like consultancy, tourism, insurance, etc. These payments are recorded on the **debit side** of the Current Account in the BOP because they represent an outflow of funds.

Thus, the correct answer is that the import of services is recorded on the debit side of the Current Account.

**Final Answer:**

Debit side of Current Account.

**Answer: (A)**



Q33.

**Solution**

**Concept:** The Balance of Trade (BOT) reflects the difference between a country's exports and imports of goods. A trade deficit occurs when imports exceed exports.

**Solution:** When the Balance of Trade is in "Deficit," it means that the value of goods imported exceeds the value of goods exported. This results in an outflow of funds from the country to pay for the excess imports.

Thus, the correct answer is that the Balance of Trade is in deficit when the import of goods is greater than the export of goods.

**Final Answer:**

Import of goods > Export of goods.

**Answer: (B)**

Q34.

**Solution**

**Concept:** Under a fixed exchange rate system, the value of a country's currency is pegged to another currency or a basket of currencies. This system requires the central bank to maintain the currency's value within a certain range.

**Solution:** In a fixed exchange rate system, the government or central bank pegs the domestic currency to a foreign currency (often the US dollar) or a basket of currencies. The value of the domestic currency is maintained at a fixed rate relative to the currency to which it is pegged.

Thus, the correct answer is that under a fixed exchange rate system, the value of a currency is pegged to a basket of currencies or gold.

**Final Answer:**

A basket of currencies or gold.

**Answer: (B)**

Q35.

**Solution**

**Concept:** The "Tiller of the soil" refers to the person who cultivates the land, or the actual farmer, who is responsible for working the soil and growing crops.

**Solution:** The term "Tiller of the soil" refers to the actual cultivator or farmer who works on the land, grows crops, and produces food. The Zamindar (landlord) may own the land but does not work it directly.

Thus, the correct answer is that the "Tiller of the soil" refers to the actual cultivator/farmer.

**Final Answer:**

The actual cultivator/farmer.

**Answer: (B)**



Q36.

**Solution**

**Concept:** NITI Aayog (National Institution for Transforming India) was established to replace the Planning Commission and serve as a think tank for guiding India's development agenda.

**Solution:** NITI Aayog was established in **2015** to replace the Planning Commission and facilitate cooperative federalism in India. It focuses on sustainable development, economic planning, and policy-making.

Thus, the correct answer is that NITI Aayog was established in 2015.

**Final Answer:**

2015.

**Answer: (D)**

Q37.

**Solution**

**Concept:** Small Scale Industries (SSI) in India were defined based on the maximum investment allowed in fixed assets, such as machinery and equipment, in order to encourage small businesses.

**Solution:** In 1950, Small Scale Industries (SSI) were defined based on the **maximum investment allowed in fixed assets** such as machinery, tools, and plants. This was done to support the growth of small businesses and promote industrialization in India.

Thus, the correct answer is that SSI were defined in 1950 based on the maximum investment allowed on assets.

**Final Answer:**

Maximum investment allowed on assets.

**Answer: (B)**

Q38.

**Solution**

**Concept:** The New Economic Policy (NEP) 1991, also known as the "LPG reforms," focused on liberalization, privatization, and globalization to open up the economy and promote growth.

**Solution:** The **New Economic Policy (NEP)** introduced in 1991 is also known as the **Structural Adjustment Programme**. It focused on reducing government control over the economy, promoting market-driven growth, and integrating India into the global economy.

Thus, the correct answer is that the NEP 1991 was also known as the Structural Adjustment Programme.

**Final Answer:**

Structural Adjustment Programme.

**Answer: (A)**



Q39.

**Solution**

**Concept:** A qualitative reform in the banking sector refers to structural changes that promote competition, efficiency, and increased participation of private and foreign banks.

**Solution:** One of the key qualitative reforms in the 1991 banking sector was the \*\*permission for private and foreign banks to operate\*\* in India. This allowed for greater competition and improved banking services. The reduction in SLR and CRR (Statutory Liquidity Ratio and Cash Reserve Ratio) was a quantitative reform, while increasing rural bank branches was a policy initiative.

Thus, the correct answer is the permission for private and foreign banks to operate.

**Final Answer:**

Permission for private and foreign banks to operate.

**Answer: (B)**

Q40.

**Solution**

**Concept:** Outsourcing refers to the practice of contracting out business processes or services to third-party providers, often to reduce costs and improve efficiency.

**Solution:** The \*\*"Outsourcing" boom\*\* in India is a result of \*\*Globalisation\*\*, as it involves the relocation of service-based jobs (e.g., call centers, IT services) to countries with lower labor costs, like India. Globalization has allowed Indian firms to take advantage of the global market for services.

Thus, the correct answer is that the outsourcing boom is a result of globalization.

**Final Answer:**

Globalisation.

**Answer: (B)**



Q41.

**Solution**

**Concept:** "Human Capital" and "Human Development" are related concepts but with distinct differences in focus and interpretation. Human capital refers to the economic value of a person's skills and knowledge, while human development focuses on broader well-being and quality of life.

**Solution:** - **Human Capital** treats humans as a means to an end, focusing on their productivity and ability to contribute economically. This concept is often associated with investment in education and skills to improve productivity. - **Human Development** treats humans as an end in themselves, focusing on improving people's overall quality of life, including education, health, and access to basic needs.

