CUET-UG Economics Sample Paper-12

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. The problem of 'what to produce' in an economy is fundamentally linked to:

(A) The concept of market failure.

(B) The allocation of scarce resources among competing uses.

(C) The distribution of income and wealth.

(D) The determination of exchange rates.

Q2. If the Marginal Rate of Substitution (MRSxy) is constant along an indifference curve, the indifference curve will be:

(A) Concave to the origin.

(B) Convex to the origin.

(C) A straight line.

(D) L-shaped.

Q3. According to the Law of Diminishing Marginal Utility, as consumption of a good increases, the marginal utility derived from each additional unit:

(A) Increases.

(B) Remains constant.

(C) Decreases.

(D) Becomes negative only after total utility is maximized.

Q4. A decrease in the price of a raw material used to produce good X will lead to:

(A) A leftward shift in the demand curve for good X.

(B) A rightward shift in the supply curve for good X.

(C) A movement down along the supply curve for good X.

(D) An increase in the quantity demanded for good X.

Q5. Returns to scale refer to the behavior of output when:

(A) Only one input is varied, while others are kept constant.

(B) All inputs are varied in the same proportion.

(C) The firm is operating in the short run.

(D) The marginal product of labor becomes negative.

Q6. When marginal product (MP) is zero, total product (TP) is:

(A) At its minimum.

(B) Decreasing.

(C) At its maximum.

(D) Equal to average product (AP).

Q7. Which of the following is an example of an explicit cost for a firm?

(A) The salary the owner could earn working elsewhere.

(B) The rent the owner's building could earn if leased out.

(C) The depreciation of machinery owned by the firm.

(D) The wages paid to hired workers.

Q8. If a firm's total revenue is ₹ 500, explicit costs are ₹ 300, and implicit costs are ₹ 150, its economic profit is:

(A) ₹ 50

(B) ₹ 200

(C) ₹ 350

(D) ₹ 500

Q9. For a perfectly competitive firm, the Marginal Revenue (MR) curve is:

(A) Downward sloping.

(B) Upward sloping.

(C) Horizontal and equal to the market price.

(D) U-shaped.

Q10. In a perfectly competitive market, if the price is above the firm's Average Variable Cost but below its Average Total Cost, the firm will:

(A) Shut down immediately.

(B) Continue to produce in the short run to minimize losses.

(C) Increase its price to cover costs.

(D) Exit the market in the short run.

Q11. The demand curve for an individual firm under perfect competition is:

(A) Perfectly inelastic.

(B) Relatively inelastic.

(C) Perfectly elastic.

(D) Unit elastic.

Q12. Which type of efficiency is achieved by perfectly competitive firms in the long run, ensuring that goods are produced at the lowest possible cost?

(A) Allocative efficiency

(B) Dynamic efficiency

(C) Productive efficiency

(D) Distributive efficiency

Q13. If new firms can freely enter a perfectly competitive industry in the long run, the industry's long-run supply curve is likely to be:

(A) Upward sloping.

(B) Downward sloping.

(C) Perfectly elastic (horizontal).

(D) Perfectly inelastic (vertical).

Q14. If the government imposes a specific tax on producers in a perfectly competitive market, which of the following will occur in the short run?

(A) The supply curve shifts right, and the equilibrium price falls.

(B) The supply curve shifts left, and the equilibrium price rises.

(C) The demand curve shifts left, and the equilibrium price falls.

(D) Both the demand and supply curves shift, leading to an indeterminate price change.

Q15. A price ceiling set below the equilibrium price will result in:

(A) A surplus in the market.

(B) An increase in the quantity supplied.

(C) A shortage in the market.

(D) No change in the market outcome.

Q16. Which of the following is considered a transfer payment and thus excluded from national income calculation?

(A) Wages earned by a factory worker.

(B) Profit earned by a sole proprietor.

(C) Unemployment benefits received by jobless individuals.

(D) Interest received on a bank deposit.

Q17. Net National Product (NNP) at Factor Cost is also known as:

(A) Gross Domestic Product (GDP).

(B) National Income (NI).

(C) Personal Income (PI).

(D) Disposable Personal Income (DPI).

Q18. If nominal GDP increases by 10% but real GDP decreases by 2%, it implies that:

(A) The price level has decreased.

(B) The price level has increased significantly.

(C) There has been no change in the price level.

(D) Production has increased, but prices have fallen.

Q19. A limitation of using GDP as a measure of economic welfare is that it does not account for:

(A) The value of goods and services produced.

(B) The distribution of income.

(C) Inflation and deflation.

(D) The total output of the economy.

