CUET-UG Economics Sample Paper-5

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. A point lying inside the Production Possibility Frontier (PPF) indicates:

(A) Full employment of resources

(B) Unattainable combination of output

(C) Under-utilization or inefficient use of resources

(D) Economic growth

Q2. When the price of a substitute good increases, the demand for the given good:

(A) Decreases, shifting the demand curve to the left

(B) Increases, shifting the demand curve to the right

(C) Remains constant

(D) Leads to a movement along the demand curve

Q3. At the point of Consumer Equilibrium using Indifference Curve analysis, the slope of the Indifference Curve (MRS) is:

(A) Greater than the price ratio (P_x/P_y)

(B) Less than the price ratio (P_x/P_y)

(C) Equal to the price ratio (P_x/P_y)

(D) Zero

Q4. If the price elasticity of demand is 0.5 and the price of the commodity increases by 10%, the quantity demanded will:

(A) Increase by 5%

(B) Decrease by 5%

(C) Decrease by 20%

(D) Increase by 50%

Q5. Which of the following is a "Central Problem" of an economy related to the distribution of income?

(A) What to produce

(B) How to produce

(C) For whom to produce

(D) Where to produce

Q6. According to the Law of Variable Proportions, when Marginal Product (MP) is zero, Total Product (TP) is:

(A) Increasing at an increasing rate

(B) Decreasing

(C) At its maximum point

(D) Equal to Average Product

Q7. The Average Fixed Cost (AFC) curve:

(A) Is a horizontal straight line

(B) Is a rectangular hyperbola

(C) Increases as output increases

(D) Is U-shaped

Q8. In the short run, if a firm produces zero output, its Total Cost will be:

(A) Zero

(B) Equal to Variable Cost

(C) Equal to Fixed Cost

(D) Infinite

Q9. When Marginal Revenue (MR) is positive, Total Revenue (TR) is:

(A) Decreasing

(B) Constant

(C) Increasing

(D) Zero

Q10. A firm's "Break-even Point" occurs when:

(A) $TR = TC$ or $P = AC$

(B) $TR > TC$

(C) $P = AVC$

(D) $MR = MC$

Q11. Under Perfect Competition, the demand curve faced by an individual firm is:

(A) Perfectly Inelastic

(B) Downward sloping

(C) Perfectly Elastic

(D) Rectangular hyperbola

Q12. The supply curve of a firm in the short run is the:

(A) Rising part of the MC curve above the minimum AVC

(B) Rising part of the AC curve

(C) Falling part of the MC curve

(D) Horizontal line at the market price

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

(A) Excess supply

(B) Excess demand (Shortage)

(C) Market clearance

(D) Increase in producer surplus

Q14. "Price Floor" is generally imposed on:

(A) Luxury cars

(B) Essential food grains to protect consumers

(C) Agricultural goods to protect farmers' income

(D) Imported electronics

Q15. Market Equilibrium is reached when:

(A) Marginal utility equals price

(B) Quantity demanded equals quantity supplied

(C) Total revenue is maximized

(D) Government intervenes

Q16. In a circular flow of income (two-sector model), "Injections" include:

(A) Savings

(B) Taxes

(C) Investment

(D) Imports

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

(A) It includes the impact of inflation

(B) It is calculated at current prices

(C) It is calculated at constant prices, showing the change in physical output

(D) It excludes services

Q18. Which of the following is NOT included in the estimation of National Income?

(A) Corporate Tax

(B) Old Age Pension

(C) Undistributed Profits

(D) Compensation of Employees

Q19. If GDP_{MP} is 1000, Consumption of Fixed Capital is 100, and Net Indirect Taxes are 150, then GDP_{FC} is:

(A) 850

(B) 900

(C) 1150

(D) 750

Q20. Net Factor Income from Abroad (NFIA) is the difference between:

(A) Exports and Imports

(B) Factor income received from abroad and factor income paid to abroad

(C) Market price and Factor cost

(D) Gross and Net values

Q21. The value of the Money Multiplier is determined by:

(A) $1/MPC$

(B) $1/LRR$ (Legal Reserve Ratio)

(C) $1/MPS$

(D) $1/(1 - MPC)$

Q22. Which of the following is a quantitative tool of the Central Bank to control credit?

(A) Margin Requirements

(B) Moral Suasion

(C) Open Market Operations

(D) Rationing of Credit

Q23. Currency notes and coins held by the public are also known as:

(A) Near money

(B) Fiat money

(C) Term deposits

(D) Credit money

Q24. During inflation, the Central Bank is likely to:

(A) Decrease the Bank Rate

(B) Purchase securities in the open market

(C) Increase the Cash Reserve Ratio (CRR)

(D) Decrease the Repo Rate

Q25. If $MPC = 0.8$, the value of the Investment Multiplier (k) is:

(A) 1.25

(B) 4

(C) 5

(D) 8

Q26. Aggregate Demand in a two-sector model is composed of:

(A) $C + S$

(B) $C + I$

(C) $C + G$

(D) $X - M$

Q27. At the "Breakeven point" of the consumption function:

(A) Consumption is zero

(B) Savings are equal to Investment

(C) Consumption is equal to Income ($C = Y$)

(D) $APC = 0$

Q28. "Deficient Demand" leads to:

(A) Inflationary Gap

(B) Full employment equilibrium

(C) Deflationary Gap and involuntary unemployment

(D) Excess supply of money

Q29. The Marginal Propensity to Save (MPS) is defined as:

(A) S/Y

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

(C) $1 + MPC$

(D) C/Y

Q30. Which of the following is a "Capital Receipt" for the Government Budget?

