# CUET-UG Economics Sample Paper-7

**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.** Which of the following will cause a rightward shift in the Production Possibility Frontier?

(A) Efficient use of existing resources

(B) Decrease in unemployment

(C) Discovery of new natural resources

(D) Shift of resources from one good to another

**Q2.** When the Price of Bread increases, the Demand for Butter decreases. This indicates that Bread and Butter are:

(A) Substitute Goods

(B) Complementary Goods

(C) Giffen Goods

(D) Normal Goods

**Q3.** If $MRS_{xy}$ is greater than the price ratio $(P_x/P_y)$, how will a rational consumer react to reach equilibrium?

(A) Consume more of Good Y and less of Good X.

(B) Consume more of Good X and less of Good Y.

(C) Stop consuming both goods.

(D) Increase consumption of both goods.

**Q4.** If a 10% rise in price leads to a 25% fall in quantity demanded, the price elasticity of demand is:

(A) 0.4 (Inelastic)

(B) 2.5 (Elastic)

(C) 1.0 (Unitary)

(D) 0 (Perfectly Inelastic)

**Q5.** According to the Law of Variable Proportions, Stage II (Diminishing Returns) ends when:

(A) MP is at its maximum

(B) MP = AP

(C) MP = 0

(D) TP begins to rise

**Q6.** The shape of the Total Fixed Cost (TFC) curve is:

(A) U-shaped

(B) Upward sloping

(C) Horizontal straight line

(D) Rectangular hyperbola

**Q7.** In the short run, if a firm shuts down, its losses are equal to:

(A) Total Variable Cost

(B) Total Fixed Cost

(C) Zero

(D) Marginal Cost

**Q8.** When the Marginal Revenue is zero, the Total Revenue is:

(A) Minimum

(B) Maximum

(C) Zero

(D) Equal to Marginal Cost

**Q9.** Under Perfect Competition, a firm maximizes profit at the point where:

(A) $P = AC$

(B) $MC$ cuts $MR$ from above

(C) $MC$ cuts $MR$ from below

(D) $TR$ is maximum

**Q10.** If the price elasticity of supply is 2.0 and the price increases by 5%, the quantity supplied will:

(A) Increase by 10%

(B) Decrease by 10%

(C) Increase by 2.5%

(D) Increase by 20%

**Q11.** A "Price Floor" is a government-imposed:

(A) Maximum price above equilibrium

(B) Minimum price below equilibrium

(C) Minimum price above equilibrium

(D) Maximum price below equilibrium

**Q12.** Excess Demand in a market occurs when the prevailing price is:

(A) Above equilibrium price

(B) Below equilibrium price

(C) Equal to equilibrium price

(D) Equal to Marginal Cost

**Q13.** Which market form is characterized by "Product Differentiation"?

(A) Perfect Competition

(B) Monopolistic Competition

(C) Monopoly

(D) Pure Competition

**Q14.** Average Revenue is always equal to:

(A) Marginal Revenue

(B) Total Revenue / Quantity

(C) Price

(D) Both (B) and (C)

**Q15.** If both demand and supply decrease in the same proportion, the equilibrium price will:

(A) Increase

(B) Decrease

(C) Remain unchanged

(D) Become zero

**Q16.** Which of the following is a "flow" variable?

(A) Wealth

(B) Capital

(C) Income

(D) Money Supply

**Q17.** Net Factor Income from Abroad is the difference between:

(A) $GDP_{MP}$ and $GDP_{FC}$

(B) $GNP_{MP}$ and $GDP_{MP}$

(C) $NNP_{FC}$ and $NDP_{FC}$

(D) Both (B) and (C)

