

# CUET-UG Economics Sample Paper-6

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.** Assertion (A): An indifference curve is always convex to the origin.  
Reason (R): The Marginal Rate of Substitution (MRS) declines as the consumer consumes more of one good in place of another.
- (A) Both A and R are true and R is the correct explanation of A.  
(B) Both A and R are true but R is not the correct explanation of A.  
(C) A is true, R is false.  
(D) A is false, R is true.
- Q2.** If the price of a Giffen good falls, its demand:
- (A) Increases  
(B) Decreases  
(C) Remains constant  
(D) Becomes perfectly elastic
- Q3.** When the percentage change in quantity demanded is less than the percentage change in price, the demand is:
- (A) Perfectly elastic  
(B) Unitary elastic  
(C) Inelastic  
(D) Elastic



- Q4.** The Slope of the Budget Line is represented by:
- (A)  $P_x/P_y$
  - (B)  $MU_x/MU_y$
  - (C)  $P_y/P_x$
  - (D)  $\Delta Y/\Delta X$
- Q5.** The 'Stage of Rational Production' in the Law of Variable Proportions is:
- (A) Stage I
  - (B) Stage II
  - (C) Stage III
  - (D) Both Stage I and II
- Q6.** Which of the following is a 'Planning Curve'?
- (A) Short-run Average Cost Curve
  - (B) Long-run Average Cost Curve
  - (C) Marginal Cost Curve
  - (D) Total Fixed Cost Curve
- Q7.** If the Total Cost (TC) of producing 10 units is 200 and for 11 units is 240, the Marginal Cost of the 11th unit is:
- (A) 20
  - (B) 40
  - (C) 240
  - (D) 440
- Q8.** When Average Product (AP) is at its maximum, it is:
- (A) Greater than MP
  - (B) Less than MP
  - (C) Equal to MP



(D) Zero

**Q9.** In a perfectly competitive market, the Marginal Revenue (MR) is always equal to:

(A) Average Cost

(B) Total Revenue

(C) Price (Average Revenue)

(D) Incremental Cost

**Q10.** A vertical supply curve parallel to the Y-axis implies that the price elasticity of supply is:

(A) Zero

(B) One

(C) Infinite

(D) Greater than one

**Q11.** Identify the correct sequence for 'Price Flooring':

(A) Set below equilibrium → Shortage → Black marketing

(B) Set above equilibrium → Surplus → Buffer stock

(C) Set above equilibrium → Shortage → Rationing

(D) Set at equilibrium → No change

**Q12.** In the case of a 'Decrease in Demand' and a 'Proportionate Increase in Supply', the equilibrium price will:

(A) Rise

(B) Fall

(C) Remain constant

(D) Be indeterminate

**Q13.** Which market form has a 'Horizontal Demand Curve'?



- (A) Monopoly
- (B) Oligopoly
- (C) Monopolistic Competition
- (D) Perfect Competition

**Q14.** Normal profits are included in:

- (A) Explicit Cost
- (B) Implicit Cost
- (C) Variable Cost
- (D) Fixed Cost

**Q15.** If the supply of a commodity is perfectly inelastic, an increase in demand will result in:

- (A) Increase in price, quantity remains same
- (B) Increase in quantity, price remains same
- (C) Decrease in price, quantity remains same
- (D) Both price and quantity increase

**Q16.** 'Externalities' refer to:

- (A) Market transactions for profit
- (B) Benefits or harms caused by a firm/individual for which they are not paid/penalized
- (C) Exports minus Imports
- (D) Tax payments to the government

**Q17.** If 'Consumption of Fixed Capital' is added to NNP at MP, we get:

- (A) GDP at MP
- (B) GNP at MP
- (C) NDP at FC



(D) GNP at FC

**Q18.** Which of the following is a 'Stock' variable?

(A) Interest on capital

(B) Wealth

(C) Salary

(D) Exports

**Q19.** Calculate NNP at FC if GNP at MP = 5000, Depreciation = 500, and Net Indirect Taxes = 300:

(A) 4200

(B) 4800

(C) 5800

(D) 4500

**Q20.** Intermediate goods are not included in National Income to avoid:

(A) Overestimation

(B) Underestimation

(C) Inflation

(D) Tax evasion

**Q21.** The 'Lender of Last Resort' function of the Central Bank implies:

(A) Advancing loans to the public

(B) Providing liquidity to commercial banks in times of financial crisis

(C) Financing the government budget deficit

(D) Regulating foreign exchange

**Q22.** If the Legal Reserve Ratio (LRR) is 20%, the value of the Money Multiplier is:

(A) 2



- (B) 4
- (C) 5
- (D) 10

**Q23.** To reduce inflation, the Central Bank should:

- (A) Decrease Bank Rate
- (B) Buy securities in Open Market
- (C) Increase Reserve Ratios
- (D) Reduce Margin Requirements