(A) Income Tax

(B) Interest receipts

(C) Recovery of loans

(D) Dividends from PSUs

Q31. Revenue Deficit is calculated as:

(A) Total Expenditure – Total Receipts

(B) Revenue Expenditure – Revenue Receipts

(C) Capital Expenditure – Capital Receipts

(D) Fiscal Deficit – Interest Payments

Q32. A "Proportional Income Tax" acts as an automatic stabilizer because it:

(A) Increases during recession

(B) Remains constant regardless of income

(C) Increases as income increases, dampening demand

(D) Is used to fund infrastructure

Q33. The "Primary Deficit" is zero when:

(A) Fiscal Deficit is zero

(B) Interest payments are equal to Fiscal Deficit

(C) Revenue deficit is zero

(D) The budget is balanced

Q34. Autonomous items in the Balance of Payments (BOP) are those which:

(A) Are determined by the gap in BOP

(B) Are undertaken for profit considerations

(C) Are handled only by the Central Bank

(D) Only include service exports

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) Gold is used as a standard

Q36. On the eve of independence, the occupational structure of India was dominated by:

(A) Service Sector

(B) Manufacturing Sector

(C) Agricultural Sector

(D) Mining

Q37. The main objective of the "First Five Year Plan" (1951-56) was:

(A) Rapid Industrialization

(B) Development of Agriculture

(C) Self-reliance in technology

(D) Poverty alleviation

Q38. The "Green Revolution" was primarily successful in which crops?

(A) Cotton and Jute

(B) Wheat and Rice

(C) Tea and Coffee

(D) Oilseeds

Q39. The "Industrial Policy Resolution (IPR) 1956" formed the basis of the:

(A) First Five Year Plan

(B) Second Five Year Plan

(C) Fourth Five Year Plan

(D) Sixth Five Year Plan

Q40. "Import Substitution" strategy aims at:

(A) Increasing exports

(B) Replacing imports with domestic production

(C) Reducing custom duties

(D) Encouraging Foreign Direct Investment

Q41. The New Economic Policy (1991) was initiated in response to:

(A) High agricultural productivity

(B) Fiscal crisis and Balance of Payment crisis

(C) Surplus foreign exchange reserves

(D) Low inflation

Q42. Which of the following is a part of "Libralisation" in the 1991 reforms?

(A) Disinvestment of PSUs

(B) Abolition of industrial licensing for most industries

(C) Increase in import tariffs

(D) Fixing the exchange rate

Q43. Privatisation of PSUs through selling a part of the equity to the public is known as:

(A) Disinvestment

(B) Globalisation

(C) Outsourcing

(D) Nationalisation

Q44. Which of the following is a source of "Human Capital Formation"?

(A) Investment in physical machinery

(B) Expenditure on health and education

(C) Building more dams

(D) Buying foreign stocks

Q45. The "Self-Employed" constitute a majority of the workforce in India. This is an example of:

(A) Formal sector employment

(B) Informal sector employment

(C) Urbanization

(D) Jobless growth

Q46. "Casualisation of workforce" refers to:

(A) Increase in regular salaried workers

(B) Increase in the share of casual wage labourers in the total workforce

(C) People leaving work to study

(D) Growth of the IT sector

Q47. The "Great Leap Forward" (GLF) campaign was initiated in:

(A) India

(B) Pakistan

(C) China

(D) Bangladesh

Q48. Which country has the highest density of population among India, China, and Pakistan?

(A) China

(B) India

(C) Pakistan

(D) Both India and China are equal

Q49. "Sustainable Development" is development that meets the needs of the present without:

(A) Using any natural resources

(B) Compromising the ability of future generations to meet their own needs

(C) Using foreign capital

(D) Increasing industrial output

Q50. The "NABARD" was set up in 1982 to promote:

(A) Heavy Industries

(B) Urban housing

(C) Rural and Agricultural Credit

(D) Foreign Trade

Detailed Solutions

Q1.

Solution

Concept: The Production Possibility Frontier (PPF) is a graphical representation of the maximum possible output combinations of two goods that an economy can produce given its available resources and technology. It illustrates the concepts of scarcity, choice, and efficiency. Points on the curve represent productive efficiency, while points off the curve indicate either impossibility or inefficiency.

Solution: The position of a point relative to the PPF determines the status of resource utilization:

- **On the curve:** Represents the full and efficient employment of all available resources.
- **Outside the curve:** Represents a combination of goods that is currently unattainable with existing resources and technology.
- **Inside the curve:** Indicates that the economy is not producing as much as it could. This is due to resources being idle (unemployment) or used inefficiently (poor management/technology).

Therefore, any point inside the frontier signifies that the economy is under-utilizing its potential.

Final Answer: Under-utilization or inefficient use of resources

Answer: (C)

Q2.

Solution

Concept: Substitute goods are pairs of goods that satisfy similar needs or wants (e.g., tea and coffee). The demand for a good is influenced by the price of its substitutes. This relationship is characterized by a positive cross-price elasticity of demand, meaning the price of one good and the demand for its substitute move in the same direction.

Solution: When the price of a substitute good (e.g., Coffee) increases:

- Consumers find the substitute good relatively more expensive and the given good (e.g., Tea) relatively cheaper.
- Consumers switch their consumption from the more expensive substitute to the given good.
- This results in an increase in the quantity demanded of the given good at every price level.
- An increase in demand for the given good is represented by a rightward shift of its demand curve.

A movement along the curve only occurs when the price of the given good itself changes; changes in external factors like substitute prices always cause a shift.

Final Answer: Increases, shifting the demand curve to the right

Answer: (B)

Q3.

Solution

Concept: In Indifference Curve (IC) analysis, **Consumer Equilibrium** is the point where a consumer maximizes utility given their budget constraint. Geometrically, this occurs at the point of tangency between the highest possible Indifference Curve and the budget line. At this point, the slope of the Indifference Curve, known as the **Marginal Rate of Substitution (MRS)**, is exactly equal to the slope of the budget line, which is the **Price Ratio** (P_x/P_y).
Solution: The conditions for equilibrium are:

- $MRS_{xy} = \frac{P_x}{P_y}$ (Slope of IC = Slope of Budget Line)
- The Indifference Curve must be convex to the origin at the point of equilibrium.