Q20. In an open economy, which of the following is considered a leakage from the circular flow of income?

(A) Government expenditure.

(B) Investment.

(C) Exports.

(D) Imports.

Q21. The main difficulty associated with the barter system is:

(A) Lack of a medium of exchange.

(B) Lack of a store of value.

(C) Lack of a unit of account.

(D) Lack of double coincidence of wants.

Q22. If commercial banks are required to hold a larger fraction of deposits as reserves, the money multiplier will:

(A) Increase.

(B) Decrease.

(C) Remain unchanged.

(D) Fluctuate unpredictably.

Q23. The 'banker to the government' function in India is performed by:

(A) State Bank of India.

(B) Commercial banks.

(C) Reserve Bank of India.

(D) Ministry of Finance.

Q24. When the central bank sells government securities in the open market, it aims to:

(A) Increase the money supply in the economy.

(B) Decrease the money supply in the economy.

(C) Lower interest rates.

(D) Encourage commercial banks to lend more.

Q25. The concept of 'paradox of thrift' suggests that an increase in the desire to save can lead to:

(A) An increase in aggregate demand and income.

(B) A decrease in aggregate demand and income.

(C) A decrease in the money supply.

(D) An increase in government spending.

Q26. In the Keynesian model, full employment equilibrium can occur:

(A) Only when there is no involuntary unemployment.

(B) Even when there is involuntary unemployment.

(C) Only at the maximum possible output level.

(D) When aggregate demand equals potential output.

Q27. The sum of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) is always:

(A) Less than 1.

(B) Greater than 1.

(C) Equal to 1.

(D) Dependent on the level of income.

Q28. An inflationary gap occurs when aggregate demand is:

(A) Equal to aggregate supply at full employment.

(B) Less than aggregate supply at full employment.

(C) More than aggregate supply at full employment.

(D) Decreasing rapidly.

Q29. If an individual's consumption is ₹ 8,000 when income is ₹ 10,000, their Average Propensity to Consume (APC) is:

(A) 0.2

(B) 0.8

(C) 1.25

(D) 2

Q30. A high revenue deficit in a government budget typically indicates:

(A) That the government is efficiently managing its finances.

(B) That the government's current receipts are insufficient to meet its current expenditures.

(C) That the government is primarily investing in capital assets.

(D) That the government has a surplus in its capital account.

Q31. Which of the following is a primary objective of fiscal policy?

(A) Controlling money supply.

(B) Achieving price stability and full employment.

(C) Regulating commercial banks.

(D) Managing foreign exchange reserves.

Q32. Subsidies given to producers by the government are classified as:

(A) Capital receipts.

(B) Revenue receipts.

(C) Revenue expenditure.

(D) Capital expenditure.

Q33. Which of the following is a component of the capital account of the Balance of Payments?

(A) Net factor income from abroad.

(B) Remittances from abroad.

(C) Borrowings from abroad.

(D) Export of services.

Q34. Devaluation of a currency means:

(A) An increase in the value of domestic currency relative to foreign currency by market forces.

(B) A decrease in the value of domestic currency relative to foreign currency by market forces.

(C) A deliberate reduction in the value of domestic currency relative to foreign currency by the government.

(D) An increase in the foreign exchange reserves held by the central bank.

Q35. The Planning Commission in India was established in which year?

(A) 1947

(B) 1950

(C) 1956

(D) 1965

Q36. A major land reform measure implemented in India post-independence was:

(A) Introduction of contract farming.

(B) Consolidation of land holdings.

(C) Abolition of minimum support prices.

(D) Promotion of large-scale corporate farming.

Q37. The main objective of the public sector in India during the planning period (1950-1990) was:

(A) Maximizing profits.

(B) Promoting private monopolies.

(C) Achieving self-reliance and social justice.

(D) Encouraging foreign direct investment.

Q38. The Karve Committee (1955) was specifically associated with policies for the development of:

(A) Heavy industries.

(B) Small scale industries.

(C) Agricultural marketing.

(D) Export promotion zones.

Q39. The three main pillars of India's New Economic Policy (1991) are:

(A) Import Substitution, Industrial Licensing, Nationalization.

(B) Liberalisation, Privatisation, Globalisation.

(C) Central Planning, Public Sector Dominance, Trade Barriers.

(D) Fiscal Consolidation, Monetary Tightening, Fixed Exchange Rate.

Q40. Post-1991 reforms, the industrial sector in India witnessed:

(A) An increase in industrial licensing.

(B) Greater competition and foreign investment.

(C) Reduced emphasis on exports.

(D) A decline in the growth rate of manufacturing.

Q41. Which of the following was a primary reason for India undertaking economic reforms in 1991?