**Q18.** If $NDP_{FC}$ is 2000 crore and Net Indirect Taxes are 200 crore, then $NDP_{MP}$ is:

(A) 1800 crore

(B) 2200 crore

(C) 2000 crore

(D) 4000 crore

**Q19.** Real GDP is equal to:

(A) (Nominal GDP / Price Index) $\times$ 100

(B) (Price Index / Nominal GDP) $\times$ 100

(C) Nominal GDP + Inflation

(D) $GDP_{MP}$ - Depreciation

**Q20.** "Mixed Income of Self-employed" is a component of National Income under:

(A) Product Method

(B) Expenditure Method

(C) Income Method

(D) Value Added Method

**Q21.** The value of the Money Multiplier is:

(A) $1/MPC$

(B) $1/CRR$

(C) $1/LRR$

(D) $1/MPS$

**Q22.** Which of the following is NOT a function of the Central Bank?

(A) Issue of currency

(B) Accepting deposits from the general public

(C) Banker to the Government

(D) Controller of Credit

**Q23.** During Deflation, the Central Bank should:

(A) Increase Bank Rate

(B) Increase CRR

(C) Sell securities in Open Market

(D) Decrease Repo Rate

**Q24.** $M1$ measure of money supply includes:

(A) Currency with public + Demand deposits + Other deposits with RBI

(B) $M1$ + Net time deposits

(C) $M1$ + Post office savings

(D) Total deposits with post office

**Q25.** If $MPC = 0.75$, the value of the Investment Multiplier ($k$) is:

(A) 2

(B) 3

(C) 4

(D) 5

**Q26.** At the "Break-even point":

(A) $S = Y$

(B) $C = Y$

(C) $C > Y$

(D) $APC = 0$

**Q27.** If $MPS = 0.2$ and the initial investment increases by 100 crore, the total increase in income will be:

(A) 200 crore

(B) 500 crore

(C) 80 crore

(D) 1000 crore

**Q28.** An Inflationary Gap can be corrected by:

(A) Increasing Government Expenditure

(B) Reducing Taxes

(C) Reducing Money Supply

(D) Increasing Exports

**Q29.** The Marginal Propensity to Consume (MPC) lies between:

(A) -1 and 1

(B) 0 and 1

(C) 1 and infinity

(D) 0 and infinity

**Q30.** Disinvestment is a _____ receipt of the government.

(A) Revenue

(B) Capital

(C) Debt

(D) Tax

**Q31.** Fiscal Deficit equals:

(A) Total Expenditure - Total Receipts

(B) Revenue Expenditure - Revenue Receipts

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

(D) Interest Payments - Primary Deficit

**Q32.** Which of the following is a Direct Tax?

(A) GST

(B) Excise Duty

(C) Corporate Tax

(D) Custom Duty

**Q33.** Export of goods is recorded in the _____ side of the _____ account.

(A) Credit, Capital

(B) Debit, Current

(C) Credit, Current

(D) Debit, Capital

**Q34.** A "Managed Floating" exchange rate system is also known as:

(A) Fixed Rate

(B) Dirty Floating

(C) Gold Standard

(D) Flexible Rate

**Q35.** "Accommodating items" in BOP are those which are:

(A) Undertaken for profit

(B) Independent of the state of BOP

(C) Undertaken to cover the deficit/surplus in autonomous items

(D) Related only to the private sector

**Q36.** On the eve of independence, India's demographic profile showed:

(A) Low birth rate and low death rate

(B) High birth rate and high death rate

(C) High birth rate and low death rate

(D) Low birth rate and high death rate

**Q37.** The "Karve Committee" (1955) was associated with:

(A) Large scale industries

(B) Small scale industries

(C) Land reforms

(D) Foreign trade

**Q38.** Which sector was given prime importance in the Second Five Year Plan (Mahalanobis Model)?

(A) Agriculture

(B) Services

(C) Heavy Industry

(D) Information Technology

**Q39.** The Green Revolution was primarily characterized by the use of:

(A) Organic fertilizers

(B) HYV seeds

(C) Manual ploughing

(D) Rain-fed irrigation

**Q40.** Under the New Economic Policy (1991), "Liberalization" meant:

(A) Selling PSUs to private players

(B) Integration of domestic economy with world economy

(C) Removal of entry and growth restrictions on the private sector

(D) Fixation of exchange rates

**Q41.** Which of the following is a Quantitative restriction on imports?

(A) Tariff

(B) Quota

(C) Duty

(D) Subsidy

**Q42.** "Outsourcing" is an important outcome of which process?

(A) Liberalization

(B) Privatization

(C) Globalization

(D) Nationalization

**Q43.** Which of the following is an indicator of "Human Capital Formation"?

(A) Increase in GDP

(B) Increase in Life Expectancy

(C) Increase in Physical Capital

(D) Increase in Population

**Q44.** The institutional source of rural credit in India is:

(A) Money lenders

(B) Traders

(C) Regional Rural Banks (RRBs)

(D) Landlords

**Q45.** "Operation Flood" is related to:

(A) Fish production

(B) Wheat production

(C) Milk production

(D) Control of floods

**Q46.** Self-employed workers in India are mostly found in:

(A) Agriculture

(B) Manufacturing

(C) Banking

(D) Civil Services

**Q47.** Sustainable development aims at:

(A) Rapid industrialization at any cost

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

(C) Maximizing current consumption

(D) Increasing carbon emissions

**Q48.** The "Great Leap Forward" (1958) was a campaign initiated in:

(A) India

(B) Pakistan

(C) China

(D) Japan

**Q49.** Which country has the highest Life Expectancy among India, China, and Pakistan?

(A) India

(B) China

(C) Pakistan

(D) All are equal

**Q50.** India, China, and Pakistan all introduced economic reforms in different years. The correct sequence is:

(A) China (1978), Pakistan (1988), India (1991)

(B) India (1991), China (1978), Pakistan (1988)

(C) Pakistan (1988), India (1991), China (1978)

(D) China (1978), India (1991), Pakistan (1988)

## Detailed Solutions

**Q1.**

### Solution

**Concept:** The **Production Possibility Frontier (PPF)** represents the maximum possible output combinations of two goods an economy can produce with fixed resources and technology. A **shift** in the PPF occurs only when there is a change in the total productive capacity of the economy (growth or decline in resources/technology).

**Solution:** 1. **Discovery of new resources:** This increases the economy's total productive capacity, allowing it to produce more of both goods, thus shifting the entire curve to the right. 2. **Efficient use of resources/Decrease in unemployment:** These represent moving from a point *inside* the PPF to a point *on* the PPF. They do not shift the frontier itself; they only change the level of utilization. 3. **Shift of resources:** This is a movement *along* the curve, reflecting the opportunity cost.

**Final Answer:** Discovery of new natural resources

**Answer: (C)**

**Q2.**

### Solution

**Concept: Cross-Price Elasticity of Demand** describes how the demand for one good changes in response to a price change of another good. Goods can be classified as Substitutes or Complementary based on this relationship.

**Solution:** 1. **Complementary Goods:** These are goods consumed together (e.g., Bread and Butter, Car and Petrol). There is an **inverse relationship** between the price of one and the demand for the other. 2. **The Scenario:** When the price of Bread increases, people buy less Bread. Since Butter is used with Bread, the demand for Butter also falls. 3. **Substitutes:** These would show a positive relationship (e.g., if the price of Tea rises, the demand for Coffee increases).

