CUET-UG Economics Sample Paper-4

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 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

Q2. At the point of satiety for a consumer, the Marginal Utility (MU) is:

(A) Maximum

(B) Minimum

(C) Zero

(D) Negative

Q3. An Indifference Curve is downward sloping due to:

(A) Diminishing Marginal Rate of Substitution

(B) Increasing Marginal Rate of Substitution

(C) Monotonic Preferences

(D) Constant Marginal Utility of Money

Q4. Which of the following would cause a 'Shift' in the demand curve rather than a 'Movement'?

(A) Change in price of the own commodity

(B) Change in price of substitute goods

(C) Improvement in production technology

(D) Imposition of GST on the product

Q5. If two goods are perfect substitutes, the Indifference Curve will be:

(A) L-shaped

(B) Convex to the origin

(C) A downward-sloping straight line

(D) Concave to the origin

Q6. In the short run, when Total Product (TP) is maximum, Marginal Product (MP) is:

(A) Rising

(B) Falling but positive

(C) Zero

(D) Negative

Q7. The 'Law of Variable Proportions' operates in:

(A) Long run

(B) Short run

(C) Both short and long run

(D) Market period

Q8. Which of the following cost curves is NOT U-shaped?

(A) Average Variable Cost (AVC)

(B) Average Total Cost (ATC)

(C) Average Fixed Cost (AFC)

(D) Marginal Cost (MC)

Q9. When Marginal Cost is less than Average Cost, Average Cost:

(A) Falls

(B) Rises

(C) Remains constant

(D) Is at its minimum

Q10. The distance between ATC and AVC curves:

(A) Increases as output increases

(B) Decreases as output increases

(C) Remains constant

(D) First decreases then increases

Q11. A firm under Perfect Competition is a 'Price Taker' because:

(A) It produces a differentiated product

(B) It has a large share of the market

(C) It produces a homogeneous product with many competitors

(D) Government regulates the prices

Q12. The Break-even point for a firm occurs when:

(A) TR > TC

(B) TR = TVC

(C) AR = AC

(D) P = AVC

Q13. If the government imposes a 'Price Ceiling' below the equilibrium price, it leads to:

(A) Excess Supply

(B) Excess Demand (Shortage)

(C) No change in the market

(D) Increase in producer surplus

Q14. The Supply Curve of a perfectly competitive firm in the short run is:

(A) The rising portion of the MC curve above AVC

(B) The falling portion of the AC curve

(C) The rising portion of the MC curve above AC

(D) The entire MC curve

Q15. Under Perfect Competition, in the long run, firms earn:

(A) Abnormal Profits

(B) Normal Profits only

(C) Subnormal Profits

(D) Losses

Q16. Which of the following is included in the estimation of National Income?

(A) Transfer payments

(B) Sale of second-hand goods

(C) Windfall gains

(D) Rent-free accommodation provided by the employer

Q17. Real GDP is considered a better indicator of economic growth than Nominal GDP because:

(A) It is calculated at current prices

(B) It accounts for changes in the general price level (Inflation)

(C) It includes transfer payments

(D) It excludes the service sector

Q18. National Income (NNP at FC) is equal to:

(A) GDP at MP - Depreciation

(B) GNP at MP - Net Indirect Taxes - Depreciation

(C) NDP at FC + Depreciation

(D) GNP at FC + NFIA

Q19. The 'Value Added' method helps to avoid:

(A) Underestimation of GDP

(B) Double Counting

(C) Inflation

(D) Capital Loss

Q20. If NFIA is negative, then:

(A) GDP > GNP

(B) GNP > GDP

(C) GDP = GNP

(D) National Income is zero

Q21. The 'Money Multiplier' is calculated as:

(A) 1 / SLR

(B) 1 / CRR

(C) 1 / LRR (Legal Reserve Ratio)

(D) Total Deposits / Total Loans

Q22. When the Central Bank buys government securities in the open market, the Money Supply:

(A) Decreases

(B) Increases

(C) Remains unchanged

(D) Becomes volatile

Q23. Which of the following is a 'Qualitative' tool of monetary policy?

(A) Bank Rate

(B) Open Market Operations

(C) Margin Requirements

(D) Cash Reserve Ratio

Q24. High Powered Money consists of:

(A) Currency held by public + Cash reserves of banks

(B) Demand deposits + Time deposits

(C) Only coins and paper notes

(D) M3 + M4

Q25. If the Marginal Propensity to Consume (MPC) is 0.8, the value of the Investment Multiplier (K) is:

(A) 2

(B) 4

(C) 5

(D) 10

Q26. The 'Ex-ante' consumption refers to:

(A) Actual consumption in a year

(B) Planned consumption at different levels of income

(C) Minimum consumption at zero income

(D) Consumption of luxury goods

Q27. To correct 'Deficient Demand', the Central Bank should:

(A) Increase Repo Rate

(B) Sell securities in Open Market

(C) Decrease Reverse Repo Rate

(D) Increase Margin Requirements

Q28. In a two-sector model, equilibrium is reached when:

(A) S > I

(B) S < I

(C) S = I

(D) AD > AS

Q29. The break-even point in the consumption function occurs when:

(A) C = S

(B) C = Y

(C) S = Y

(D) MPC = 1

Q30. Disinvestment by the government is considered a:

(A) Revenue Receipt

(B) Capital Receipt

(C) Revenue Expenditure

(D) Capital Expenditure

Q31. Fiscal Deficit equals:

(A) Total Expenditure - Total Receipts

(B) Total Expenditure - (Revenue Receipts + Non-debt Capital Receipts)

(C) Revenue Expenditure - Revenue Receipts

(D) Interest Payments

Q32. Interest payments on government loans are classified as:

(A) Capital Expenditure

(B) Revenue Expenditure

(C) Planned Expenditure

(D) Developmental Expenditure

Q33. Primary Deficit is calculated as:

(A) Fiscal Deficit + Interest Payments

(B) Fiscal Deficit - Interest Payments

(C) Revenue Deficit - Interest Payments

(D) Total Expenditure - Total Receipts

Q34. The 'Current Account' of BOP includes:

(A) Foreign Direct Investment

(B) External Commercial Borrowings

(C) Export and Import of services (Invisibles)

(D) Portfolio Investment

Q35. Under a 'Managed Floating' exchange rate system:

(A) The rate is fixed by the government

(B) The rate is determined solely by market forces

(C) The rate is determined by market forces but intervened by the Central Bank

(D) The rate is tied to the value of Gold

Q36. The main objective of the Second Five Year Plan (Mahalanobis Plan) was:

(A) Agricultural growth

(B) Development of heavy industries

(C) Poverty alleviation

(D) Self-reliance in food grains

Q37. The 'Green Revolution' was initially restricted to which crops?

(A) Rice and Wheat

(B) Cotton and Jute

(C) Pulses and Oilseeds

(D) Sugarcane and Maize

Q38. The Industrial Policy Resolution (IPR) 1956 formed the basis of the:

(A) First Five Year Plan

(B) Second Five Year Plan

(C) Third Five Year Plan

(D) Fourth Five Year Plan

Q39. The 'LPG' reforms of 1991 were introduced under the:

(A) New Agricultural Policy

(B) New Industrial Policy

(C) New Economic Policy

(D) Foreign Trade Policy

Q40. Devaluation of the Indian Rupee in 1991 was aimed at:

(A) Increasing Imports

(B) Increasing Exports

(C) Reducing Inflation

(D) Stabilizing the Stock Market

Q41. Which of the following is a source of 'Human Capital Formation'?

(A) Investment in physical machines

(B) Expenditure on health and education

(C) Building infrastructure

(D) Increasing the money supply

Q42. NABARD was set up in 1982 to promote:

(A) Industrial credit

(B) Rural and Agricultural credit

(C) Export-Import trade

(D) Urban infrastructure

Q43. Sustainable Development emphasizes on:

(A) Rapid industrialization at any cost

(B) Meeting needs of the present without compromising future generations

(C) Increasing the use of fossil fuels

(D) Maximizing current consumption

Q44. The 'Worker Population Ratio' is an indicator used to analyze:

(A) Poverty levels

(B) Employment situation in the country

(C) Population growth rate

(D) Health standards

Q45. Organic Farming is beneficial because:

(A) It uses chemical fertilizers for higher yield

(B) It is eco-friendly and maintains soil health

(C) It requires very little labor

(D) It is only for export purposes

Q46. The 'Great Leap Forward' (GLF) campaign was initiated in:

(A) India

(B) Pakistan

(C) China

(D) South Korea

Q47. Which country has the highest density of population among India, China, and Pakistan?

(A) China

(B) India

(C) Pakistan

(D) All are equal

Q48. The 'Special Economic Zones' (SEZ) policy was first successfully implemented by:

(A) India

(B) China

(C) Pakistan

(D) Bangladesh

Q49. In terms of Human Development Index (HDI) ranking, which of the following is the correct order (High to Low)?

(A) India > China > Pakistan

(B) China > India > Pakistan

(C) Pakistan > India > China

(D) China > Pakistan > India

Q50. The 'One Child Policy' was a demographic reform introduced by:

(A) India in 1951

(B) China in 1979

(C) Pakistan in 1988

(D) China in 1950

Detailed Solutions

Q1.

Solution

Concept: The relationship between price changes and total expenditure depends on the Price Elasticity of Demand (E_d). Total Expenditure (TE) is the product of Price (P) and Quantity (Q). If demand is elastic ($|E_d| > 1$), price and total expenditure move in opposite directions.

Solution: Given:

- $E_d = -2$ (Elastic demand, as $|E_d| > 1$)
- Price increases by 10%

Since $|E_d| = \frac{\%\text{ change in } Q}{\%\text{ change in } P}$, we can calculate the change in quantity:

$$2 = \frac{\%\Delta Q}{10\%} \implies \%\Delta Q = 20\%$$

Because the price increased, the quantity demanded falls by 20%. Since the percentage decrease in quantity (20%) outweighs the percentage increase in price (10%), the total expenditure ($P \times Q$) will decrease.

In summary, for elastic demand, an increase in price leads to a decrease in total expenditure.