**Q24.** Demand deposits include:

- (A) Saving account deposits and Fixed deposits
- (B) Current account deposits and Fixed deposits
- (C) Saving account deposits and Current account deposits
- (D) Post office savings

**Q25.** The 'Average Propensity to Save' (APS) can never be:

- (A) Zero
- (B) Positive
- (C) Negative
- (D) Greater than 1

**Q26.** If the Marginal Propensity to Save (MPS) is 0.25, the Investment Multiplier is:

- (A) 0.75
- (B) 2
- (C) 4
- (D) 5

**Q27.** 'Involuntary Unemployment' refers to people who are:



- (A) Willing to work but don't find work at the existing wage rate
- (B) Not willing to work at the existing wage rate
- (C) Unemployed due to changing jobs
- (D) Unemployed due to health reasons

**Q28.** At the 'Effective Demand' level:

- (A)  $AS > AD$
- (B)  $AD > AS$
- (C)  $AD = AS$
- (D) Economy is at full employment only

**Q29.** The gap by which actual Aggregate Demand exceeds the level required for full employment is called:

- (A) Deflationary Gap
- (B) Inflationary Gap
- (C) Recessionary Gap
- (D) Output Gap

**Q30.** Which of the following is a 'Non-Tax Revenue' for the government?

- (A) Customs Duty
- (B) Escheats
- (C) GST
- (D) Corporate Tax

**Q31.** A 'Deficit Budget' is preferred during:

- (A) Inflation
- (B) Depression/Recession
- (C) Economic Boom
- (D) War



- Q32.** Identify the Capital Expenditure from the following:
- (A) Payment of salaries to government employees
  - (B) Purchase of shares of a domestic company
  - (C) Payment of interest on loans
  - (D) Spending on mid-day meal schemes
- Q33.** Revenue Deficit occurs when:
- (A) Capital Expenditure > Capital Receipts
  - (B) Total Expenditure > Total Receipts
  - (C) Revenue Expenditure > Revenue Receipts
  - (D) Fiscal Deficit > Interest Payments
- Q34.** 'Unilateral Transfers' are recorded in which account of BOP?
- (A) Capital Account
  - (B) Current Account
  - (C) Official Reserve Account
  - (D) Errors and Omissions
- Q35.** An increase in the price of foreign currency in terms of domestic currency (keeping other things constant) leads to:
- (A) Rise in Imports
  - (B) Rise in Exports
  - (C) Fall in Exports
  - (D) No change in trade
- Q36.** The 'Karve Committee' (1955) was associated with:
- (A) Large-scale Industries
  - (B) Small-scale Industries
  - (C) Land Reforms



(D) Foreign Trade

**Q37.** The 'Trade Strategy' followed by India during the first seven Five-Year Plans was:

- (A) Export Promotion
- (B) Import Substitution
- (C) Global Integration
- (D) Free Trade

**Q38.** Which of the following was NOT a part of the 'Navratnas' originally?

- (A) BHEL
- (B) SAIL
- (C) Reliance Industries
- (D) ONGC

**Q39.** The 'New Economic Policy' was announced in July:

- (A) 1990
- (B) 1991
- (C) 1992
- (D) 1995

**Q40.** Abolition of 'Intermediaries' was a part of:

- (A) Industrial Reforms
- (B) Land Reforms
- (C) Banking Reforms
- (D) External Sector Reforms

**Q41.** The 'Jan Dhan Yojana' is a scheme related to:

- (A) Health Insurance



- (B) Financial Inclusion
- (C) Education for girls
- (D) Skill development

**Q42.** 'Casualisation of workforce' refers to:

- (A) Shift from self-employment to regular salaried work
- (B) Shift from regular salaried work to casual wage work
- (C) Increase in agricultural laborers
- (D) Decline in unemployment

**Q43.** Which of the following is a 'Biotic' element of the environment?

- (A) Rocks
- (B) Water
- (C) Birds
- (D) Sunlight

**Q44.** The main reason for 'Rural Indebtedness' in India is:

- (A) High interest rates by moneylenders
- (B) Lack of collateral with farmers
- (C) Unproductive spending on social ceremonies
- (D) All of the above