If $MRS > P_x/P_y$, the consumer can increase utility by consuming more of good X. If $MRS < P_x/P_y$, the consumer should consume more of good Y. Therefore, equilibrium is only maintained when they are perfectly equal.
Final Answer: Equal to the price ratio (P_x/P_y)

Answer: (C)

Q4.

Solution

Concept: Price Elasticity of Demand (E_d) measures the responsiveness of the quantity demanded of a good to a change in its price. The formula is:

$$E_d = \frac{\%\text{ Change in Quantity Demanded}}{\%\text{ Change in Price}}$$

According to the **Law of Demand**, price and quantity demanded have an inverse relationship; hence, an increase in price leads to a decrease in quantity demanded.
Solution: Given:

- Price Elasticity of Demand (E_d) = 0.5
- % Change in Price = +10%

1. Rearrange the formula to solve for the percentage change in quantity:

$$\%\Delta \text{ Quantity} = E_d \times \%\Delta \text{ Price}$$

2. Substitute the values:

$$\%\Delta \text{ Quantity} = 0.5 \times 10\% = 5\%$$

3. Determine the direction: Since the price **increased**, the quantity demanded must **decrease** due to the inverse relationship defined by the Law of Demand.
Final Answer: Decrease by 5%

Answer: (B)

Q5.

Solution

Concept: Every economy faces three fundamental "Central Problems" due to the scarcity of resources: **What to produce** (allocation of resources among different goods), **How to produce** (choice of technique—labor vs. capital intensive), and **For whom to produce** (distribution of the final goods and services among the members of society).

Solution: The problem of **"For whom to produce"** is directly concerned with the distribution of national income. It addresses how the total output should be shared among the factors of production (land, labor, capital, and enterprise) and, consequently, among individuals. This involves deciding whether the distribution should be based on need or on the ability to pay, which ultimately determines the standard of living for different sections of the population.

Final Answer: For whom to produce

Answer: (C)

Q6.

Solution

Concept: The **Law of Variable Proportions** explains the relationship between inputs and output in the short run. It describes three stages of production based on how the Total Product (TP), Marginal Product (MP), and Average Product (AP) change as more units of a variable factor are added to a fixed factor.

Solution: The relationship between TP and MP is critical:

- When MP is positive and increasing, TP increases at an increasing rate.
- When MP starts decreasing but remains positive, TP increases at a decreasing rate.
- **When MP reaches zero**, the addition of one more unit of the variable factor contributes nothing to the total output. At this exact point, **Total Product (TP) reaches its maximum level**.
- When MP becomes negative, TP begins to decline.

Think of it like adding salt to a dish: initially, it makes the dish better (TP rises); eventually, a pinch adds nothing to the flavor (MP is zero, TP is at its peak); add more, and you ruin the meal (MP becomes negative, TP falls).

Final Answer: At its maximum point

Answer: (C)

Q7.

Solution

Concept: Average Fixed Cost (AFC) is the fixed cost per unit of output produced. It is calculated as $AFC = TFC/Q$, where TFC is Total Fixed Cost and Q is the quantity of output. Since TFC remains constant regardless of the level of output, AFC must decrease continuously as output increases.

Solution: The AFC curve has two unique characteristics:

- It slopes downward from left to right, showing that fixed costs are spread over more units as production increases.
- It never touches the horizontal axis (because TFC is never zero) or the vertical axis (because division by zero is undefined).

In mathematics, a curve where the product of the two variables ($AFC \times Q$) is constant (TFC) is known as a **Rectangular Hyperbola**.

Final Answer: Is a rectangular hyperbola

Answer: (B)

Q8.

Solution

Concept: In the short run, Total Cost (TC) is the sum of Total Fixed Cost (TFC) and Total Variable Cost (TVC):

$$TC = TFC + TVC$$

Fixed costs are those that do not change with output (e.g., rent, insurance), while variable costs change directly with the level of production (e.g., raw materials, labor).

Solution: 1. When output (Q) is zero, no variable inputs are used, so **Total Variable Cost (TVC) is zero**. 2. However, **Total Fixed Cost (TFC)** must be paid regardless of whether production happens or not. 3. Therefore, at $Q = 0$:

$$TC = TFC + 0 = TFC$$

Even if a factory produces nothing for a month, it still has to pay its rent.

Final Answer: Equal to Fixed Cost

Answer: (C)

Q9.

Solution

Concept: The relationship between Total Revenue (TR) and Marginal Revenue (MR) is a fundamental principle in microeconomics. Marginal Revenue is the change in Total Revenue resulting from the sale of one additional unit of output ($MR = \Delta TR/\Delta Q$). Mathematically, MR is the slope of the TR curve.

Solution: The behavior of Total Revenue is directly dictated by the sign of Marginal Revenue:

- **When MR is positive ($MR > 0$):** Each additional unit sold adds to the total, so **TR is increasing**.
- **When MR is zero ($MR = 0$):** The last unit sold added nothing to the total; this is the point where **TR is at its maximum**.
- **When MR is negative ($MR < 0$):** Selling an additional unit actually reduces the total (due to price effects), so **TR is decreasing**.

Final Answer: Increasing

Answer: (C)

Q10.

Solution

Concept: The **Break-even Point** is the level of production or sales at which a firm covers all its costs, resulting in zero economic profit. At this point, the firm is neither making a profit nor incurring a loss.

Solution: The break-even condition can be expressed in two equivalent ways:

- **Total approach:** Total Revenue equals Total Cost ($TR = TC$).
- **Per-unit approach:** Since $TR = P \times Q$ and $TC = AC \times Q$, dividing the total approach by Q gives $P = AC$.

Note the difference from the "Shutdown Point," which occurs when price only covers variable costs ($P = AVC$). At the break-even point, the firm covers *all* costs, including fixed ones.