(A) A surplus in the balance of payments.

(B) A stable fiscal situation.

(C) A severe balance of payments crisis.

(D) High foreign exchange reserves.

Q42. Which of the following is an institutional source of rural credit in India?

(A) Moneylenders

(B) Traders

(C) Regional Rural Banks (RRBs)

(D) Landlords

Q43. When workers appear to be employed but their marginal productivity is zero or negative, it is called:

(A) Open unemployment.

(B) Seasonal unemployment.

(C) Disguised unemployment.

(D) Structural unemployment.

Q44. Sustainable development primarily focuses on:

(A) Maximizing current economic growth at any cost.

(B) Meeting the needs of the present without compromising the ability of future generations to meet their own needs.

(C) Relying solely on fossil fuels for energy.

(D) Promoting rapid urbanization and industrialization.

Q45. Workers in the informal sector typically lack:

(A) Entrepreneurial skills.

(B) Access to raw materials.

(C) Social security benefits and job security.

(D) Willingness to work.

Q46. A major challenge in India's health sector is:

(A) Excessive public spending on healthcare.

(B) Equitable access to affordable healthcare services.

(C) A surplus of highly specialized medical professionals.

(D) Complete reliance on traditional medicine.

Q47. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) aims to provide:

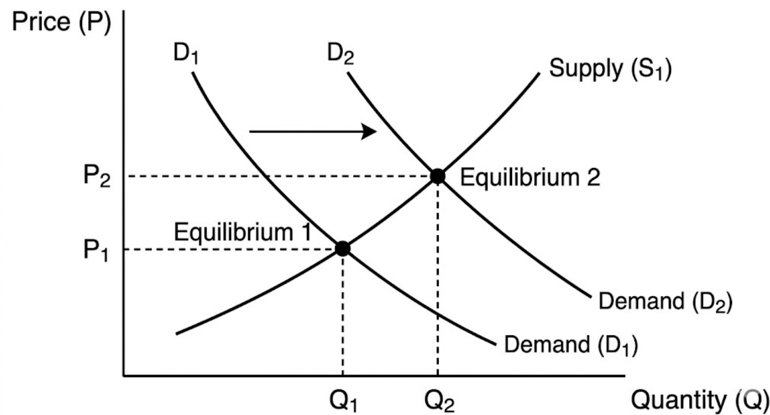
(A) Guaranteed credit for small businesses.

(B) 100 days of wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work.

(C) Free education for all rural children.

(D) Subsidized housing for urban poor.

Q48. Based on this described shift, which of the following events could have caused the change from D1 to D2?



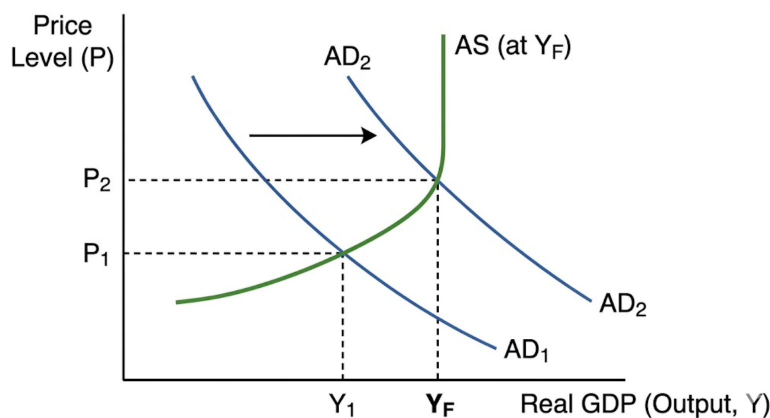
(A) A decrease in the cost of production for the good.

(B) An increase in consumer income for a normal good.

(C) A decrease in the price of the good itself.

(D) An increase in the price of a complementary good.

Q49. Based on this situation, the economy is experiencing:



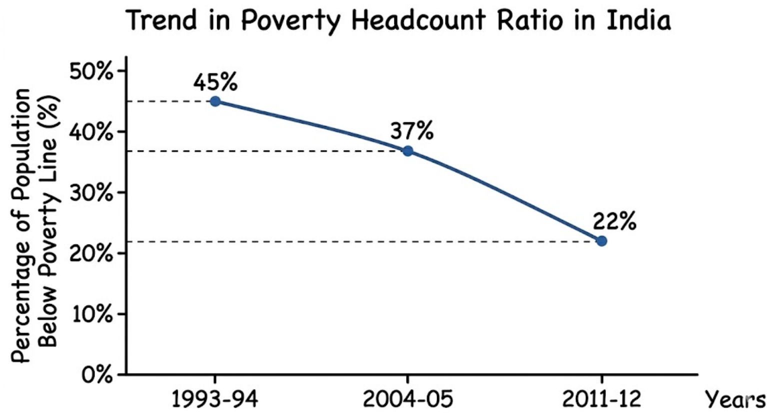
(A) An inflationary gap.