**Q45.** 'Operation Flood' was related to the production of:

- (A) Fish
- (B) Wheat
- (C) Milk
- (D) Eggs

**Q46.** China introduced economic reforms in the year:

- (A) 1978
- (B) 1988
- (C) 1991
- (D) 1949

**Q47.** The 'Dual Pricing Policy' was adopted by which country to encourage agricultural production?

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

**Q48.** Pakistan's economic growth slowed down in the 1990s primarily due to:

- (A) Dependence on foreign loans and political instability
- (B) Lack of agricultural resources
- (C) Low population density
- (D) Excess exports

**Q49.** Arrange the following in chronological order: (i) First Five Year Plan in India (ii) Great Leap Forward (iii) Economic Reforms in Pakistan

- (A) (i), (ii), (iii)
- (B) (ii), (i), (iii)
- (C) (iii), (i), (ii)
- (D) (i), (iii), (ii)

**Q50.** Liberty Indicators measure:

- (A) Income distribution
- (B) Degree of civil and political freedom
- (C) Literacy rates
- (D) Life expectancy



**Detailed Solutions**

Q1.

**Solution****Evaluation:**

- **Assertion (A):** True. Convexity is the standard shape of an IC under the assumption of Diminishing Marginal Rate of Substitution.
- **Reason (R):** True.  $MRS_{xy} = \frac{\Delta Y}{\Delta X}$  decreases as  $X$  increases because the marginal utility of  $X$  decreases relative to  $Y$ .

**Relationship:** Since the slope of the IC is defined by the MRS, a *declining* MRS means the slope is becoming flatter as we move rightward. This mathematical property results in a **convex** shape. Thus,  $R$  explains  $A$ .

**Final Answer:**

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

**Answer: (A)**

Q2.

**Solution**

**Concept:** Giffen goods represent an exception to the Law of Demand. They have a positive price-demand relationship, meaning the demand curve is upward sloping.

**Solution:** For a Giffen good, a decrease in price leads to:

- A rise in the consumer's real income.
- Because the good is extremely inferior, the consumer uses that extra purchasing power to shift toward superior substitutes.
- The resulting decrease in demand due to the income effect is greater than the increase in demand due to the substitution effect.

Consequently, as the price falls, the quantity demanded decreases.

**Final Answer:**

(B) Decreases

**Answer: (B)**



Q3.

**Solution**

**Calculation Concept:** The coefficient of Price Elasticity of Demand ( $E_d$ ) is calculated using the formula:

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

**Evaluation:** According to the question:

$$\% \Delta Q_d < \% \Delta P$$

Substituting this into the formula:

$$\frac{\text{Smaller Value}}{\text{Larger Value}} < 1$$

Whenever the elasticity coefficient is less than 1 but greater than 0, the demand is classified as **Inelastic** (or relatively inelastic).

**Final Answer:**

(C) Inelastic

Answer: (C)

Q4.

**Solution**

**Concept:** The slope of the budget line (also known as the Price Ratio or Market Rate of Exchange) measures the rate at which the market allows a consumer to substitute good  $Y$  for good  $X$ .

**Solution:** The slope of any line on a coordinate plane is  $\frac{\text{Vertical change}}{\text{Horizontal change}}$ .

- The vertical intercept of the budget line is  $M/P_y$ .
- The horizontal intercept of the budget line is  $M/P_x$ .
- The slope is calculated as:

$$\text{Slope} = \frac{\text{Vertical Intercept}}{\text{Horizontal Intercept}} = \frac{M/P_y}{M/P_x} = \frac{P_x}{P_y}$$

Option B ( $MU_x/MU_y$ ) represents the slope of the Indifference Curve (MRS), not the budget line. Option D is a general mathematical definition of a slope, but in economic terms for a budget line, it is specifically defined by the price ratio.

**Final Answer:**

(A)  $P_x/P_y$

Answer: (A)



Q5.

**Solution**

**Concept:** A rational producer seeks to maximize the efficiency of all inputs. Stage II begins where  $AP$  is at its maximum and ends where  $MP$  becomes zero.

**Solution:**

- In **Stage I**, the fixed factor is underutilized.
- In **Stage III**, the variable factor is over-utilized, leading to negative marginal productivity.
- In **Stage II**, the producer reaches the most efficient combination of factors. Most production in the real world occurs in this stage.

**Final Answer:**

(B) Stage II

Answer: (B)

Q6.