Final Answer: $TR = TC$ or $P = AC$

Answer: (A)

Q11.

Solution

Concept: In a **Perfectly Competitive** market, there are so many buyers and sellers that no single firm can influence the market price. The firm is a "price taker," meaning it can sell any amount of output at the prevailing market price determined by industry demand and supply.

Solution: Because the firm can sell as much as it wants at the constant market price (P), the demand curve for the individual firm is a horizontal straight line. In economic terms, this means that the price elasticity of demand is infinite (∞), or **Perfectly Elastic**. At this price, $P = AR = MR$. If the firm raises its price even slightly, consumers will switch to identical products from competitors, and quantity demanded will drop to zero.

Final Answer: Perfectly Elastic

Answer: (C)

Q12.

Solution

Concept: A firm's supply curve shows the relationship between the market price and the quantity of output the firm is willing to produce. To maximize profit, a firm produces where $P = MC$. However, in the short run, a firm will only produce if the price is at least high enough to cover its variable costs.

Solution: 1. The firm maximizes profit by following the $MR = MC$ rule. Since $P = MR$ in competition, it produces where $P = MC$. 2. If the price falls below the minimum Average Variable Cost (AVC), the firm is better off shutting down to minimize losses (only losing fixed costs). 3. Therefore, the firm's short-run supply curve is the **rising part of the Marginal Cost (MC) curve** that lies **above the minimum point of the AVC curve**.

The part of the MC curve below the minimum AVC is irrelevant for supply because the firm would produce zero units in that range.

Final Answer: Rising part of the MC curve above the minimum AVC

Answer: (A)

Q13.

Solution

Concept: A **Price Ceiling** is a government-imposed maximum price that can be charged for a product. To be effective (binding), it must be set below the market equilibrium price. While intended to help consumers by keeping prices low, it prevents the market from reaching a natural balance.

Solution: When a price ceiling is set below the equilibrium:

- **Quantity Demanded increases:** Lower prices encourage more consumers to buy the good.
- **Quantity Supplied decreases:** Lower prices discourage producers from supplying the good as it becomes less profitable.
- **Result:** Since the quantity demanded exceeds the quantity supplied, a persistent **shortage** or **excess demand** occurs. This often leads to black marketing or rationing.

Final Answer: Excess demand (Shortage)

Answer: (B)

Q14.

Solution

Concept: A **Price Floor** is a government-imposed minimum price that must be paid for a good or service. To be binding, it must be set above the equilibrium price. It is typically designed to ensure that producers receive a "fair" price that covers their costs of production.

Solution: 1. **Purpose:** Price floors are used to protect the income of producers who might otherwise suffer from low market prices due to fluctuations in supply. 2. **Application:** The most common examples are **Agricultural Goods** (often called Minimum Support Prices or MSP) to protect farmers from losses during bumper harvests, and the Minimum Wage to protect workers. 3. **Distinction:** While a price ceiling (like rent control) aims to protect consumers, a price floor is specifically targeted at protecting the **suppliers/producers**.

Final Answer: Agricultural goods to protect farmers' income

Answer: (C)

Q15.

Solution

Concept: Market Equilibrium is a state in a market where opposing forces of demand and supply are balanced. At this point, the plans of buyers coincide exactly with the plans of sellers. The price at which this occurs is called the "equilibrium price," and the amount is the "equilibrium quantity."
Solution: 1. **Quantity Demanded (Q_d):** The amount of a good consumers are willing and able to buy at a specific price. 2. **Quantity Supplied (Q_s):** The amount of a good producers are willing and able to sell at a specific price. 3. When $Q_d = Q_s$, there is no naturally occurring pressure for the price to change.

- If $Q_d > Q_s$, a shortage exists, pushing prices up.
- If $Q_s > Q_d$, a surplus exists, pushing prices down.

Equilibrium is only reached when these two quantities are perfectly equal, clearing the market.
Final Answer: Quantity demanded equals quantity supplied

Answer: (B)

Q16.

Solution

Concept: The **Circular Flow of Income** describes how money moves through different sectors of the economy. In a two-sector model (Households and Firms), the flow is maintained by spending. However, the flow can change size due to:

- **Leakages (Withdrawals):** Money that leaves the circular flow (Savings, Taxes, Imports).
- **Injections:** Money that enters the circular flow from outside the basic household-firm relationship.

Solution: In the context of the circular flow:

- **Investment (I):** When firms spend on capital goods, it injects new money into the flow.
- **Government Spending (G):** (In a three-sector model) acts as an injection.
- **Exports (X):** (In a four-sector model) acts as an injection.

Savings, Taxes, and Imports are all considered "leakages" because they divert income away from the immediate purchase of domestically produced goods.
Final Answer: Investment

Answer: (C)

Q17.

Solution

Concept: GDP (Gross Domestic Product) measures the total value of goods and services produced within a country.

- **Nominal GDP:** Measured at **current market prices**. It can increase simply because prices went up (inflation), even if production stayed the same.
- **Real GDP:** Measured at **constant prices** (base year prices). It removes the effect of price changes to show the true volume of production.

Solution: Real GDP is the preferred indicator for economic growth because:

- It isolates the change in the **physical quantity** of output.
- If Real GDP increases, it means the economy is actually producing more goods and services, which implies a higher standard of living.
- Nominal GDP can be misleading; for example, if prices double but production is halved, Nominal GDP remains the same, but the economy has actually shrunk.

Final Answer: It is calculated at constant prices, showing the change in physical output

Answer: (C)

Q18.

Solution

Concept: National Income (often referred to as NNP_{FC}) only includes **Factor Payments**, which are payments made in exchange for productive services (land, labor, capital, and entrepreneurship). It excludes **Transfer Payments**, which are one-sided payments made without any corresponding exchange of goods or services.
Solution: Let's analyze the components:

- **Compensation of Employees:** Factor payment for labor (Included).
- **Corporate Tax & Undistributed Profits:** These are parts of "Operating Surplus" or corporate profits earned through entrepreneurship (Included).
- **Old Age Pension:** This is a **Transfer Payment**. The government provides this as social security, not because the recipient provided a productive service in the current accounting year. Note: "Retirement Pensions" are included as they are deferred labor costs, but "Old Age Pensions" are gifts/welfare and are excluded.