Thus, the correct answer is that human capital treats humans as a means to an end (productivity), while human development treats humans as an end in themselves.

**Final Answer:**

Human capital treats humans as a means to an end (productivity);

Human development treats humans as an end in themselves.

**Answer: (B)**

Q42.

**Solution**

**Concept:** The "Occupational Structure" refers to the distribution of employment across different sectors of the economy: agriculture, industry, and services.

**Solution:** Currently, the **services sector** has the highest share in India's occupational structure. The services sector includes industries such as IT, finance, education, healthcare, and retail. Over the years, India has experienced significant growth in services, contributing the largest share to the economy's employment and GDP.

Thus, the correct answer is that the services sector has the highest share in the occupational structure of India.

**Final Answer:**

Services.

**Answer: (C)**



Q43.

**Solution**

**Concept:** "Operation Flood" was a program aimed at transforming the dairy industry in India, often referred to as the White Revolution.

**Solution:** \*\*Operation Flood\*\*, launched in 1970 by the National Dairy Development Board (NDDB), was instrumental in developing India's dairy industry, making the country the largest milk producer in the world. The program focused on increasing milk production and improving distribution networks, ensuring that dairy products were available to all sections of society.

Thus, the correct answer is that Operation Flood is associated with the development of dairy (milk).

**Final Answer:**

Dairy (Milk).

Answer: (C)

Q44.

**Solution**

**Concept:** The increasing informalization of the workforce is largely attributed to factors like rigid labor laws and the difficulty of formal sector entry.

**Solution:** The increasing "informalization" of the workforce in India is mainly due to \*\*rigid labor laws in the formal sector\*\*. These laws make it difficult for employers to hire and fire employees in the formal sector, leading to more workers being employed in the informal sector, which is less regulated.

Thus, the correct answer is that the informalization is caused by rigid labor laws in the formal sector.

**Final Answer:**

Rigid labor laws in the formal sector.

Answer: (A)



Q45.

**Solution**

**Concept:** The "Carrying Capacity" of the environment refers to the maximum population size or amount of resource extraction that can be sustained without damaging the environment.

**Solution:** The carrying capacity refers to the **rate of resource extraction** that should not exceed the rate of regeneration. This principle ensures that natural resources are not depleted faster than they can be replenished, maintaining ecological balance.

Thus, the correct answer is that the carrying capacity means the rate of resource extraction should not exceed the rate of resource regeneration.

**Final Answer:**

The rate of resource extraction should not exceed the rate of resource regeneration.

**Answer: (B)**

Q46.

**Solution**

**Concept:** Global warming refers to the long-term increase in Earth's average surface temperature due to human activities, primarily the burning of fossil fuels.

**Solution:** One of the most prominent effects of global warming is the **rise in sea levels** due to the melting of polar ice caps and glaciers. This increase in sea levels can cause flooding and other environmental disasters. Global warming is not associated with an increase in the ozone layer or cooling of the earth's core.

Thus, the correct answer is that global warming causes a rise in sea levels due to the melting of polar ice.

**Final Answer:**

Rise in sea levels due to melting of polar ice.

**Answer: (B)**



Q47.

**Solution**

**Concept:** The "Great Proletarian Cultural Revolution" was a socio-political movement in China aimed at preserving communist ideology by removing capitalist, traditional, and cultural elements from Chinese society.

**Solution:** The \*\*Great Proletarian Cultural Revolution\*\* (1966-1976) in China was introduced by \*\*Mao Zedong\*\*. It was aimed at preserving Chinese communism by purging remnants of capitalist and traditional elements from Chinese society, as well as imposing Maoist orthodoxy. Thus, the correct answer is that the Cultural Revolution was introduced by Mao Zedong.

**Final Answer:**

Mao Zedong.

Answer: (B)

Q48.

**Solution**

**Concept:** Gross National Income (GNI) per capita is a common measure of a country's economic development, adjusted for population.

**Solution:** China has a higher \*\*GNI per capita (PPP)\*\* compared to India. Over the years, China has made substantial economic progress, leading to a higher per capita income in comparison to India.

Thus, the correct answer is that China has a higher GNI per capita (PPP) compared to India.

**Final Answer:**

China.

Answer: (B)



Q49.

**Solution**

**Concept:** India, Pakistan, and China have all followed distinct paths in their economic models, with China's reforms being gradual compared to India's and Pakistan's.

**Solution:** - **Statement I**: India and Pakistan both followed a **Mixed Economy** model, where both the public and private sectors coexist, with the government playing a significant role in economic planning. - **Statement II**: China's reform process was **gradual**, unlike the "shock therapy" approach taken by countries like Russia. China's reforms began with incremental changes, allowing the economy to adjust without major disruptions.

Thus, the correct answer is that both statements are correct, and Statement II is the correct explanation of Statement I.

**Final Answer:**

Both statements are correct.

**Answer: (A)**

Q50.

**Solution**

**Concept:** The "One-Child Policy" was introduced by China to control its population growth.

**Solution:** The **One-Child Policy** in China, introduced in 1979, led to **an aging population and a decline in the future labor force**. The policy restricted most families to having only one child, which resulted in demographic challenges such as a shrinking working-age population.

Thus, the correct answer is that the One-Child Policy has led to an aging population and a decline in the future labor force.

**Final Answer:**

An aging population and a decline in the future labor force.

**Answer: (B)**



**Answer Key**

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