**Solution**

**Concept:** The Planning Curve helps a firm determine the scale of operations in the long run when all inputs, including land and machinery, can be changed.

**Solution:** The **Long-run Average Cost (LAC) Curve** is called the planning curve because:

- It shows the minimum cost of producing any level of output when the firm is free to build any size of plant.
- An entrepreneur "plans" their future investment based on the LAC to achieve economies of scale.

The SAC (Option A) is an 'operating curve' because it reflects current production constraints.

**Final Answer:**

(B) Long-run Average Cost Curve

Answer: (B)



Q7.

**Solution**

**Concept:** Marginal Cost represents the cost of producing one "extra" unit of a good.

**Solution:** Using the formula for Marginal Cost:

$$MC_n = TC_n - TC_{n-1}$$

Given:

$$TC_{11} = 240$$

$$TC_{10} = 200$$

$$MC_{11} = 240 - 200 = 40$$

The producer spends an additional 40 to increase production from 10 to 11 units.

**Final Answer:**

(B) 40

Answer: (B)

Q8.

**Solution**

**Concept:** The relationship between marginal and average variables is a fundamental property of production theory.

**Solution:** Graphically, the Marginal Product (*MP*) curve intersects the Average Product (*AP*) curve from above at the *AP* curve's highest point.

- To the left of the maximum point,  $MP > AP$ , pulling the average up.
- At the maximum point,  $MP = AP$ .
- To the right of the maximum point,  $MP < AP$ , pulling the average down.

This point of equality also marks the boundary between Stage I and Stage II of the Law of Variable Proportions.

**Final Answer:**

(C) Equal to MP

Answer: (C)



Q9.

**Solution**

**Concept:** Under Perfect Competition, the demand curve (AR curve) faced by an individual firm is perfectly elastic (horizontal).

**Solution:** For a price-taking firm:

$$TR = P \times Q$$
$$AR = \frac{TR}{Q} = P$$
$$MR = \frac{\Delta TR}{\Delta Q} = P$$

Since the price ( $P$ ) remains constant regardless of the quantity sold, every additional unit sold adds exactly its price to the Total Revenue. **Final Answer:**

(C) Price (Average Revenue)

Answer: (C)

Q10.

**Solution**

**Concept:** Perfectly Inelastic Supply occurs when the quantity supplied is completely unresponsive to price changes.

**Solution:** Using the formula for Price Elasticity of Supply:

$$E_s = \frac{\% \text{ change in Quantity Supplied}}{\% \text{ change in Price}}$$

For a vertical supply curve:

- The change in quantity supplied ( $\Delta Q$ ) is 0 for any change in price.
- Therefore,  $E_s = \frac{0}{\% \Delta P} = 0$ .

**Final Answer:**

(A) Zero

Answer: (A)



Q11.

**Solution**

**Concept:** A Price Floor is a legal minimum price imposed by the government to ensure producers (like farmers) receive a fair price.

**Solution:** The logical chain of events for a Price Floor is:

- (a) **Set above equilibrium:** If it were below, market forces would simply stay at the higher equilibrium price.
- (b) **Surplus:** High prices encourage supply but discourage demand ( $Q_s > Q_d$ ).
- (c) **Buffer Stock:** The government purchases the excess supply to support the price floor and for future food security.

Option A describes a 'Price Ceiling' (Maximum Price). **Final Answer:**

(B) Set above equilibrium → Surplus → Buffer stock

**Answer: (B)**

Q12.

**Solution**

**Concept:** Equilibrium price is determined by the intersection of demand and supply. A simultaneous shift in both curves determines the new equilibrium point.

**Solution:**

- A **Decrease in Demand** ( $D \rightarrow D_1$ ) indicates consumers want less, pushing the price down.
- An **Increase in Supply** ( $S \rightarrow S_1$ ) indicates producers are offering more, also pushing the price down.
- Since both shifts work in the same direction regarding price, the combined effect is a significant reduction in the market price.

**Final Answer:**

(B) Fall

**Answer: (B)**



Q13.

**Solution**

**Concept:** A horizontal demand curve implies that the price elasticity of demand is infinite ( $\infty$ ). The firm is a 'Price Taker'.

**Solution:** In Perfect Competition:

- The product is homogeneous (identical).
- There is perfect knowledge and large numbers of buyers/sellers.
- As a result, the firm must accept the price determined by the industry. The demand curve is a straight line parallel to the X-axis ( $AR = MR = Price$ ).