Final Answer: Old Age Pension

Answer: (B)

Q19.

Solution

Concept: To convert a National Income aggregate from **Market Price** (MP) to **Factor Cost** (FC), we must remove the impact of government intervention in the form of taxes and subsidies. The relationship is defined as:

$$\text{Value at } FC = \text{Value at } MP - \text{Net Indirect Taxes (NIT)}$$

Where NIT = Indirect Taxes − Subsidies.
Solution: Given:

- GDP_{MP} = 1000
- Consumption of Fixed Capital (Depreciation) = 100
- Net Indirect Taxes (NIT) = 150

1. Formula: $GDP_{FC} = GDP_{MP} - NIT$ 2. Calculation: $GDP_{FC} = 1000 - 150 = 850$ *Note: "Consumption of Fixed Capital" is used to convert Gross values to Net values (e.g., GDP to NDP), but since the question asks for GDP_{FC} (still Gross), this value is an irrelevant distractor for this specific calculation.*
Final Answer: 850

Answer: (A)

Q20.

Solution

Concept: Net Factor Income from Abroad (NFIA) is the key variable used to transition between Domestic product and National product. It accounts for the income earned by normal residents of a country from the rest of the world, minus the income earned by non-residents within the domestic territory.
Solution: The formula for NFIA is:

$$\text{NFIA} = \text{Factor Income Received from Abroad} - \text{Factor Income Paid to Abroad}$$

- If NFIA is positive, National Income > Domestic Income.
- If NFIA is negative, National Income < Domestic Income.

Note the distinctions: (A) refers to Net Exports ($X - M$), (C) refers to Net Indirect Taxes, and (D) refers to Depreciation.
Final Answer: Factor income received from abroad and factor income paid to abroad

Answer: (B)

Q21.

Solution

Concept: The **Money Multiplier** (or Credit Multiplier) measures the maximum amount of money the banking system generates with each dollar of excess reserves. It is inversely related to the **Legal Reserve Ratio (LRR)**, which is the minimum fraction of deposits that banks are required by the central bank to keep as reserves.

Solution: The formula for the Money Multiplier (K_m) is:

$$K_m = \frac{1}{LRR}$$

- If the LRR is 10% (0.1), the multiplier is $1/0.1 = 10$.
- If the LRR is 20% (0.2), the multiplier is $1/0.2 = 5$.

Options (A) and (D) refer to the **Investment Multiplier** used in Keynesian macroeconomics, not the Money Multiplier used in the banking sector.

Final Answer: $1/LRR$ (Legal Reserve Ratio)

Answer: (B)

Q22.

Solution

Concept: The Central Bank (e.g., RBI or Federal Reserve) uses two types of instruments to control the money supply and credit in the economy: **Quantitative (General)** tools, which affect the total volume of credit, and **Qualitative (Selective)** tools, which regulate the direction of credit to specific sectors.

Solution: Analyzing the given options:

- **Margin Requirements:** A qualitative tool where the bank changes the difference between the value of security and the loan amount.
- **Moral Suasion:** A qualitative tool involving psychological pressure or informal advice to commercial banks.
- **Open Market Operations (OMO):** A **quantitative tool** involving the buying and selling of government securities in the open market to influence the level of reserves in the banking system.
- **Rationing of Credit:** A qualitative tool where the central bank fixes credit quotas for different business activities.

Final Answer: Open Market Operations

Answer: (C)

Q23.

Solution

Concept: Money can be classified based on its legal status, its backing, or its liquidity. Currency (notes and coins) is unique because it serves as a legal tender and is issued by the government or central bank authority.

Solution: 1. **Fiat Money:** This is money that does not have intrinsic value (unlike gold coins) but is established as money by **government decree** or "fiat." It includes all paper notes and coins. 2. **Near Money:** Refers to highly liquid assets that are not cash but can be easily converted (e.g., Treasury bills, savings bonds). 3. **Term Deposits:** These are time-bound deposits in banks (FDs) and are not held by the public as "currency." 4. **Credit Money:** Money whose intrinsic value is much lower than its face value, or money created by the banking system.

Final Answer: Fiat money

Answer: (B)

Q24.

Solution

Concept: During inflation, there is excess money supply and high purchasing power in the economy. To control this, the Central Bank adopts a **Dear Money Policy** (Contractionary Monetary Policy) to reduce the liquidity available with commercial banks and the general public.

Solution: To reduce money supply:

- **Increasing the Bank Rate/Repo Rate:** Makes borrowing expensive for commercial banks, leading to higher interest rates for the public.
- **Selling Securities (OMO):** Sucks out liquidity from the banking system.
- **Increasing the Cash Reserve Ratio (CRR):** Forces banks to keep a larger portion of their deposits with the Central Bank, reducing their credit-creation capacity.

Options (A), (B), and (D) are expansionary measures used during deflation/recession to increase money supply.

Final Answer: Increase the Cash Reserve Ratio (CRR)

Answer: (C)

Q25.

Solution

Concept: The **Investment Multiplier** (k) represents the ratio of the change in national income (ΔY) to the initial change in investment (ΔI). It is directly related to the Marginal Propensity to Consume (MPC).

Solution: The formula for the multiplier is:

$$k = \frac{1}{1 - MPC} \quad \text{or} \quad k = \frac{1}{MPS}$$

Given $MPC = 0.8$: 1. Substitute the value into the formula:

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

2. Simplify the denominator:

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

3. Calculate the final value:

$$k = 5$$

This means that for every 1 increase in investment, the national income will increase by 5.

Final Answer: 5

Answer: (C)

Q26.