**Final Answer:** Complementary Goods

**Answer: (B)**

## Q3.

### Solution

**Concept:** The **Marginal Rate of Substitution** ($MRS_{xy}$) represents the rate at which a consumer is willing to sacrifice Good Y to obtain one additional unit of Good X while maintaining the same level of utility. The price ratio ($P_x/P_y$) represents the rate at which the market allows the consumer to exchange the two goods.
A rational consumer reaches equilibrium where the willingness to substitute equals the market exchange rate:

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

**Solution:** If $MRS_{xy} > P_x/P_y$, it means:

- The consumer's valuation of an extra unit of Good X (in terms of Good Y) is **higher** than what the market requires them to pay.
- Essentially, Good X is "worth more" to the consumer than its cost in the market.
- To maximize satisfaction, the consumer will **increase the consumption of Good X** and decrease the consumption of Good Y.

As the consumer consumes more of Good X, the Law of Diminishing Marginal Utility sets in, causing the $MRS_{xy}$ to fall until it eventually equals the price ratio ($P_x/P_y$), restoring equilibrium.
**Final Answer:** Consume more of Good X and less of Good Y.

**Answer: (B)**

## Q4.

### Solution

**Concept:** The **Price Elasticity of Demand** ($E_d$) measures the responsiveness of the quantity demanded of a good to a change in its price. It is calculated as the percentage change in quantity demanded divided by the percentage change in price.

**Solution:** The formula for price elasticity is:

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

Given:

- % Change in Price = 10%
- % Change in Quantity Demanded = 25%

Substituting the values:

$$E_d = \frac{25\%}{10\%} = 2.5$$

Since $E_d > 1$, the demand is considered **Elastic**, meaning consumers are highly responsive to price changes.

**Final Answer:** 2.5 (Elastic)

**Answer: (B)**

## Q5.

### Solution

**Concept:** The **Law of Variable Proportions** explains how the output changes when one variable input is increased while keeping other inputs constant. It consists of three stages:

(a) **Stage I (Increasing Returns):** Ends where $MP = AP$ (and $AP$ is at its maximum).

(b) **Stage II (Diminishing Returns):** Starts from the end of Stage I and ends where **Marginal Product** ($MP$) **becomes zero**.

(c) **Stage III (Negative Returns):** Starts where $MP$ becomes negative and Total Product ($TP$) begins to fall.

**Solution:** Stage II is the most significant stage for a rational producer. In this stage, $TP$ increases at a diminishing rate. The stage concludes exactly at the point where $MP = 0$, which also corresponds to the point where the **Total Product** ($TP$) **reaches its maximum level**.

**Final Answer:** MP = 0

**Answer: (C)**

## Q6.

### Solution

**Concept:** **Total Fixed Cost (TFC)** refers to the costs incurred by a firm that do not change with the level of output produced. These include expenses like rent, permanent staff salaries, and insurance, which must be paid even if the output is zero.

**Solution:** 1. Since fixed costs remain constant regardless of the volume of production, the TFC value stays the same at $Q = 0, Q = 1, Q = 10$, etc. 2. When plotted on a graph with Output on the X-axis and Cost on the Y-axis, this constant value results in a **Horizontal straight line parallel to the X-axis**. 3. **Note on other shapes:** The $AFC$ curve is a rectangular hyperbola, and $TVC$, $TC$, and $AC$ are generally U-shaped or upward sloping.

**Final Answer:** Horizontal straight line

**Answer: (C)**

## Q7.

### Solution

**Concept:** The **Shut-down Point** in the short run occurs when a firm cannot even cover its variable costs ($Price < AVC$). At this point, the firm decides to stop production to minimize losses. [Image showing the shut-down point where Price equals minimum AVC]

**Solution:** 1. In the short run, costs are divided into Total Fixed Cost (TFC) and Total Variable Cost (TVC). 2. If the firm continues to produce, it must pay both $TFC + TVC$. 3. If the firm **shuts down** (output = 0), its Variable Cost becomes **zero**. 4. However, the firm **cannot escape Fixed Costs** in the short run (e.g., it still has to pay rent for the factory). Therefore, its total loss will be exactly equal to its **Total Fixed Cost**.

**Final Answer:** Total Fixed Cost

**Answer: (B)**

## Q8.

### Solution

**Concept:** The relationship between **Marginal Revenue (MR)** and **Total Revenue (TR)** is a fundamental principle of revenue analysis. MR is the addition made to TR by selling one additional unit of output. Mathematically, MR is the slope of the TR curve ($MR = \Delta TR/\Delta Q$).
**Solution:** The relationship follows three distinct phases:

- As long as **MR is positive**, TR increases.
- When **MR is zero**, TR reaches its **maximum point** (the peak of the TR curve).
- When **MR becomes negative**, TR begins to decline.

This occurs because at $MR = 0$, the last unit sold added nothing to the total, indicating that the capacity to generate additional revenue from increasing sales has been exhausted.
**Final Answer:** Maximum

**Answer: (B)**

## Q9.

### Solution

**Concept:** Under **Perfect Competition**, a firm is a "price taker," meaning Price ($P$) = Average Revenue ($AR$) = Marginal Revenue ($MR$). To maximize profit, any firm (regardless of market structure) must satisfy two specific conditions.
**Solution:** The two necessary conditions for equilibrium/profit maximization are:

(a) **First Order Condition:** Marginal Revenue must equal Marginal Cost ($MR = MC$). In perfect competition, this is also $P = MC$.