**Final Answer:**

(D) Perfect Competition

Answer: (D)

Q14.

**Solution**

**Concept:** Economic Cost = Explicit Cost + Implicit Cost. Normal profit is the opportunity cost of the entrepreneur's effort and capital.

**Solution:**

- **Explicit Costs** are out-of-pocket expenses.
- **Implicit Costs** are the value of self-owned resources.
- Since **Normal Profit** is the reward for the entrepreneur's own services that they could have earned elsewhere, it is categorized as an Implicit Cost.

When a firm earns 'Zero Economic Profit', it is still earning 'Normal Profit'. **Final Answer:**

(B) Implicit Cost

Answer: (B)



Q15.

**Solution**

**Concept:** Price and quantity changes depend on the elasticity of the curves. Perfectly inelastic supply ( $E_s = 0$ ) means quantity is constant.

**Solution:**

- The vertical supply curve indicates that producers cannot increase output even if prices rise.
- When demand increases, the new equilibrium point moves vertically upward along the supply curve.
- This results in a higher equilibrium price ( $P \uparrow$ ) but no change in equilibrium quantity ( $Q$ ).

**Final Answer:**

(A) Increase in price, quantity remains same

**Answer: (A)**

Q16.

**Solution**

**Concept:** Externalities are the "spillover effects" of economic activities that fall on people other than the buyers and sellers.

**Solution:** Externalities are essentially the **uncompensated** impacts on the well-being of bystanders.

- They can be beneficial (Positive) or harmful (Negative).
- Since no one pays for the benefits or is compensated for the harms, these are not captured in GDP calculations, which is why GDP is often considered an imperfect measure of welfare.

**Final Answer:**

(B) Benefits or harms caused by a firm/individual for which they are not paid/penalized

**Answer: (B)**



Q17.

**Solution**

**Concept:** The difference between 'Gross' and 'Net' aggregates is always 'Depreciation' (Consumption of Fixed Capital).

**Solution:** Using the conversion formula:

$$\text{Gross Aggregate} = \text{Net Aggregate} + \text{Depreciation}$$

Applying this to the question:

$$NNP_{MP} + \text{Consumption of Fixed Capital} = GNP_{MP}$$

Option A (GDP) is incorrect because it would require adjusting for Net Factor Income from Abroad (NFIA). **Final Answer:**

(B) GNP at MP

**Answer: (B)**

Q18.

**Solution**

**Concept:** The difference between 'Gross' and 'Net' aggregates is always 'Depreciation' (Consumption of Fixed Capital).

**Solution:** Using the conversion formula:

$$\text{Gross Aggregate} = \text{Net Aggregate} + \text{Depreciation}$$

Applying this to the question:

$$NNP_{MP} + \text{Consumption of Fixed Capital} = GNP_{MP}$$

Option A (GDP) is incorrect because it would require adjusting for Net Factor Income from Abroad (NFIA). **Final Answer:**

(B) GNP at MP

**Answer: (B)**



Q19.

**Solution**

**Calculation:** We use the standard conversion formula:

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

**Steps:**

- (a) Start with  $GNP_{MP}$ : 5000
- (b) Subtract Depreciation:  $5000 - 500 = 4500$  ( $NNP_{MP}$ )
- (c) Subtract NIT:  $4500 - 300 = 4200$  ( $NNP_{FC}$ )

**Final Answer:**

(A) 4200

Answer: (A)

Q20.

**Solution**

**Concept:** To accurately measure the total output of an economy, we must ensure that no production value is counted more than once.

**Solution:** Including intermediate goods leads to the problem of **Double Counting**.

- When we count double or triple the actual value of production, the resulting figure is much higher than the actual value of goods produced.
- This leads to an **Overestimation** of the National Income, creating a false picture of the economy's size and growth.

While inflation (Option C) affects the value of National Income, it is related to price levels, not the inclusion of intermediate goods.

**Final Answer:**

(A) Overestimation

Answer: (A)



Q21.

**Solution**

**Concept:** This is a critical stabilization function where the Central Bank supports the banking sector during liquidity crunches.

**Solution:**

- The Central Bank does not lend directly to the public (Option A).
- While it finances the deficit (Option C), that is the 'Banker to the Government' function.
- **Lender of Last Resort** specifically refers to providing financial accommodation to commercial banks when they have exhausted all other resources.

**Final Answer:**

(B) Providing liquidity to commercial banks in times of financial crisis

**Answer: (B)**

Q22.