Solution

Concept: **Aggregate Demand (AD)** refers to the total value of final goods and services which all the sectors of an economy are planning to buy at a given level of income during a period of time.

Solution: The components of AD vary based on the model:

- **Two-sector model:** Consists of Households and Firms. Therefore, AD = Consumption (C) + Investment (I).
- **Three-sector model:** Adds the Government (G), so $AD = C + I + G$.
- **Four-sector (Open) model:** Adds the Foreign sector (Net Exports), so $AD = C + I + G + (X - M)$.

Option (A), $C + S$, represents Aggregate Supply (AS) or National Income (Y), not Aggregate Demand.

Final Answer: $C + I$

Answer: (B)

Q27.

Solution

Concept: In macroeconomics, the **Break-even point** refers to the specific level of income where the entire income is spent on consumption. At this point, households are neither saving nor dipping into past savings (dissaving).

Solution: 1. The consumption function is expressed as $C = \bar{c} + bY$. 2. Savings (S) is the difference between Income (Y) and Consumption (C). 3. At the break-even point:

- **Consumption equals Income** ($C = Y$).
- Consequently, **Savings are zero ($S = 0$)**.
- The **Average Propensity to Consume (APC)** is 1 (since $C/Y = 1$), not 0.

Option (B) refers to the equilibrium condition in the $S-I$ approach, not the consumption break-even point.

Final Answer: Consumption is equal to Income ($C = Y$)

Answer: (C)

Q28.

Solution

Concept: Deficient Demand occurs when the actual Aggregate Demand (AD) in an economy is less than the Aggregate Demand required for full employment equilibrium ($AD < AS$ at full employment). This signifies that the economy is operating below its potential.

Solution: When demand is deficient:

- It creates a **Deflationary Gap**, as there is downward pressure on prices due to unsold inventory.
- Producers cut back on production, leading to a fall in income and employment.
- This results in **Involuntary Unemployment**, where people are willing to work at existing wage rates but cannot find jobs.

Option (A) is the result of Excess Demand, while (B) is only possible if $AD = AS$ at full resource utilization.

Final Answer: Deflationary Gap and involuntary unemployment

Answer: (C)

Q29.

Solution

Concept: The **Marginal Propensity to Save (MPS)** measures the ratio of the change in savings to the change in total income. It indicates how much of every additional unit of income is saved rather than spent. It is mathematically related to the Marginal Propensity to Consume (MPC) such that $MPC + MPS = 1$.
Solution: The different measures of propensity are defined as follows:

- S/Y: Average Propensity to Save (APS).
- $\Delta S/\Delta Y$: Marginal Propensity to Save (MPS).
- C/Y: Average Propensity to Consume (APC).
- $1 - MPC$: Equivalent to MPS (not $1 + MPC$).

Since MPS focuses on the incremental change, $\Delta S/\Delta Y$ is the correct formulation.
Final Answer: $\Delta S/\Delta Y$

Answer: (B)

Q30.

Solution

Concept: Government receipts are divided into Revenue Receipts and Capital Receipts. **Capital Receipts** are those receipts that either create a liability for the government (like borrowing) or cause a reduction in the assets of the government.
Solution: Let's categorize the options:

- **Income Tax:** Revenue Receipt (Tax revenue; no liability created, no asset reduced).
- **Interest receipts:** Revenue Receipt (Non-tax revenue).
- **Dividends from PSUs:** Revenue Receipt (Non-tax revenue; profit sharing).
- **Recovery of loans: Capital Receipt**. When the government recovers a loan it previously gave out, its financial assets (debtors) decrease.

Other examples of capital receipts include market borrowings and disinvestment (selling shares of public enterprises).
Final Answer: Recovery of loans

Answer: (C)

Q31.

Solution

Concept: The **Revenue Deficit** is a budgetary metric that reflects the excess of the government's current expenditures over its current receipts. It indicates that the government's own earnings are insufficient to meet the day-to-day running expenses of its departments and services.
Solution: 1. **Revenue Expenditure:** Spending that does not create assets or reduce liabilities (e.g., salaries, pensions, subsidies). 2. **Revenue Receipts:** Income that does not create a liability or reduce assets (e.g., tax revenue, interest, dividends). 3. **Calculation:**

$$\text{Revenue Deficit} = \text{Revenue Expenditure} - \text{Revenue Receipts}$$

A revenue deficit is significant because it implies the government must borrow (capital receipts) to fund ordinary consumption, which is generally considered financially unsustainable.
Final Answer: Revenue Expenditure – Revenue Receipts

Answer: (B)

Q32.

Solution

Concept: An **Automatic Stabilizer** is a type of fiscal policy that offsets fluctuations in a nation's economic activity without explicit government intervention. It works by naturally reducing the multiplier effect during booms and supporting demand during recessions.
Solution: A Proportional Income Tax (or a Progressive one) acts as a stabilizer because:

- When the economy expands and National Income increases, the total tax collected increases automatically.
- This withdraws purchasing power from the private sector, helping to dampen excessive demand and prevent overheating/inflation.
- Conversely, during a recession, tax liabilities fall as income falls, leaving more disposable income in consumers' hands to support spending.

Final Answer: Increases as income increases, dampening demand

Answer: (C)

Q33.

Solution

Concept: Primary Deficit is the difference between the Fiscal Deficit and the interest payments on previous borrowings. It shows the extent to which the government's current expenditures (excluding past debt obligations) exceed its current receipts.

Solution: The formula for Primary Deficit is:

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

1. If the government's total borrowing (Fiscal Deficit) is exactly equal to the amount it needs to pay as interest on old loans, the result is zero. 2. A zero primary deficit suggests that the government is borrowing **only** to pay back interest on past debts, not to fund current operations.

Final Answer: Interest payments are equal to Fiscal Deficit

Answer: (B)

Q34.