Final Answer:

(B) Decrease

Answer: (B)

Q2.

Solution

Concept: The point of satiety is the level of consumption where Total Utility (TU) is maximized. According to the Law of Diminishing Marginal Utility, as consumption increases, Marginal Utility (MU) declines.

Solution: The relationship between TU and MU is defined by the following stages:

- As long as MU is positive, TU increases.
- When TU reaches its maximum (Point of Satiety), the additional utility gained from the last unit is exactly zero ($MU = 0$).
- If consumption increases beyond the point of satiety, MU becomes negative and TU starts to decline.

Mathematically, MU is the derivative of the TU function ($MU = \frac{dTU}{dQ}$). At the maximum point of a curve, its slope (marginal value) is zero.

Final Answer:

(C) Zero

Answer: (C)

Q3.

Solution

Concept: An Indifference Curve (IC) slopes downward from left to right, which implies a negative slope. This characteristic is rooted in the assumption of Monotonic Preferences.

Solution: Monotonic Preferences imply that a consumer always prefers more of a commodity to less. For a consumer to remain at the same level of utility (satisfaction) while increasing the consumption of one good, they must necessarily reduce the consumption of the other good.

- If the curve were upward sloping, the consumer would have more of both goods, leading to higher satisfaction.
- If it were horizontal or vertical, the amount of one good would increase while the other remains constant, also leading to higher satisfaction.

Therefore, the downward slope is a direct result of the need to maintain a constant level of utility through a trade-off, supported by the principle of monotonic preferences.

Final Answer:

(C) Monotonic Preferences

Answer: (C)

Q4.

Solution

Concept: A "Movement" along the demand curve occurs due to a change in the price of the commodity itself, while a "Shift" occurs due to changes in factors other than the commodity's own price.

Solution: Let's analyze the factors:

- **Price of the own commodity (A):** Causes an extension or contraction (Movement along the curve).
- **Price of substitute/complementary goods (B):** Since this is an external factor, it changes the demand at every price level, resulting in a Rightward or Leftward **Shift**.
- **Technology (C) and GST (D):** These are supply-side determinants and primarily cause shifts in the Supply Curve.

When the price of a substitute increases, the demand for the given commodity increases at its existing price, leading to a rightward shift.

Final Answer:

(B) Change in price of substitute goods

Answer: (B)

Q5.

Solution

Concept: The shape of an Indifference Curve (IC) depends on the Marginal Rate of Substitution (MRS_{xy}). MRS is the rate at which a consumer is willing to substitute good X for good Y while maintaining the same level of utility.

Solution: For most goods, the MRS diminishes as we move down the curve, resulting in a convex shape. However:

- **Perfect Substitutes:** The consumer treats both goods as identical. The rate of substitution remains constant (e.g., $MRS = 1$). A constant slope in a coordinate system is represented by a **straight line**.
- **Direction:** Since the consumer must give up some of good Y to obtain more of good X to stay at the same utility level, the line must be downward-sloping.

In contrast, an L-shaped curve (Option A) occurs when goods are perfect complements (like left and right shoes).

Final Answer:

(C) A downward-sloping straight line

Answer: (C)

Q6.

Solution

Concept: The relationship between Total Product (TP) and Marginal Product (MP) is governed by the Law of Variable Proportions. MP is essentially the slope of the TP curve ($MP = \Delta TP/\Delta L$).
Solution: The relationship follows three specific stages:

- When TP increases at an increasing rate, MP increases and reaches its maximum.
- When TP increases at a diminishing rate, MP starts falling but remains positive.
- **When TP reaches its maximum, MP becomes zero.**
- When TP begins to decline, MP becomes negative.

At the highest point of the TP curve, the tangent is horizontal, meaning the marginal contribution (slope) is zero.
Final Answer:

(C) Zero

Answer: (C)

Q7.

Solution

Concept: The Law of Variable Proportions (also known as the Law of Diminishing Returns) explains the behavior of output when the quantity of one factor is increased while keeping other factors constant.
Solution: The primary distinction in production theory is based on time:

- **Short Run:** This period involves both fixed and variable factors. Because some factors are fixed, increasing the variable factor changes the "factor proportions." Thus, the Law of Variable Proportions is a **short-run phenomenon**.
- **Long Run:** All factors are variable. Changes here lead to "Returns to Scale," which is a long-run concept.

The law operates in the short run because the presence of a fixed factor eventually leads to overcrowding and inefficiency as more variable units are added.
Final Answer:

(B) Short run

Answer: (B)

Q8.

Solution

Concept: The shapes of short-run cost curves are determined by the Law of Variable Proportions, with the exception of the Average Fixed Cost (AFC) curve, which is determined by the spreading of fixed costs.

Solution: We analyze the geometry of each:

- **MC, AVC, and ATC:** These are U-shaped. They initially fall due to increasing marginal returns and eventually rise due to diminishing marginal returns.
- **Average Fixed Cost (AFC):** Because TFC is constant, AFC ($\frac{TFC}{Q}$) falls continuously as output increases. Its shape is a **Rectangular Hyperbola**.