(B) A deflationary gap.

(C) Full employment equilibrium.

(D) Supply-side inflation.

Q50. What does this trend primarily indicate about India's economic development?



(A) A complete eradication of poverty has been achieved.

(B) A significant reduction in income inequality.

(C) Success in poverty alleviation programs and economic growth.

(D) An increase in the absolute number of poor people.

Detailed Solutions

Q1.

Solution

Concept: Central Economic Problems arising from Scarcity and Resource Allocation.

Solution: The core of economics is the study of how to deal with scarcity—the condition where human wants for goods and services are unlimited, but the resources to produce them are finite. This fundamental constraint forces every society to make choices. These choices are categorized into three central economic problems:

What to produce? This involves deciding which goods and services to create and in what quantities. It is a problem of allocating scarce resources among different potential outputs (e.g., producing more healthcare or more military equipment).

How to produce? This is about choosing the most efficient production techniques (e.g., labor-intensive vs. capital-intensive methods).

For whom to produce? This concerns the distribution of the final goods and services among the population. The question 'what to produce' is therefore fundamentally a problem of allocating an economy's scarce resources among competing and alternative uses.

Answer: (B)

Q2.

Solution

Concept: Properties of Indifference Curves and the Marginal Rate of Substitution (MRS).

Solution: An indifference curve shows combinations of two goods that give a consumer equal satisfaction. The Marginal Rate of Substitution (MRS) is the rate at which a consumer is willing to give up some amount of good Y to obtain one more unit of good X, while maintaining the same level of utility. The MRS is represented by the absolute value of the slope of the indifference curve. Typically, indifference curves are convex to the origin, which reflects a diminishing MRS. However, if the MRS is constant, it means the consumer is always willing to trade the two goods at a fixed ratio, regardless of how much of each they currently have. A curve with a constant slope is, by definition, a straight line. This case applies to goods that are perfect substitutes for each other (e.g., two different brands of petrol that the consumer views as identical).

Answer: (C)

Q3.

Solution

Concept: The Law of Diminishing Marginal Utility.

Solution: The Law of Diminishing Marginal Utility is a core principle in microeconomics that describes consumer behavior. It states that as a person consumes successive units of a particular good or service, the additional satisfaction (marginal utility) gained from each extra unit will eventually decrease, assuming the consumption of all other goods is held constant. For instance, the satisfaction from eating the first slice of pizza is very high, but the satisfaction from the fifth slice is significantly lower. While total utility may still be increasing, the rate of increase slows down. Therefore, as consumption increases, the marginal utility derived from each additional unit decreases.

Answer: (C)

Q4.

Solution

Concept: Determinants of Supply and Shifts in the Supply Curve.

Solution: The supply curve illustrates the relationship between the price of a good and the quantity producers are willing to sell. A change in the good's own price causes a movement along the supply curve. However, a change in other factors, known as determinants of supply, causes the entire curve to shift. One of the most important determinants is the cost of production, which includes the price of inputs like raw materials. When the price of a raw material decreases, the cost of producing good X falls. This makes production more profitable at any given selling price, incentivizing producers to supply more of the good. This increase in supply is represented graphically by a rightward shift of the supply curve.

Answer: (B)

Q5.

Solution

Concept: Long-Run Production and Returns to Scale.

Solution: Returns to scale is a concept that applies to the long run, a period in which all factors of production (e.g., labor, capital, land) are variable. It describes how output responds when a firm increases its scale of operations by increasing all of its inputs proportionally. For example, it answers the question:
"What happens to output if we double both the number of workers and the number of machines?"
This is distinct from the short-run concept of diminishing returns, where only one input is varied while others are kept constant. Returns to scale can be increasing, decreasing, or constant, depending on whether output increases by a larger, smaller, or the same proportion as the inputs.

Answer: (B)

Q6.

Solution

Concept: The Relationship between Total Product (TP) and Marginal Product (MP).

Solution: Total Product (TP) refers to the total quantity of output produced with a given amount of input. Marginal Product (MP) is the additional output produced by using one more unit of a variable input. The relationship between them is critical:

When MP is positive, each additional unit of input is adding to the total output, so TP is increasing.

When TP reaches its highest point, it means the last unit of input added nothing to the total output. At this peak, the slope of the TP curve is zero, which means the MP is zero.