(b) **Second Order Condition:** The **MC curve must cut the MR curve from below**. This ensures that beyond the equilibrium point, $MC > MR$, meaning any further production would lead to a loss, thus confirming the point is indeed a maximum.

If $MC$ cuts $MR$ from above, the firm would be at a point of minimum profit (or maximum loss).
**Final Answer:** MC cuts MR from below

**Answer: (C)**

## Q10.

### Solution

**Concept:** The **Price Elasticity of Supply** ($E_s$) measures the responsiveness of the quantity supplied of a commodity to a change in its price. It is calculated as the ratio of the percentage change in quantity supplied to the percentage change in price.

**Solution:** The formula for price elasticity of supply is:

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

Given:

- $E_s = 2.0$
- % Change in Price = +5%

Rearranging the formula to find the change in quantity supplied:

$$\% \text{ Change in Quantity Supplied} = E_s \times \% \text{ Change in Price}$$

$$\% \text{ Change in Quantity Supplied} = 2.0 \times 5\% = 10\%$$

Since there is a direct relationship between price and supply (Law of Supply), an increase in price leads to an **increase** in quantity supplied.

**Final Answer:** Increase by 10

**Answer: (A)**

## Q11.

### Solution

**Concept:** A **Price Floor** (also known as Minimum Support Price) is a government-mandated legal limit on how low a price can be charged for a product or service. To be effective in protecting producers (like farmers), it must be set relative to the market-clearing price.

**Solution:** 1. **Purpose:** It is intended to ensure that producers receive a fair price that covers their costs of production, especially when the market equilibrium price is deemed too low. 2. **Placement:** A price floor is only "binding" if it is set **above the equilibrium price**. If it were set below equilibrium, the market would naturally settle at the higher equilibrium price anyway. 3. **Consequence:** Because the price is artificially high, quantity supplied exceeds quantity demanded, typically resulting in a **surplus**.

**Final Answer:** Minimum price above equilibrium

**Answer: (C)**

## Q12.

### Solution

**Concept:** **Excess Demand** (also known as a shortage) occurs in a market when the quantity of a good demanded by consumers exceeds the quantity supplied by producers at the current market price. This situation exerts upward pressure on the price.

**Solution:** 1. **Equilibrium:** At the equilibrium price, Quantity Demanded ($Q_d$) equals Quantity Supplied ($Q_s$). 2. **Price Impact:** If the prevailing price is **below the equilibrium price**, the lower cost encourages consumers to buy more, while producers are less willing to supply the good. 3. **Result:** Since $Q_d > Q_s$, a shortage or "Excess Demand" is created. Market forces will typically push the price upward until it reaches the equilibrium level again.

**Final Answer:** Below equilibrium price

**Answer: (B)**

## Q13.

### Solution

**Concept:** **Product Differentiation** is a market situation where different firms produce goods that are similar but not identical. They may differ in terms of brand name, packaging, shape, color, or after-sales service. This gives the firm a degree of "monopoly power" over its specific brand.

**Solution:** 1. **Monopolistic Competition:** This market form is characterized by a large number of sellers selling differentiated products. Because the products are not perfect substitutes (e.g., different brands of soap or toothpaste), firms have some control over their prices. 2. **Contrast:**

- **Perfect Competition:** Sells "Homogeneous" (identical) products.
- **Monopoly:** There is only one seller and no close substitutes.

**Final Answer:** Monopolistic Competition

**Answer: (B)**

## Q14.

### Solution

**Concept: Average Revenue (AR)** is defined as the revenue earned per unit of output sold. In any market structure, the revenue generated from selling a product is the product of its price ($P$) and the quantity sold ($Q$).

**Solution:** 1. By definition: $AR = \frac{\text{Total Revenue (TR)}}{\text{Quantity (Q)}}$. 2. Since $TR$ = Price (P) $\times$ Quantity (Q), we can substitute this into the AR formula:

$$AR = \frac{P \times Q}{Q} = P$$

3. Therefore, Average Revenue is mathematically identical to the **Price** of the product. This holds true for all market forms, whether it is Perfect Competition, Monopoly, or Monopolistic Competition.

**Final Answer:** Both (B) and (C)

**Answer: (D)**

## Q15.

### Solution

**Concept:** Market equilibrium is determined by the intersection of the demand and supply curves. When both curves shift simultaneously, the effect on equilibrium price and quantity depends on the **magnitude** of the shifts.

**Solution:** 1. **Demand Decrease:** A decrease in demand (leftward shift) tends to pull the equilibrium price **down**. 2. **Supply Decrease:** A decrease in supply (leftward shift) tends to push the equilibrium price **up**. 3. **The Result:** When both decrease in the **same proportion**, these two opposing effects on price exactly cancel each other out. 4. While the equilibrium **quantity** will definitely decrease, the equilibrium **price** remains constant.

**Final Answer:** Remain unchanged

**Answer: (C)**

## Q16.

### Solution

**Concept:** In macroeconomics, variables are classified into **Stock** and **Flow**. A Stock variable is measured at a particular point in time (like a snapshot), whereas a **Flow variable** is measured over a specific period of time (like a video).