Because AFC never increases, it is the only curve in the list that is not U-shaped.

Final Answer:

(C) Average Fixed Cost (AFC)

Answer: (C)

Q9.

Solution

Concept: The relationship between MC and AC dictates the slope of the AC curve. The marginal value always leads the average value.

Solution: The relationship is defined by three rules:

- When $MC < AC$, the AC must be **falling**.
- When $MC = AC$, the AC is at its **minimum**.
- When $MC > AC$, the AC must be **rising**.

Since the question specifies that MC is less than AC, we are in the phase where the Average Cost is still declining.

Final Answer:

(A) Falls

Answer: (A)

Q10.

Solution

Concept: The Average Total Cost (ATC) is the vertical summation of Average Variable Cost (AVC) and Average Fixed Cost (AFC). Thus, $ATC - AVC = AFC$.
Solution: The distance between the two curves represents AFC.

- As output increases, the constant TFC is divided by a larger and larger quantity (Q).
- Therefore, AFC ($\frac{TFC}{Q}$) falls continuously.
- Since the distance between ATC and AVC is equal to AFC, that distance must **decrease** as output increases.

The curves become asymptotic to each other but never meet.
Final Answer:

(B) Decreases as output increases

Answer: (B)

Q11.

Solution

Concept: A "Price Taker" is a firm that has no control over the price and must accept the price determined by the interaction of market demand and market supply.
Solution: The price-taking behavior is a result of the fundamental features of Perfect Competition:

- **Homogeneous Products:** Since products are perfect substitutes, firms cannot charge different prices.
- **Many Competitors:** The presence of numerous small firms ensures that no single firm can shift market supply enough to affect the price.
- **Elasticity:** The demand curve for an individual firm is perfectly elastic (horizontal) at the market price.

Options A and B describe Monopolistic Competition or Oligopolies, and Option D refers to price regulation rather than market structure.
Final Answer:

(C) It produces a homogeneous product with many competitors

Answer: (C)

Q12.

Solution

Concept: The Break-even point is the production level where Total Revenue equals Total Cost, resulting in zero economic profit.
Solution: We evaluate the conditions:

- **Option A ($TR > TC$):** Indicates Super-normal profits.
- **Option B ($TR = TVC$):** The firm is only covering variable costs; this is the total-term shut-down condition.
- **Option C ($AR = AC$):** Since $AR = P$ and AC represents total cost per unit, this signifies that the firm is exactly breaking even on every unit sold.
- **Option D ($P = AVC$):** This is the standard shut-down point.

Final Answer:

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

Answer: (C)

Q13.

Solution

Concept: A Price Ceiling is a government-imposed limit on how high a price can be charged for a product. It is usually intended to protect consumers by keeping essential goods affordable.
Solution: When a price ceiling is set below the equilibrium price:

- The low price encourages consumption, leading to a rise in Quantity Demanded.
- The low price discourages production, leading to a fall in Quantity Supplied.
- The gap ($Q_D - Q_S$) creates a market imbalance where demand exceeds supply.

This state of the market is called **Excess Demand** or a **Shortage**. Conversely, a price floor (minimum price) set above equilibrium would lead to Excess Supply.
Final Answer:

$$\boxed{\text{(B) Excess Demand (Shortage)}}$$

Answer: (B)

Q14.

Solution

Concept: The short-run supply curve of a competitive firm shows the relationship between price and quantity supplied, given that at least one factor of production is fixed.
Solution: The derivation of the supply curve involves two conditions:

- **Equilibrium:** The firm produces where $P = MC$ to maximize profit. This identifies the MC curve as the potential supply curve.
- **Short-run Constraint:** A firm will only produce if $P \geq AVC$. If $P < AVC$, the firm cannot even cover its operating expenses and will shut down ($Q = 0$).

Therefore, the supply curve is restricted to the **rising portion of the MC curve that lies above the minimum point of the AVC curve**. The portion above AC (Option C) would be the long-run supply curve.
Final Answer:

(A) The rising portion of the MC curve above AVC

Answer: (A)

Q15.

Solution

Concept: In the long run, the freedom of entry and exit in a perfectly competitive market ensures that all firms earn the same level of economic profit.
Solution: The long-run adjustment process ensures:

- **Entry of Firms:** Occurs when $P > AC$ (Abnormal Profit), shifting supply right and lowering price.
- **Exit of Firms:** Occurs when $P < AC$ (Losses), shifting supply left and raising price.

Long-run equilibrium is reached when $P = MC =$ Minimum AC. At this point, $P = AC$, meaning the firm earns exactly **Normal Profits**. This is the state where the firm covers all explicit and implicit costs (including the opportunity cost of the owner's time and capital).
Final Answer:

(B) Normal Profits only

Answer: (B)

Q16.

Solution

Concept: National Income includes only factor incomes earned by normal residents of a country for their productive services. It excludes non-factor payments and transactions that do not contribute to the current flow of goods and services.

Solution:

- **Option D:** Rent-free accommodation is a component of 'Compensation of Employees' (in-kind). As it is a reward for labor services contributed to the current production flow, it is included.
- **Others:** Transfer payments (A) are unearned income; Second-hand sales (B) represent production from previous years; Windfall gains (C) are not related to production.