**Solution**

**Calculation:** The formula for the Money Multiplier ( $k$ ) is:

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

**Step-by-step:** Given  $LRR = 20\% = 0.20$ :

$$k = \frac{1}{0.20} = 5$$

This means that for every 100 deposited, the banking system can potentially create 500 in total deposits.

**Final Answer:**

(C) 5

**Answer: (C)**



Q23.

**Solution**

**Concept:** Controlling inflation requires reducing the lending capacity of commercial banks.

**Solution:**

- **Increase Reserve Ratios (CRR/SLR):** Directly reduces the "loanable funds" available to banks.
- Selling securities (opposite of B) would suck liquidity out of the market.
- Increasing the Bank Rate (opposite of A) would make borrowing more expensive.

**Final Answer:**

(C) Increase Reserve Ratios

Answer: (C)

Q24.

**Solution**

**Concept:** Money supply components ( $M_1$ ) include currency with the public and demand deposits with banks.

**Solution:**

- Demand deposits must be "chequable" and withdrawable without notice.
- **Saving and Current accounts** fit this definition.
- Fixed/Time deposits (found in Options A and B) are "Net Time Deposits" and are not included in the  $M_1$  definition of demand deposits.

**Final Answer:**

(C) Saving account deposits and Current account deposits

Answer: (C)



Q25.

**Solution**

**Concept:** Since total income is the sum of consumption and savings ( $Y = C + S$ ), savings is always a part of income.

**Solution:** The maximum value of  $APS$  occurs when consumption is zero, which would make  $APS = 1$ . In reality,  $C$  is always positive (due to autonomous consumption), so  $APS$  is always less than 1. It can never be greater than 1 because you cannot save more than you earn.

**Final Answer:**

(D) Greater than 1

Answer: (D)

Q26.

**Solution**

**Calculation:** The formula for the Investment Multiplier ( $k$ ) using  $MPS$  is:

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

**Step-by-step:** Given  $MPS = 0.25$ :

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

This means that an initial increase in investment of 100 will lead to a total increase in national income of 400.

**Final Answer:**

(C) 4

Answer: (C)



Q27.

**Solution**

**Concept:** Involuntary unemployment highlights a failure in aggregate demand where the labor market does not clear despite workers being available.

**Solution:**

- It is the "true" unemployment that governments aim to eliminate.
- **Option B** describes voluntary unemployment.
- **Option C** describes frictional unemployment.

**Final Answer:**

(A) Willing to work but don't find work at the existing wage rate

**Answer: (A)**

Q28.

**Solution**

**Concept:** Keynesian theory suggests that the economy reaches equilibrium when planned spending equals planned output.

**Solution:** Effective demand corresponds to the intersection of the  $AD$  and  $AS$  curves.

- If  $AD > AS$ , inventories fall and production increases.
- If  $AS > AD$ , inventories pile up and production decreases.
- Only when  $AD = AS$  is the demand "effective" and the economy in equilibrium.

**Final Answer:**

(C)  $AD = AS$

**Answer: (C)**



Q29.

**Solution**

**Concept:** The gap measures the excess of aggregate demand over aggregate supply at the full employment level.

**Solution:**

- **Inflationary Gap:** Actual  $AD >$  Full Employment  $AD$ . (Leads to rising prices).
- **Deflationary Gap:** Actual  $AD <$  Full Employment  $AD$ . (Leads to unemployment).

**Final Answer:**

(B) Inflationary Gap

Answer: (B)

Q30.

**Solution**

**Concept:** Non-tax revenue includes all recurring income sources of the government other than taxes.

**Solution:**

- **Customs Duty, GST, and Corporate Tax** are all forms of compulsory taxes.
- **Escheats** is a legal process where the state acquires unclaimed property. Because it is not a tax on income, wealth, or commodities, it is a non-tax receipt.

**Final Answer:**

(B) Escheats

Answer: (B)



Q31.

**Solution**

**Concept:** Budgetary policy is adjusted based on the phase of the business cycle to maintain economic stability.

**Solution:**

- During **Inflation**, a surplus budget is preferred to reduce money supply.
- During **Depression/Recession**, a deficit budget is preferred. The increased government spending acts as a catalyst for economic recovery.

**Final Answer:**

(B) Depression/Recession

Answer: (B)

Q32.

**Solution**

**Concept:** Capital expenditure has a long-term impact on the government's balance sheet (assets and liabilities).

**Solution:**

- **Options A, C, and D** are operational, recurring costs (Revenue Expenditure).
- **Option B** (Purchase of shares) is an investment. It results in the creation of an asset, which is the defining characteristic of Capital Expenditure.