**Solution:** 1. **Income:** This is measured per unit of time (e.g., 50,000 per month). Therefore, it is a **Flow** variable. 2. **Wealth, Capital, and Money Supply:** These are measured at a specific moment (e.g., "As of March 31st"). Therefore, these are **Stock** variables. 3. **Analogy:** Wealth is like the water stored in a tank (Stock), while Income is like the water flowing into the tank from a pipe (Flow).

**Final Answer:** Income

**Answer: (C)**

## Q17.

### Solution

**Concept:** **Net Factor Income from Abroad (NFIA)** is the component that distinguishes "Domestic" concepts from "National" concepts. It is the difference between factor income earned by our residents from the rest of the world and factor income earned by non-residents within our domestic territory.

**Solution:** 1. To convert a Domestic product to a National product, we add NFIA:

$$\text{National} = \text{Domestic} + \text{NFIA}$$

2. Therefore, **NFIA = National - Domestic**. 3. Looking at the options:

- (B) $GNP_{MP} - GDP_{MP}$ (National minus Domestic) = NFIA.
- (C) $NNP_{FC} - NDP_{FC}$ (National minus Domestic) = NFIA.

Since both identify the gap between the National and Domestic identity, both are correct.

**Final Answer:** Both (B) and (C)

**Answer: (D)**

## Q18.

### Solution

**Concept:** The difference between **Factor Cost (FC)** and **Market Price (MP)** is the **Net Indirect Taxes (NIT)**. Factor Cost represents the cost of production (payments to factors), while Market Price is what the consumer pays in the market after government intervention.

**Solution:** The formula to convert Factor Cost to Market Price is:

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

Given:

- $NDP_{FC}$ = 2000 crore
- $NIT$ = 200 crore

Substituting the values:

$$NDP_{MP} = 2000 + 200 = 2200 \text{ crore}$$

(Note: NIT is calculated as Indirect Taxes minus Subsidies).

**Final Answer:** 2200 crore

**Answer: (B)**

## Q19.

### Solution

**Concept:** **Real GDP** (GDP at constant prices) measures the value of goods and services produced by an economy in a year, adjusted for changes in price levels (inflation or deflation). It reflects the actual growth in the volume of production. **Nominal GDP** (GDP at current prices), on the other hand, can increase simply because prices rose, even if production stayed the same.

**Solution:** To eliminate the effect of price changes and find the "Real" value, we use the following formula:

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index (GDP Deflator)}} \times 100$$

The Price Index acts as a "deflator" to bring the current market value back to base-year prices.

**Final Answer:** (Nominal GDP / Price Index) × 100

**Answer: (A)**

## Q20.

### Solution

**Concept:** The **Income Method** calculates National Income by adding up all the factor incomes generated by the resident producers of a country during an accounting year. These incomes are classified into three main categories:

(a) Compensation of Employees (Wages, Salaries, etc.)

(b) Operating Surplus (Rent, Interest, and Profit)

(c) Mixed Income of Self-employed

**Solution:** 1. **Mixed Income:** This term is used for people like doctors, lawyers, or small shopkeepers who use their own labor, land, and capital. Since it is difficult to separate their income into wages, rent, or profit, it is recorded as "Mixed Income." 2. **Classification:** Because this represents a form of factor income earned by individuals, it is a specific component of the **Income Method** used to arrive at $NDP_{FC}$ (Net Domestic Product at Factor Cost).
**Final Answer:** Income Method

**Answer: (C)**

## Q21.

### Solution

**Concept:** The **Money Multiplier** (or Credit Multiplier) measures the amount of money that the banking system generates with each rupee of excess reserves. It is inversely related to the **Legal Reserve Ratio (LRR)**, which is the minimum fraction of deposits that banks are legally required to keep as cash.
**Solution:** 1. The formula for the Money Multiplier is:

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

2. LRR consists of two components: the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR). 3. A lower LRR allows banks to lend more, thereby increasing the money multiplier, whereas a higher LRR restricts the credit creation capacity of commercial banks.
**Final Answer:** 1 / LRR

**Answer: (C)**

## Q22.

### Solution

**Concept:** The **Central Bank** (such as the RBI in India) is the apex institution of the monetary system. It performs macro-level functions to stabilize the economy and regulate the banking sector, whereas **Commercial Banks** interact directly with individuals and businesses.

**Solution:** 1. **Functions of Central Bank:** It has the sole authority for currency issuance, acts as a banker and advisor to the government, and controls the total supply of credit in the economy. 2. **Commercial Bank Function: Accepting deposits from the general public** and advancing loans for consumption or investment are primary functions of commercial banks, not the Central Bank. The Central Bank only deals with the government and other banks.

**Final Answer:** Accepting deposits from the general public

**Answer: (B)**

## Q23.

### Solution

**Concept: Deflation** is a situation characterized by a general fall in prices and a lack of aggregate demand. To combat this, the Central Bank adopts an **"Easy Money Policy"** (Expansionary Monetary Policy) to increase the liquidity and purchasing power in the economy.

**Solution:** To increase the money supply during deflation, the Central Bank:

- **Decreases Policy Rates:** Reducing the **Repo Rate** or Bank Rate makes borrowing cheaper for commercial banks, encouraging them to lend more to the public.
- **Decreases Reserve Ratios:** Lowering CRR/SLR leaves more funds with banks for credit creation.
- **Open Market Operations:** The Central Bank **buys** securities to inject cash into the system (Selling securities would withdraw cash).