Final Answer:

(D) Rent-free accommodation provided by the employer

Answer: (D)

Q17.

Solution

Concept: To measure true economic growth, economists must distinguish between an increase in output and an increase in prices.

Solution:

- **Real GDP** accounts for changes in the general price level (inflation) by using constant prices from a base year.
- This eliminates the "money illusion" created by rising prices. Therefore, any rise in Real GDP reflects a genuine increase in the volume of goods and services produced.
- **Nominal GDP** is calculated at current prices and can increase even if production remains stagnant or falls.

Final Answer:

(B) It accounts for changes in the general price level (Inflation)

Answer: (B)

Q18.

Solution

Concept: National Income is formally defined as Net National Product at Factor Cost (NNP_{FC}). We use basic accounting identities to convert Gross figures at Market Price to Net figures at Factor Cost.

Solution: The relationship is derived as follows:

- **Conversion 1:** $GNP_{FC} = GNP_{MP} -$ Net Indirect Taxes
- **Conversion 2:** $NNP_{FC} = GNP_{FC} -$ Depreciation

Combining these, we get:

$$NNP_{FC} = GNP_{MP} - \text{Net Indirect Taxes} - \text{Depreciation}$$

Option B correctly applies both the 'Market Price to Factor Cost' conversion and the 'Gross to Net' conversion to the National (GNP) figure.

Final Answer:

(B) GNP at MP - Net Indirect Taxes - Depreciation

Answer: (B)

Q19.

Solution

Concept: Double counting occurs when the value of intermediate goods is included in the estimation of national income more than once. The Value Added method is designed to isolate the actual contribution of each producer.

Solution: The formula for Value Added is:

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

By using this approach:

- We only consider the value that a firm adds to the raw materials it purchases.
- This prevents the value of inputs (like raw materials or fuel) from being counted in the production of both the intermediate stage and the final stage.

Therefore, the primary objective of this method is the elimination of **Double Counting**.

Final Answer:

(B) Double Counting

Answer: (B)

Q20.

Solution

Concept: The distinction between Domestic Product (GDP) and National Product (GNP) lies in the treatment of factor income earned across borders.

Solution: Based on the fundamental identity:

$$GNP = GDP + NFIA$$

If $NFIA$ is negative ($NFIA < 0$), then:

- $GNP = GDP - |NFIA|$
- This implies that the value of GDP must be greater than the value of GNP.

This typically occurs in countries where the factor income paid to foreign investors and workers exceeds the income earned by its own residents from foreign sources.

Final Answer:

$$\boxed{\text{(A) GDP > GNP}}$$

Answer: (A)

Q21.

Solution

Concept: The Money Multiplier (or Deposit Multiplier) measures the amount of money that the banking system generates with each unit of reserves. It is inversely related to the reserve requirements set by the Central Bank.

Solution: The commercial banks are required to keep a certain minimum fraction of their deposits as reserves, known as the Legal Reserve Ratio (LRR). The formula is:

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

Where $LRR = CRR + SLR$.

- If LRR is 10% (0.1), the multiplier is 10.
- If LRR is 20% (0.2), the multiplier is 5.

Options A and B are only components of the total ratio, and Option D is a descriptive ratio of bank health rather than a multiplier formula.

Final Answer:

$$\boxed{\text{(C) 1 / LRR (Legal Reserve Ratio)}}$$

Answer: (C)

Q22.

Solution

Concept: Open Market Operations (OMO) involve the buying and selling of government securities by the Central Bank to regulate the liquidity in the economy.
Solution: When the Central Bank **buys** securities:

- It injects liquidity into the banking system.
- Commercial banks' reserves increase, enhancing their credit-creating capacity.
- As banks lend more, the total volume of money in circulation rises.

Conversely, if the Central Bank *sells* securities, it withdraws cash from the system, causing the money supply to decrease.
Final Answer:

(B) Increases

Answer: (B)

Q23.

Solution

Concept: Monetary policy tools are divided into Quantitative (affecting the overall quantity of money) and Qualitative (affecting the direction and flow of credit to specific sectors).
Solution: We categorize the given options:

- **Bank Rate (A):** Quantitative tool.
- **Open Market Operations (B):** Quantitative tool.
- **Margin Requirements (C): Qualitative tool**. It regulates the "loan-to-value" ratio for specific types of credit, such as speculative lending.
- **Cash Reserve Ratio (D):** Quantitative tool.

Qualitative tools are selective in nature and are used to control the flow of credit to particular areas of the economy without affecting the total credit availability significantly.
Final Answer:

(C) Margin Requirements

Answer: (C)

Q24.

Solution

Concept: High Powered Money (H or M_0) is the total monetary base produced by the monetary authorities (Central Bank and Government). It is the ultimate source of liquidity in the economy.
Solution: High Powered Money consists of the following components:

- **C:** Currency (notes and coins) held by the public.
- **R:** Cash reserves of commercial banks (both vault cash and deposits with the Central Bank).