**Final Answer:**

(B) Purchase of shares of a domestic company

Answer: (B)



Q33.

**Solution**

**Concept:** Revenue deficit relates to the revenue budget only, excluding all capital transactions.

**Solution:**

- **Fiscal Deficit** is Total Expenditure - Total Receipts (excluding borrowings).
- **Revenue Deficit** specifically occurs when Revenue Expenditure > Revenue Receipts.

A high revenue deficit is generally seen as a sign of poor fiscal health because it means the government has to borrow just to cover its daily expenses like salaries and interest.

**Final Answer:**

(C) Revenue Expenditure > Revenue Receipts

Answer: (C)

Q34.

**Solution**

**Concept:** Unilateral transfers are "one-way" transactions. Because they do not create a claim for repayment or change the asset/liability status of the country, they are categorized as current receipts or payments.

**Solution:** The Current Account consists of:

- Visible trade (Export/Import of goods).
- Invisible trade (Export/Import of services).
- Unilateral transfers (Gifts, donations, remittances).
- Income receipts and payments (Interest, profits, dividends).

**Final Answer:**

(B) Current Account

Answer: (B)



Q35.

**Solution**

**Concept:** Currency depreciation makes domestic goods more competitive in the international market.

**Solution:** When the price of foreign currency rises:

- **Depreciation:** The domestic currency loses value.
- **Export Incentive:** Foreigners find our goods cheaper because their currency now buys more units of our currency.
- **Result:** This stimulates the demand for domestic goods abroad, causing exports to rise.

**Final Answer:**

(B) Rise in Exports

**Answer: (B)**

Q36.

**Solution**

**Concept:** The committee focused on using small-scale industries as a tool for social and economic upliftment in rural India.

**Solution:** Based on the committee's recommendations, the government provided protection to SSIs by:

- Reserving certain products exclusively for production by small units.
- Offering concessions such as lower excise duties and bank loans at lower interest rates.

**Final Answer:**

(B) Small-scale Industries

**Answer: (B)**



Q37.

**Solution**

**Concept:** Import Substitution is a policy aimed at achieving self-reliance by restricting foreign goods and encouraging local manufacturing.

**Solution:** India adopted this because:

- It wanted to protect "infant industries" from established global giants.
- There was a fear of "new-colonialism" via economic dependence.

It wasn't until the 1991 reforms that India shifted to Export Promotion and Global Integration.

**Final Answer:**

(B) Import Substitution

Answer: (B)

Q38.

**Solution**

**Concept:** Navratnas are high-performing Central Public Sector Enterprises (CPSEs).

**Solution:** The original nine Navratnas included companies like IOC, HPCL, BPCL, IPCL, VSNL, and the three mentioned in the options. Since Reliance is a private entity owned by shareholders and not the government, it does not fall under this classification.

**Final Answer:**

(C) Reliance Industries

Answer: (C)

Q39.

**Solution**

**Concept:** The 1991 reforms shifted the Indian economy from a "Command and Control" model to a market-linked economy.

**Solution:** The NEP was launched in \*\*July 1991\*\*. It dismantled the "License Raj," reduced import duties, and opened the doors for foreign investment (FDI), fundamentally changing India's growth trajectory.

**Final Answer:**

(B) 1991

Answer: (B)



Q40.

**Solution**

**Concept:** Land reforms aim to reorganize the ownership and management of land to ensure equity and efficiency in the agricultural sector.

**Solution:** The abolition of intermediaries is a key component of **Land Reforms**. It was designed to:

- Transfer ownership rights to the actual cultivators.
- Remove the parasitic class of intermediaries who contributed nothing to production.
- Provide incentives to farmers to invest in their land, as they would now keep the fruits of their labor.

While other reforms (Industrial, Banking, External) were part of the 1991 New Economic Policy, Land Reforms were initiated much earlier to address rural inequality.

**Final Answer:**

(B) Land Reforms

Answer: (B)

Q41.

**Solution**

**Concept:** Financial inclusion is the process of ensuring access to financial products and services to all sections of society at an affordable cost.

**Solution:** The **Jan Dhan Yojana** is the cornerstone of India's financial inclusion strategy.

- It moved the country from "Village Banking" to "Household Banking."
- While the government has other schemes for health (Ayushman Bharat) and education (Beti Bachao Beti Padhao), the PMJDY specifically targets the banking and financial infrastructure.