Solution

Concept: Transactions in the Balance of Payments (BOP) are categorized based on their motive. **Autonomous items** (often called "Above the Line" items) refer to international economic transactions that take place due to some economic motive, such as profit maximization or utility, independent of the state of the BOP.

Solution: 1. **Motive:** These transactions are done for their own sake (e.g., a merchant exporting goods to earn a profit or a person investing abroad). 2. **Relationship to BOP:** They are not influenced by whether the BOP is in surplus or deficit. In fact, it is the net balance of these autonomous transactions that creates a BOP identity gap. 3. **Contrast:** "Accommodating items" (Below the Line) are the opposite; they are undertaken by the Central Bank specifically to cover the gap created by autonomous items.

Final Answer: Are undertaken for profit considerations

Answer: (B)

Q35.

Solution

Concept: The exchange rate system defines how the value of one currency is determined against another. **Managed Floating** (also known as "Dirty Floating") is a hybrid system that sits between a Fixed Exchange Rate and a Flexible (Clean) Exchange Rate.
Solution: Under Managed Floating:

- **Primary Driver:** The exchange rate is generally determined by the market forces of demand and supply for foreign exchange.
- **Intervention:** The Central Bank (like the RBI) intervenes by buying or selling foreign currency when the rate becomes too volatile or moves beyond a desired range.
- **Goal:** To maintain stability in the external value of the domestic currency while still allowing for market flexibility.

Option (A) describes a Fixed system, (B) describes a Flexible system, and (D) refers to the Gold Standard.
Final Answer: The rate is determined by market forces but intervened by the Central Bank

Answer: (C)

Q36.

Solution

Concept: Occupational structure refers to the distribution of the working population across different sectors of the economy (Primary, Secondary, and Tertiary). Under British colonial rule, the Indian economy remained stagnant and heavily dependent on traditional means of livelihood.
Solution: On the eve of independence:

- **Agricultural Sector (Primary):** Accounted for the largest share of the workforce, with approximately **70–75%** of the population engaged in farming and related activities.
- **Manufacturing Sector (Secondary):** Was significantly underdeveloped, employing only about **10%** of the workforce.
- **Service Sector (Tertiary):** Accounted for the remaining **15–20%**.

The heavy reliance on agriculture, coupled with low productivity, was a clear sign of the economy's backwardness at the time.
Final Answer: Agricultural Sector

Answer: (C)

Q37.

Solution

Concept: After independence, India adopted economic planning to overcome the colonial legacy of stagnation. The First Five Year Plan was based on the **Harrod-Domar model** and aimed to address the immediate crises resulting from the Partition of India and World War II.

Solution: 1. **Focus:** Because India faced a severe food shortage and high inflation, the **Development of Agriculture** was given top priority. 2. **Investments:** Huge investments were made in irrigation and dams (like the Bhakra-Nangal Dam) to increase food grain production. 3. **Contrast:** "Rapid Industrialization" was the primary goal of the **Second Five Year Plan** (Mahalanobis Model), while "Self-reliance" became a major theme in later plans (3rd and 4th).

Final Answer: Development of Agriculture

Answer: (B)

Q38.

Solution

Concept: The **Green Revolution** refers to a period of significant increase in agricultural productivity in India, beginning in the mid-1960s. It was characterized by the use of High Yielding Variety (HYV) seeds, modern irrigation methods, and chemical fertilizers to achieve food self-sufficiency.

Solution: While the Green Revolution aimed at overall food security, its success was highly concentrated in specific cereal crops. The introduction of Mexican wheat varieties and semi-dwarf rice varieties led to a "wheat revolution" and a "rice revolution," respectively. These two crops saw the most dramatic increase in yield per hectare, especially in regions like Punjab and Haryana.

Final Answer: Wheat and Rice

Answer: (B)

Q39.

Solution

Concept: The **Industrial Policy Resolution (IPR) 1956** was a landmark policy that aimed to accelerate the rate of growth and industrialization in India. It placed a heavy emphasis on the role of the public sector and the development of heavy and basic industries.

Solution: The IPR 1956 provided the legal and policy framework for the **Second Five Year Plan** (1956–1961). Often called the "Mahalanobis Plan," this plan shifted the focus from agriculture to industry, seeking to build a strong industrial base for the country. It categorized industries into three schedules to define the extent of government control.

Final Answer: Second Five Year Plan

Answer: (B)

Q40.

Solution

Concept: **Import Substitution** (also known as Inward-Looking Trade Strategy) is a trade and economic policy which advocates replacing foreign imports with domestic production. This strategy was central to India's trade policy for the first seven five-year plans.
Solution: The primary aim of import substitution is to reduce a country's foreign dependency and protect "infant" domestic industries from foreign competition. This was achieved through:

- **Tariffs:** High taxes on imported goods to make them more expensive.
- **Quotas:** Fixing the maximum quantity of goods that can be imported.

By making imports difficult, the government encouraged the growth of domestic firms to meet the demand of the local market.
Final Answer: Replacing imports with domestic production

Answer: (B)

Q41.

Solution

Concept: The **New Economic Policy (NEP) of 1991** was a set of structural reforms triggered by a severe economic emergency. By 1991, India's foreign exchange reserves had dropped so low that they were barely enough to pay for two weeks of essential imports, and the government was on the verge of defaulting on its external debt.
Solution: The crisis was characterized by:

- **Balance of Payments (BOP) Crisis:** Huge gap between foreign exchange outflow and inflow.
- **Fiscal Crisis:** The fiscal deficit had reached nearly 8.4
- **High Inflation:** Prices of essential goods were rising at double-digit rates.

To secure a loan from the IMF and World Bank, India agreed to reform its economy through Liberalisation, Privatisation, and Globalisation (LPG).
Final Answer: Fiscal crisis and Balance of Payment crisis

Answer: (B)

Q42.