The formula is expressed as:

$$H = C + R$$

While demand deposits (Option B) are a part of the total money supply (M_1), they are not 'High Powered' because they are created by commercial banks using the base money (H). Options C is incomplete, and Option D refers to broader measures of money supply.
Final Answer:

(A) Currency held by public + Cash reserves of banks

Answer: (A)

Q25.

Solution

Concept: The Investment Multiplier (K) indicates the multiple by which income increases due to a unit increase in investment. It is determined by the Marginal Propensity to Consume (MPC).
Solution: The formula for the multiplier is:

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

Given that $MPC = 0.8$:

$$K = \frac{1}{1 - 0.8}$$

$$K = \frac{1}{0.2}$$

$$K = 5$$

Alternatively, since $1 - MPC = MPS$ (Marginal Propensity to Save), we can say $K = 1/0.2 = 5$. This signifies that the final increase in income will be five times the initial increase in investment.
Final Answer:

(C) 5

Answer: (C)

Q26.

Solution

Concept: In macroeconomic theory, especially in the Keynesian model, variables are categorized as 'Ex-ante' (planned) or 'Ex-post' (actual).

Solution:

- **Ex-ante variables** represent the desired or intended actions of economic agents before the actual transactions take place.
- **Ex-ante consumption** specifically refers to the amount that households **plan** to spend on goods and services at various income levels during a specific period.

In contrast, 'Ex-post' consumption (Option A) is the actual expenditure that is measured by national income accountants after the year has ended.

Final Answer:

(B) Planned consumption at different levels of income

Answer: (B)

Q27.

Solution

Concept: Deficient demand occurs when Aggregate Demand (AD) falls short of Aggregate Supply (AS) at the full employment level. The Central Bank uses monetary policy to increase the money supply and stimulate spending.

Solution: To boost demand, the Central Bank must make credit cheaper and more available:

- **Option C:** By decreasing the Reverse Repo Rate, the Central Bank discourages commercial banks from parking their surplus funds with it. This forces banks to lend more to the general public, increasing liquidity and demand.
- **Others:** Increasing Repo Rate (A), Selling Securities (B), and Increasing Margin Requirements (D) are all measures to *decrease* the money supply, which would worsen deficient demand.

Final Answer:

(C) Decrease Reverse Repo Rate

Answer: (C)

Q28.

Solution

Concept: In a two-sector economy (consisting of households and firms), equilibrium income is determined where the leakages from the circular flow equal the injections into it.
Solution: Equilibrium is established when:

$$AD = AS$$

In a two-sector model:

$$C + I = C + S$$

By subtracting Consumption (C) from both sides, we arrive at the injection-leakage identity:

$$S = I$$

Where S represents planned saving (leakage) and I represents planned investment (injection). Therefore, equilibrium is reached when the intentions of savers match the intentions of investors.
Final Answer:

$$\boxed{\text{(C) S = I}}$$

Answer: (C)

Q29.

Solution

Concept: The break-even point refers to the level of national income where the entire income is consumed, leaving no room for savings.
Solution: In the consumption function:

- At the break-even point, **Total Consumption (C) equals Total Income (Y)**.
- This implies that Savings (S) is zero, since $S = Y - C$.
- Graphically, this is the point where the Consumption curve intersects the 45° line (the income line).

Option A ($C = S$) only happens at a very specific point of intersection between two curves but is not the definition of breaking even. Option D ($MPC = 1$) would mean the consumption line is parallel to the 45° line.
Final Answer:

$$\boxed{\text{(B) C = Y}}$$

Answer: (B)

Q30.

Solution

Concept: Government receipts are classified as Capital Receipts if they either create a liability or cause a reduction in the assets of the government.
Solution: Disinvestment involves the sale of equity or shares of public sector enterprises to the private sector.

- Since the government is selling its ownership/assets, this transaction leads to a **reduction in assets**.
- Therefore, the proceeds from disinvestment are treated as a **Capital Receipt**.

In contrast, Revenue Receipts (Option A) include items like tax and non-tax revenue which do not affect the asset-liability status of the government.
Final Answer:

(B) Capital Receipt

Answer: (B)

Q31.

Solution

Concept: Fiscal Deficit is the excess of total estimated expenditure over total estimated receipts, excluding borrowings, during a financial year.
Solution: The formal definition of Fiscal Deficit is:

$$\text{Fiscal Deficit} = \text{Total Expenditure} - (\text{Revenue Receipts} + \text{Non-debt Capital Receipts})$$

Where:

- **Total Expenditure** includes both Revenue and Capital expenditure.
- **Non-debt Capital Receipts** primarily include recovery of loans and disinvestment proceeds.

Essentially, the fiscal deficit represents the total borrowing requirements of the government from all sources. Option C defines the Revenue Deficit.
Final Answer:

(B) Total Expenditure - (Revenue Receipts + Non-debt Capital Receipts)

Answer: (B)

Q32.

Solution

Concept: Revenue Expenditure refers to expenditure that neither creates an asset for the government nor causes a reduction in its liabilities.
Solution: Interest payments are a recurring, regular obligation of the government:

- They do not result in the creation of any physical or financial assets.
- They do not reduce the original liability (the principal amount of the loan).
- Consequently, they are classified as **Revenue Expenditure**.