**Final Answer:** Decrease Repo Rate

**Answer: (D)**

## Q24.

### Solution

**Concept:** The **M1** measure is the most liquid measure of the money supply, often referred to as "Narrow Money." It includes money that can be immediately used for transactions. The Reserve Bank of India (RBI) classifies money supply into four functional aggregates ($M1$, $M2$, $M3$, and $M4$).
**Solution:** The components of $M1$ are:

- **C:** Currency (notes plus coins) held by the public.
- **DD:** Net demand deposits held by commercial banks (money in current and savings accounts that can be withdrawn on demand).
- **OD:** Other deposits held by the RBI (deposits of quasi-government institutions, foreign central banks, etc.).

The formula is: $M1 = C + DD + OD$. Note that "Time Deposits" (Fixed Deposits) are not included in $M1$ because they are not immediately liquid.
**Final Answer:** Currency with public + Demand deposits + Other deposits with RBI

**Answer: (A)**

## Q25.

### Solution

**Concept:** The **Investment Multiplier** ($k$) explains the relationship between an initial increment in investment and the resulting increase in aggregate income. It is based on the principle that one person's expenditure is another person's income. The value of the multiplier depends directly on the **Marginal Propensity to Consume** ($MPC$).

**Solution:** The formula for the Investment Multiplier is:

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

Given:

- $MPC = 0.75$

Substituting the value into the formula:

$$k = \frac{1}{1 - 0.75}$$

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

$$k = 4$$

This means that for every 1 increase in investment, the total income in the economy will increase by 4.

**Final Answer:** 4

**Answer: (C)**

## Q26.

### Solution

**Concept:** The **Break-even point** in macroeconomics refers to the level of income where the entire income is spent on consumption, leaving zero savings. At this point, the consumption curve intersects the 45° line (income line) on a graph.

**Solution:** 1. At the break-even point, **Consumption** ($C$) **is equal to Income** ($Y$). 2. Since $Y = C + S$, if $C = Y$, then **Savings** ($S$) **must be zero**. 3. At this level, the **Average Propensity to Consume** ($APC$) is equal to 1 (since $APC = C/Y$ and $C = Y$). 4. If income falls below this point, consumption exceeds income ($C > Y$), leading to "dissavings" (negative savings).

**Final Answer:** C = Y

**Answer: (B)**

## Q27.

### Solution

**Concept:** The **Investment Multiplier** ($k$) determines how many times the total income will increase due to an initial increase in investment. It is inversely related to the **Marginal Propensity to Save** ($MPS$).

**Solution:** 1. First, calculate the value of the multiplier ($k$):

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

Given $MPS = 0.2$:

$$k = \frac{1}{0.2} = 5$$

2. Now, use the multiplier to find the total increase in income ($\Delta Y$):

$$\Delta Y = k \times \Delta I$$

Given $\Delta I = 100$ crore:

$$\Delta Y = 5 \times 100 = 500 \text{ crore}$$

**Final Answer:** 500 crore

**Answer: (B)**

## Q28.

### Solution

**Concept:** An **Inflationary Gap** occurs when Aggregate Demand ($AD$) exceeds Aggregate Supply ($AS$) at the full employment level of income. To correct this, the government or central bank must implement contractionary policies to reduce the total spending in the economy.

**Solution:** Reducing the money supply (Option C) is a contractionary monetary policy. By decreasing the availability of credit or increasing interest rates, investment and consumption spending fall, thereby shifting the $AD$ curve downwards to eliminate the gap. Options A, B, and D are expansionary and would worsen inflation.

**Final Answer:** Reducing Money Supply

**Answer: (C)**

## Q29.

### Solution

**Concept:** The **Marginal Propensity to Consume (MPC)** measures the change in consumption ($\Delta C$) resulting from a change in income ($\Delta Y$). It is mathematically expressed as $MPC = \Delta C/\Delta Y$.
**Solution:** Since people generally consume a portion of their additional income but not more than the total increase (in normal macroeconomic models), the value of MPC cannot be negative and typically does not exceed 1. If $\Delta C = 0$, $MPC = 0$; if the entire increase is consumed, $MPC = 1$. Therefore, it lies between 0 and 1.
**Final Answer:** 0 and 1

**Answer: (B)**

## Q30.

### Solution

**Concept:** **Capital Receipts** are those government receipts that either create a liability (like borrowing) or cause a reduction in the assets of the government.
**Solution:** Disinvestment involves the sale of equity or shares of Public Sector Undertakings (PSUs) to the private sector. Since this process results in a reduction of the government's financial assets, it is classified as a Capital Receipt. It is a "non-debt" capital receipt because it does not create a future repayment liability.
**Final Answer:** Capital

**Answer: (B)**

## Q31.

### Solution

**Concept:** **Fiscal Deficit** is the difference between the government's total expenditure and its total receipts, excluding borrowings. It indicates the total borrowing requirements of the government from all sources during a financial year.
**Solution:** The formula for Fiscal Deficit is: $TotalExpenditure - (RevenueReceipts + Non-debtCapitalReceipts)$. Non-debt capital receipts typically include recovery of loans and proceeds from disinvestment. This measure is more comprehensive than the budget deficit because it shows the extent to which the government is living beyond its means. Option (A) is incorrect because it includes debt-creating receipts (borrowings), which would make the result zero.
**Final Answer:** Total Expenditure - (Revenue Receipts + Non-debt Capital Receipts)

**Answer: (C)**

## Q32.

### Solution

**Concept:** A **Direct Tax** is a tax where the liability to pay and the actual burden of the tax fall on the same person/entity. These taxes cannot be shifted to others and are generally based on income or wealth.