**Final Answer:**

(B) Financial Inclusion

Answer: (B)



Q42.

**Solution**

**Concept:** Casualisation reflects a move toward informal employment where the workforce lacks legal protections, job stability, and steady income.

**Solution:**

- **Option A** describes "Formalization" or a move toward better job quality.
- **Option B** is the correct definition; it signifies the increasing reliance of the economy on casual labor rather than permanent staff.
- **Option C** is a specific sector change, but casualisation can happen in any sector (urban or rural).
- **Option D** is incorrect because casualisation can happen even when unemployment is rising.

**Final Answer:**

(B) Shift from regular salaried work to casual wage work

Answer: (B)

Q43.

**Solution**

**Concept:** The distinction between biotic and abiotic is based on the presence of life.

**Solution:**

- **Rocks, Water, and Sunlight** are physical substances or energy sources that lack biological processes.
- **Birds** are living beings that undergo growth, reproduction, and metabolism, placing them in the biotic category.

**Final Answer:**

(C) Birds

Answer: (C)



Q44.

**Solution**

**Concept:** Rural indebtedness is often described as a "debt trap" where the borrower is unable to escape the burden of interest and principal.

**Solution:** While each individual factor is a major hurdle, they work together to create a crisis. The lack of collateral leads to high-interest informal loans, which are then often used for unproductive social ceremonies, ensuring the debt persists across generations. **Final Answer:**

(D) All of the above

Answer: (D)

Q45.

**Solution**

**Concept:** Different "revolutions" in India targeted different agricultural commodities.

**Solution:**

- **Wheat** was the focus of the **Green Revolution**.
- **Fish** production is associated with the **Blue Revolution**.
- **Eggs** are associated with the **Silver Revolution**.
- **Operation Flood** was specifically the name of the program to boost **Milk** production.

**Final Answer:**

(C) Milk

Answer: (C)

Q46.

**Solution**

**Concept:** China's early start in economic reforms is one of the primary reasons for its rapid growth compared to India and Pakistan.

**Solution:** China launched its "Open Door Policy" and economic reforms in **1978**. This preceded Pakistan's reforms (late 1980s) and India's reforms (1991). **Final Answer:**

(A) 1978

Answer: (A)



Q47.

**Solution**

**Concept:** Dual pricing acted as a transitional bridge, allowing market forces to operate alongside state planning.

**Solution:** This policy was a hallmark of **China's** agrarian reforms (specifically the Household Responsibility System). By allowing farmers to profit from their surplus, China saw a dramatic increase in agricultural productivity during the late 1970s and 1980s.

- While India and Pakistan have used various subsidies and support prices, the specific "Dual Pricing" reform mechanism is most famously attributed to China.

**Final Answer:**

(C) China

Answer: (C)

Q48.

**Solution**

**Concept:** Sustainable growth requires a balance between internal resource mobilization and external borrowing, supported by stable governance.

**Solution:** Pakistan's crisis in the 90s was not due to a lack of resources or excess exports.

- **Option A** is correct: The "Twin Deficits" (fiscal and current account) forced the country into a cycle of borrowing, while political unrest deterred foreign direct investment (FDI).
- **Option B** is incorrect because Pakistan has fertile agricultural land (Indus basin).
- **Option C** is factually wrong; Pakistan has high population density.
- **Option D** is incorrect; Pakistan actually struggled with a trade deficit, not an export surplus.

**Final Answer:**

(A) Dependence on foreign loans and political instability

Answer: (A)



Q49.

**Solution****Chronology:**

- (i) **First Five Year Plan (India):** Started in **1951**.
- (ii) **Great Leap Forward (China):** Started in **1958**.
- (iii) **Economic Reforms (Pakistan):** Started in **1988**.

**Sequence:** The correct order is 1951 → 1958 → 1988, which corresponds to (i), (ii), and then (iii).

**Final Answer:**

(A) (i), (ii), (iii)

Answer: (A)

Q50.

**Solution**

**Concept:** Liberty indicators represent the political dimension of human development, assessing the level of autonomy citizens enjoy.

**Solution:**

- **Options C and D** are components of the **Human Development Index (HDI)**.
- **Option A** is a measure of economic equality (often measured by the Gini Coefficient).
- **Option B** is the correct definition; Liberty Indicators specifically track the degree of civil and political freedom.

**Final Answer:**

(B) Degree of civil and political freedom

Answer: (B)



**Answer Key**

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