Repayment of the loan itself would be considered Capital Expenditure, as it reduces the government's total liability.
Final Answer:

(B) Revenue Expenditure

Answer: (B)

Q33.

Solution

Concept: The Primary Deficit measures the government's borrowing requirements to meet its current expenditures, excluding the burden of interest accumulated on past borrowings.
Solution: The relationship between the various types of deficits is defined as:

- **Fiscal Deficit:** Total borrowing requirements of the government.
- **Interest Payments:** A legacy expenditure resulting from past debts.

The formula for Primary Deficit is:

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

This helps economists understand how much of the current year's fiscal imbalance is due to current policy decisions rather than historical debt obligations.
Final Answer:

(B) Fiscal Deficit - Interest Payments

Answer: (B)

Q34.

Solution

Concept: The Current Account of the Balance of Payments records the flow of goods, services, and transfers between residents of a country and the rest of the world.
Solution: The components of the Current Account are:

- **Trade in Goods:** Exports and imports of physical items (Balance of Trade).
- **Trade in Services (Invisibles):** Shipping, banking, and intellectual property fees.
- **Transfer Payments:** Gifts, remittances, and grants.

Options A, B, and D are part of the **Capital Account** as they represent financial flows that change the international asset-liability position of the country.
Final Answer:

(C) Export and Import of services (Invisibles)

Answer: (C)

Q35.

Solution

Concept: Managed Floating is a hybrid exchange rate system that combines elements of both fixed and flexible exchange rate regimes.
Solution: In a Managed Floating system:

- The value of the currency is allowed to fluctuate daily based on **market demand and supply**.
- However, the **Central Bank intervenes** in the foreign exchange market to buy or sell foreign currency to "smooth out" volatility or keep the rate within a desired range.

Option D refers to the Gold Standard, which was a historical fixed exchange rate system.
Final Answer:

(C) The rate is determined by market forces but intervened by the Central Bank

Answer: (C)

Q36.

Solution

Concept: The Second Five Year Plan was based on the Mahalanobis model, which emphasized a "top-down" approach to industrialization.
Solution: The plan shifted the focus from the agricultural sector to the industrial sector.

- Its primary goal was **Rapid Industrialization** with a specific focus on **Heavy and Basic Industries**.
- It aimed to create a capital goods sector that would eventually support the production of consumer goods and reduce reliance on imports.

Agricultural growth (Option A) was the focus of the First Plan, while poverty alleviation (Option C) became a central slogan ("Garibi Hatao") during the Fifth Plan.
Final Answer:

(B) Development of heavy industries

Answer: (B)

Q37.

Solution

Concept: The Green Revolution refers to a large increase in food grain production resulting from the introduction of modern farming methods and technology.
Solution: The technological package of the Green Revolution (HYV seeds, irrigation, and fertilizers) was tailor-made for specific cereals:

- **Wheat:** Experienced the most spectacular growth, often termed the "Wheat Revolution."
- **Rice:** Followed closely as the second major crop to benefit from HYV technology.

Crops like pulses, oilseeds, and cash crops (Cotton/Jute) did not see similar technological breakthroughs until much later.
Final Answer:

(A) Rice and Wheat

Answer: (A)

Q38.

Solution

Concept: The Industrial Policy Resolution of 1956 was a landmark policy that defined the role of the public and private sectors in Indian industry for decades.
Solution: The IPR 1956 was designed to support the heavy-industry focus of the **Second Five Year Plan**.

- It reserved 17 industries exclusively for the public sector (Schedule A).
- It introduced the 'Licensing System' to regulate the private sector and promote regional equality.

The resolution was the primary policy instrument used to achieve the industrial targets set in the Second Plan period (1956–1961).
Final Answer:

(B) Second Five Year Plan

Answer: (B)

Q39.

Solution

Concept: The New Economic Policy (NEP) was launched in July 1991 to address the economic crisis and initiate structural reforms in the Indian economy.
Solution: The LPG reforms were the core strategies of the **New Economic Policy**.

- While a 'New Industrial Policy' was a major part of this package, the term 'New Economic Policy' is the broader, more accurate classification that encompasses all the fiscal, monetary, and trade changes made during that time.

Final Answer:

(C) New Economic Policy

Answer: (C)

Q40.

Solution

Concept: Devaluation is an official reduction in the value of the domestic currency under a fixed or semi-fixed exchange rate system, intended to correct a balance of payments deficit.
Solution: By devaluing the Rupee in 1991:

- Indian goods became cheaper in the international market, which acted as an incentive for **Increasing Exports**.
- This increased demand for Indian goods abroad helps earn foreign exchange.
- Simultaneously, it discourages imports by making them more expensive, thus narrowing the trade gap.

Final Answer:

(B) Increasing Exports

Answer: (B)

Q41.

Solution

Concept: Human Capital Formation is the process of acquiring and increasing the number of persons who have the skills, education, and experience which are critical for the economic and political development of a country.
Solution: The quality of the labor force depends on specific investments:

- **Education:** Enhances productivity and earning capacity.
- **Health:** Increases the quality and longevity of life and labor supply.