**Solution:** Corporate Tax is a direct tax imposed on the net income or profit that corporations make. In contrast, GST, Excise Duty, and Custom Duty are Indirect Taxes, as the burden of these taxes is shifted to the final consumer through the price of goods and services.

**Final Answer:** Corporate Tax

**Answer: (C)**

## Q33.

### Solution

**Concept:** The **Balance of Payments (BOP)** records all economic transactions between residents of a country and the rest of the world. It is divided into the Current Account (visible/invisible trade) and the Capital Account (assets/liabilities).

**Solution:** Export of goods is a "visible" trade transaction, which is always recorded in the **Current Account**. Since exports result in an inflow of foreign exchange into the country, they are recorded as a positive or **Credit** entry. Transactions involving an outflow of foreign exchange (like imports) are recorded on the Debit side.

**Final Answer:** Credit, Current

**Answer: (C)**

## Q34.

### Solution

**Concept:** A **Managed Floating** exchange rate system is a hybrid of fixed and flexible exchange rate systems. Under this system, the exchange rate is primarily determined by the market forces of demand and supply, but the Central Bank intervenes occasionally to stabilize or influence the rate.

**Solution:** Managed floating is often called **Dirty Floating** because, while it appears to be a free-market (flexible) system, the "interference" or intervention by the Central Bank prevents the currency from being truly free-floating. This is done to prevent excessive fluctuations that could harm the domestic economy.

**Final Answer:** Dirty Floating

**Answer: (B)**

## Q35.

### Solution

**Concept:** In the Balance of Payments (BOP), transactions are classified into two categories: **Autonomous** (above the line) and **Accommodating** (below the line).

**Solution:** Accommodating items are those transactions that are **undertaken to cover the deficit or surplus** arising from autonomous items. Unlike autonomous transactions, which are done for profit or personal reasons, accommodating items are compensatory in nature—usually involving the use of official reserves by the Central Bank to ensure the BOP accounts balance.

**Final Answer:** Undertaken to cover the deficit/surplus in autonomous items

**Answer: (C)**

## Q36.

### Solution

**Concept:** The **Demographic Profile** of a country refers to the statistical study of its population, including birth rates, death rates, and literacy levels. On the eve of independence, India was in the first stage of demographic transition.

**Solution:** During the colonial period, India's demographic conditions were characterized by both **high birth rates and high death rates**. The birth rate was approximately 48 per thousand and the death rate was about 40 per thousand. This resulted in a very low life expectancy (about 32 years) and reflected a state of extreme poverty and lack of basic health facilities.

**Final Answer:** High birth rate and high death rate

**Answer: (B)**

## Q37.

### Solution

**Concept:** The Village and Small-Scale Industries Committee, commonly known as the **Karve Committee**, was established in 1955 to address the role of small industries in promoting rural development.

**Solution:** The Karve Committee highlighted that **small-scale industries** (SSI) are more "labor-intensive" (using more labor than large-scale industries) and therefore provide more employment opportunities. It suggested using small-scale industries as a tool for promoting rural development and decentralization of economic power.

**Final Answer:** Small scale industries

**Answer: (B)**

## Q38.

### Solution

**Concept:** The **Second Five Year Plan (1956-61)** was based on the **Mahalanobis Model**, named after the statistician Prasanta Chandra Mahalanobis. This model shifted the focus from agriculture to the structural transformation of the economy.

**Solution:** The plan gave prime importance to **Heavy Industries** and capital goods. The goal was to build a strong industrial base for the country, which included the setting up of steel plants (like Bhilai, Durgapur, and Rourkela) and promoting self-reliance. It followed a policy of "state-led industrialization" to ensure rapid economic growth.

**Final Answer:** Heavy Industry

**Answer: (C)**

## Q39.

### Solution

**Concept:** The **Green Revolution** refers to the large increase in production of food grains (mainly wheat and rice) resulting from the introduction of new agricultural techniques in the mid-1960s.

**Solution:** The revolution was primarily characterized by the use of **HYV (High Yielding Variety) seeds**, specifically the miracle seeds for wheat and rice. To be effective, these seeds required a combination of adequate irrigation, chemical fertilizers, and pesticides. This transformed India from a food-deficient nation to a food-surplus nation.

**Final Answer:** HYV seeds

**Answer: (B)**

## Q40.

### Solution

**Concept:** In 1991, India introduced the New Economic Policy (NEP) consisting of **LPG** (Liberalization, Privatization, and Globalization) to resolve the severe balance of payments crisis.

**Solution:** **Liberalization** specifically refers to the **removal of entry and growth restrictions** on the private sector. Before 1991, the economy was heavily regulated by "License-Permit Raj." Liberalization abolished industrial licensing for almost all projects, allowed for easier expansion, and reduced government intervention in price-fixing and imports.

**Final Answer:** Removal of entry and growth restrictions on the private sector

**Answer: (C)**

## Q41.

### Solution

**Concept:** Trade barriers are generally classified into two categories: **Tariff barriers** (taxes on imports) and **Non-tariff barriers** (quantitative restrictions).

**Solution:** A **Quota** is a quantitative restriction on imports. It specifies the physical limit or the maximum quantity of a particular commodity that can be imported during a given period. While Tariffs (Option A), Duties (Option C), and Subsidies (Option D) affect the "price" of goods, a Quota directly restricts the "volume" of trade to protect domestic industries from foreign competition.