Solution

Concept: **Liberalisation** refers to the process of removing government-imposed restrictions, regulations, and "red tape" to make the economy more market-oriented and competitive. It aimed to end the "License-Permit-Quota Raj."
Solution: Major steps under Liberalisation included:

- **Abolition of Industrial Licensing:** Requirements for licenses were scrapped for almost all industries (except a few like liquor, cigarettes, and hazardous chemicals).
- **Deregulation of the Private Sector:** Allowing firms to expand and diversify without prior government approval.
- **Financial Sector Reforms:** Reducing SLR and CRR to give banks more freedom.

Options (C) and (D) are opposite to the spirit of 1991, while (A) is specifically a part of Privatisation.
Final Answer: Abolition of industrial licensing for most industries

Answer: (B)

Q43.

Solution

Concept: **Privatisation** involves giving the private sector a greater role in the ownership and management of Public Sector Undertakings (PSUs). One of the most common methods used by the government to achieve this is the sale of equity shares.
Solution: The specific process of selling a portion of the government's equity (ownership) in a PSU to the private sector or the general public is known as **Disinvestment**.

- The objective is to improve financial discipline and facilitate modernization of the PSUs.
- If more than 51

Final Answer: Disinvestment

Answer: (A)

Q44.

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. Unlike physical capital (machines, buildings), human capital resides within the people.

Solution: The main sources of human capital formation include:

- **Education:** Increases future income and productivity.
- **Health:** A sick worker is less productive; health expenditure directly builds a capable labor force.
- **On-the-job Training:** Enhances technical skills.
- **Migration:** People move to places where their skills are better utilized.
- **Information:** Spending to acquire information about labor markets and educational institutions.

Investment in machinery (A) and dams (C) are examples of physical capital formation, not human capital.

Final Answer: Expenditure on health and education

Answer: (B)

Q45.

Solution

Concept: The **Informal Sector** (or unorganized sector) consists of small-scale enterprises, own-account workers (like street vendors or small farmers), and laborers who do not have regular salaries or social security benefits. In India, a vast majority of the workforce falls into this category.

Solution: 1. **Self-Employment:** In India, more than 50% of the workforce is self-employed (farmers, shopkeepers, etc.). 2. **Classification:** These workers are part of the **Informal Sector** because they lack formal contracts, job security, and employer-provided benefits like provident funds or health insurance. 3. **Formal Sector:** This is the "organized" sector where workers enjoy social security benefits and legal protection (usually limited to government jobs and large private companies).

Final Answer: Informal sector employment

Answer: (B)

Q46.

Solution

Concept: **Casualisation of Workforce** is a process where the percentage of "casual wage labourers" in the total workforce increases over time, while the share of regular salaried employees or self-employed individuals tends to decline. Casual workers are those who are not on the regular rolls of an organization and do not receive social security benefits.

Solution: 1. **Nature of Work:** Casual labourers are usually hired on a daily or temporary basis for specific tasks (e.g., construction workers). 2. **Lack of Security:** This trend indicates a shift toward a less secure work environment, as these workers lack job security, pensions, or health insurance. 3. **Contrast:** It is the opposite of "Formalisation," which would involve an increase in regular salaried workers with benefits.

Final Answer: Increase in the share of casual wage labourers in the total workforce

Answer: (B)

Q47.

Solution

Concept: The **Great Leap Forward (GLF)** was a massive social and economic campaign aimed at transforming the country from an agrarian economy into a modern industrial society through rapid industrialization and collectivization.

Solution: 1. **Country:** The campaign was initiated in **China** in 1958 under the leadership of Mao Zedong. 2. **Strategy:** People were encouraged to set up "backyard steel furnaces" in their homes, and the "Commune System" was introduced in agriculture, where land was cultivated collectively. 3. **Outcome:** Although ambitious, the campaign faced severe challenges, including a massive famine and technical failures, though it remained a significant part of China's economic history.

Final Answer: China

Answer: (C)

Q48.

Solution

Concept: **Population Density** is defined as the number of persons living per unit of land area (usually per square kilometer). While China has the largest total population in the world (closely rivaled by India), its land area is significantly larger, resulting in a lower density compared to India.
Solution: Based on demographic data for the three neighbors:

- **China:** Despite its high population, it has a vast land area, making its density relatively lower.
- **Pakistan:** Has a lower density compared to India.
- **India:** India occupies only about 2.4% of the world's land area but supports over 17% of the world's population. This results in the **highest population density** among the three.

Final Answer: India

Answer: (B)

Q49.

Solution

Concept: The concept of **Sustainable Development** was famously defined in the 1987 **Brundtland Report** (also known as "Our Common Future") by the World Commission on Environment and Development. It represents a paradigm shift from purely economic growth to a holistic approach that considers environmental and social stability alongside financial progress.
Solution: 1. **Inter-generational Equity:** The core philosophy is that the current generation does not "own" the Earth but holds it in trust for future inhabitants. We must use resources in a way that leaves the planet in a functional state for those who come after us. 2. **Resource Management:** While it does not forbid the use of natural resources (A) or industrial growth (D), it advocates for **renewable energy**, waste reduction, and the preservation of biodiversity. 3. **Key Goal:** The goal is to strike a balance where we improve our current quality of life **without compromising the ability of future generations to meet their own needs**.
Final Answer: Compromising the ability of future generations to meet their own needs

Answer: (B)

Q50.

Solution

Concept: NABARD (National Bank for Agriculture and Rural Development) is the apex regulatory body in India for the overall regulation and licensing of regional rural banks and apex cooperative banks. It was established on the recommendation of the B. Sivaraman Committee.

Solution: 1. **Mission:** To promote sustainable and equitable agriculture and rural prosperity through effective credit support and institutional development. 2. **Role:** It coordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains a liaison with the Government and the RBI. 3. **Functions:** It provides refinance to banks for lending to the **Agriculture and Rural sector**, helping farmers and rural artisans.

Final Answer: Rural and Agricultural Credit

Answer: (C)

Answer Key

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