While physical capital (Option A and C) is necessary for production, it refers to non-human assets. Money supply (Option D) is a monetary phenomenon and does not directly build the skill-base of a population.
Final Answer:

(B) Expenditure on health and education

Answer: (B)

Q42.

Solution

Concept: NABARD (National Bank for Agriculture and Rural Development) is India's specialized bank for agriculture and rural development.
Solution: Established on July 12, 1982, NABARD was created to:

- Provide credit for the promotion of **agriculture, small-scale industries, cottage and village industries**, and handicrafts.
- Serve as an apex financing agency for the institutions providing investment and production credit in rural areas.

It essentially serves as the backbone of the rural financial architecture in India.
Final Answer:

(B) Rural and Agricultural credit

Answer: (B)

Q43.

Solution

Concept: Sustainable development is the organizing principle for meeting human development goals while simultaneously sustaining the ability of natural systems to provide the resources and ecosystem services upon which the economy and society depend.
Solution: The core philosophy of sustainable development is based on:

- **Environmental Conservation:** Preserving the ecological base.
- **Equity:** Ensuring that the growth of the current generation does not leave the next generation with a depleted resource base or a damaged planet.

This definition was formally popularized in the 1987 report 'Our Common Future'.
Final Answer:

(B) Meeting needs of the present without compromising future generations

Answer: (B)

Q44.

Solution

Concept: The Worker-Population Ratio (WPR) is a measure used to assess the extent of participation of people in the economic activities of a country.

Solution: The ratio is defined as:

$$WPR = \frac{\text{Total Number of Workers}}{\text{Total Population}} \times 100$$

- It helps in identifying the status of the economy by showing how much of the population is employed.
- It is a more specific indicator than the general population growth rate (Option C) or health standards (Option D).
- While it can be linked to poverty (Option A), its direct purpose is to map the **employment situation**.

Final Answer:

(B) Employment situation in the country

Answer: (B)

Q45.

Solution

Concept: Organic farming is a sustainable social-ecological production system that promotes and enhances agro-ecosystem health.

Solution: The benefits of organic farming include:

- **Sustainability:** It maintains the long-term fertility of the soil by using organic wastes and beneficial microbes.
- **Environmental Protection:** It reduces pollution by eliminating the use of synthetic pesticides and fertilizers.
- **Health:** It provides safer, chemical-free food for consumers.

Since it works in harmony with nature rather than against it, its primary benefit is being **eco-friendly and maintaining soil health**.

Final Answer:

(B) It is eco-friendly and maintains soil health

Answer: (B)

Q46.

Solution

Concept: The Great Leap Forward (GLF) was a specific industrialization policy initiated by the Communist Party of China to modernize the economy.
Solution: Initiated in 1958, the GLF aimed at industrializing the country by utilizing the massive population:

- It shifted people from agriculture to industrial production.
- It introduced the 'Commune System' where rural people collectively owned and farmed land.

This policy is a cornerstone of Chinese economic history and is not associated with the development paths of India or Pakistan.
Final Answer:

(C) China

Answer: (C)

Q47.

Solution

Concept: Population density is a measurement of population per unit area. It is calculated by dividing total population by total land area.
Solution: Comparing the three nations:

- **India:** Has the highest density due to a large population living on a significantly smaller land mass than China.
- **China:** Has a lower density because, despite its large population, it has the third-largest land area in the world.
- **Pakistan:** Has a lower density than India but higher than many western nations.

Current data consistently shows India leading this group in terms of persons per square kilometer.
Final Answer:

(B) India

Answer: (B)

Q48.

Solution

Concept: SEZs are specific regions where trade and business laws are different from the rest of the country to encourage export-oriented production.
Solution: China introduced SEZs in the early 1980s as part of its 'Open Door Policy' under Deng Xiaoping:

- The success of zones like Shenzhen transformed China into the "world's factory."
- India and other neighboring countries adopted this model much later after witnessing its impact on Chinese exports and FDI.

Final Answer:

(B) China

Answer: (B)

Q49.

Solution

Concept: The HDI (Human Development Index) provides a broader measure of a nation's development than GDP alone by focusing on people and their capabilities.
Solution: Based on global reports (such as the UNDP Human Development Reports):

- **China** leads the group significantly, having transitioned into the high development category.
- **India** holds the middle position among the three.
- **Pakistan** typically ranks below both India and China.

This ranking reflects the differences in investment in social infrastructure and economic growth rates among the three nations over the last few decades.
Final Answer:

(B) China > India > Pakistan

Answer: (B)

Q50.

Solution

Concept: Population policy refers to the measures taken by a government to influence the size, growth, distribution, or composition of its population.

Solution:

- **Country:** China.
- **Year:** 1979.
- **Purpose:** To tackle the "population explosion" and ensure that the fruits of economic reform were not diluted by overpopulation.

India was the first country in the world to launch a family planning program (1951), but it never officially adopted a mandatory one-child policy like China did in 1979.

Final Answer:

(B) China in 1979

Answer: (B)

Answer Key

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