**Final Answer:** Quota

**Answer: (B)**

## Q42.

### Solution

**Concept:** **Outsourcing** is a practice where a company hires regular services from external sources, mostly from other countries, which were previously performed internally.

**Solution:** Outsourcing is a major outcome of the **Globalization** process. Globalization involves the integration of the domestic economy with the world economy. Due to improvements in communication technology (IT) and the liberalization of trade, companies in developed nations often outsource services like BPO, accounting, and clinical advice to countries like India where labor is cheaper and skilled, making the world a more interconnected marketplace.

**Final Answer:** Globalization

**Answer: (C)**

## Q43.

### Solution

**Concept:** **Human Capital Formation** refers to the process of adding to the stock of skilled and capable people in a country over time. It is the result of investments in education, health, on-the-job training, migration, and information.

**Solution:** An **increase in Life Expectancy** is a direct indicator of improved health status, which is a key component of human capital. Better health makes a person more productive and increases their ability to contribute to the economy over a longer period. While an increase in GDP (Option A) is an outcome of human capital, and physical capital (Option C) refers to machinery/buildings, Life Expectancy specifically reflects the quality and "formation" of the human resource.

**Final Answer:** Increase in Life Expectancy

**Answer: (B)**

## Q44.

### Solution

**Concept:** Rural credit sources in India are divided into two categories: **Non-Institutional sources** (money lenders, traders, landlords) and **Institutional sources** (Commercial Banks, Cooperatives, and RRBs).

**Solution:** **Regional Rural Banks (RRBs)** are institutional sources established to provide credit specifically to the rural areas, including small farmers, agricultural laborers, and artisans. Unlike money lenders or traders (Options A, B, and D), RRBs are regulated by the government and RBI, offering loans at fair interest rates to protect rural borrowers from exploitation.

**Final Answer:** Regional Rural Banks (RRBs)

**Answer: (C)**

## Q45.

### Solution

**Concept:** **Operation Flood** was a landmark project of India's National Dairy Development Board (NDDB), launched in 1970. It is the program that led to the "White Revolution" in India.

**Solution:** Operation Flood is related to **Milk production**. It created a national milk grid and linked producers throughout India with consumers in over 700 towns and cities. This system reduced seasonal price variations and ensured that the producer gets a major share of the price paid by consumers, making India the largest producer of milk in the world.

**Final Answer:** Milk production

**Answer: (C)**

## Q46.

### Solution

**Concept:** Employment in India is broadly categorized into **Self-employed** (owning and operating an enterprise) and **Hired workers** (Casual and Regular). Self-employment remains the single largest source of livelihood in India.

**Solution:** Self-employed workers are mostly found in the **Agriculture** sector. Since a vast majority of the Indian population owns small landholdings and works on their own farms, they are classified as self-employed. In contrast, sectors like Banking and Civil Services (Options C and D) are dominated by regular salaried employees, and Manufacturing (Option B) has a higher mix of hired wage labor.

**Final Answer:** Agriculture

**Answer: (A)**

## Q47.

### Solution

**Concept:** The concept of **Sustainable Development** was popularized by the Brundtland Commission in its 1987 report, "Our Common Future." It emphasizes the balance between economic growth and environmental conservation.

**Solution:** Sustainable development aims at **meeting the needs of the present without compromising the ability of future generations to meet their own needs**. This requires a shift away from "growth at any cost" and instead focuses on preserving the "natural capital" (resources like clean air, water, and forests) so that the quality of life does not diminish for those who come after us.

**Final Answer:** Meeting the needs of the present without compromising future generations

**Answer: (B)**

## Q48.

### Solution

**Concept:** The **Great Leap Forward (GLF)** was a social and economic campaign launched by the Communist Party of China. Its primary goal was to transform the country from an agrarian economy into a modern industrial society through rapid industrialization and collectivization.

**Solution:** The GLF was initiated in **China** in 1958 under the leadership of Mao Zedong. A key feature of this campaign was the "Commune System," where people were encouraged to set up "backyard furnaces" in their homes to produce steel and engage in collective farming. Although it aimed for massive growth, it faced severe challenges due to industrial mismanagement and agricultural failures.

**Final Answer:** China

**Answer: (C)**

## Q49.

### Solution

**Concept:** **Life Expectancy at Birth** is a key demographic indicator that reflects the average number of years a person is expected to live. It serves as a proxy for the overall health facilities, nutrition, and quality of life in a country.

**Solution:** Among the three neighboring nations, **China** has the highest life expectancy (currently exceeding 77 years). India and Pakistan trail behind with significantly lower averages (approx. 70 and 67 years respectively). This disparity is largely attributed to China's earlier and more intensive investments in public health, sanitation, and primary education compared to the other two nations.

**Final Answer:** China

**Answer: (B)**

## Q50.

### Solution

**Concept:** Developing nations often undergo structural changes by introducing **Economic Reforms** to shift from a closed/regulated economy to an open/market-oriented economy.
**Solution:** The three countries followed different timelines for their economic liberalization:

- **China:** Started its reforms in **1978** under Deng Xiaoping.
- **Pakistan:** Introduced its reforms in **1988**.
- **India:** Initiated the New Economic Policy (LPG) in **1991**.

Thus, the correct chronological sequence is China (1978), Pakistan (1988), and then India (1991).
**Final Answer:** China (1978), Pakistan (1988), India (1991)

**Answer: (A)**

# Answer Key

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