If more input is added after this point, MP becomes negative, indicating that the additional input is counterproductive and causes TP to decrease.
Therefore, Total Product is at its maximum when Marginal Product is zero.

Answer: (C)

Q7.

Solution

Concept: Economic Costs: Explicit vs. Implicit Costs.

Solution: In economics, the total cost of production includes both explicit and implicit costs. Explicit costs are direct, out-of-pocket payments made for resources owned by others. They are easily quantifiable and recorded in accounting statements. Examples include wages paid to employees, rent for a factory, and payments for raw materials.

Implicit costs are the opportunity costs of using resources already owned by the firm. They represent the income foregone by not putting these resources to their best alternative use. Examples include the salary the owner could have earned elsewhere (opportunity cost of labor) or the rent the owner's building could have generated (opportunity cost of capital).
From the options provided, the wages paid to hired workers is a direct monetary payment to an external resource (labor), making it an explicit cost.

Answer: (D)

Q8.

Solution

Concept: Calculation of Economic Profit vs. Accounting Profit.

Solution: Economic profit provides a more comprehensive measure of a firm's success than accounting profit because it accounts for all opportunity costs. The calculation is as follows:
Economic Profit = Total Revenue - Total Economic Cost
where Total Economic Cost = Explicit Costs + Implicit Costs.
Given the values:
Total Revenue (TR) = ₹ 500
Explicit Costs = ₹ 300
Implicit Costs = ₹ 150
First, we find the total economic cost:
Total Economic Cost = ₹ 300 (explicit) + ₹ 150 (implicit) = ₹ 450.
Next, we calculate the economic profit:
Economic Profit = ₹ 500 (TR) - ₹ 450 (Total Economic Cost) = ₹ 50.

Answer: (A)

Q9.

Solution

Concept: Revenue Curves for a Perfectly Competitive Firm.

Solution: A firm in a perfectly competitive market is a "price taker," meaning it has no power to influence the market price. It must accept the price determined by the market forces of supply and demand. Because the firm can sell any quantity at this constant market price (P), the revenue it earns from selling one additional unit—its Marginal Revenue (MR)—is always equal to that price. For example, if the market price is ₹ 10, the firm receives ₹ 10 for the 1st unit, ₹ 10 for the 100th unit, and ₹ 10 for the 101st unit. Since MR is constant and equal to the price, the MR curve for a perfectly competitive firm is a horizontal line at the level of the market price.

Answer: (C)

Q10.

Solution

Concept: The Short-Run Shutdown Decision for a Firm.

Solution: In the short run, a firm has fixed costs that it must pay even if it produces nothing. The decision to continue producing or to shut down depends on whether the revenue generated can cover the variable costs.

If the price (P) is below the Average Variable Cost (AVC), the firm loses money on every unit it produces, in addition to its fixed costs. It should shut down to minimize its loss to only the total fixed costs.

If the price is above the AVC (P > AVC), each unit sold covers its own variable cost and contributes some amount towards paying the fixed costs.
In this specific case, P is below the Average Total Cost (ATC), so the firm is making a loss. However, since P is above AVC, producing is better than shutting down. By producing, the firm's loss is smaller than its total fixed costs (which would be its loss if it shut down). Therefore, the loss-minimizing choice is to continue to produce in the short run.

Answer: (B)

Q11.

Solution

Concept: Demand Curve and Elasticity for a Firm in Perfect Competition.

Solution: It's crucial to distinguish between the market demand curve and the demand curve facing an individual firm. While the market demand curve in perfect competition is downward-sloping, the demand curve for a single firm is perfectly elastic. This is because the firm is a price taker and produces a product identical to that of many other firms. If the firm tries to charge a price even slightly above the market price, it will sell nothing, as consumers will buy from its competitors. It has no incentive to charge less than the market price because it can already sell all it wants at that price. This means the firm faces a horizontal demand curve at the market price, which signifies perfect elasticity (elasticity coefficient is infinite).

Answer: (C)

Q12.

Solution

Concept: Economic Efficiency in Perfect Competition.

Solution: In the long run, the free entry and exit of firms in a perfectly competitive market ensures that firms produce at the lowest point on their long-run average total cost (LRATC) curve. At this point, the price is equal to the minimum average total cost (P = min ATC). The act of producing goods at the lowest possible unit cost is known as productive efficiency. It signifies that resources are being used in the most efficient manner, without waste, to produce goods and services. While perfectly competitive markets also achieve allocative efficiency (P=MC), the question specifically asks about producing at the lowest possible cost.

Answer: (C)

Q13.

Solution

Concept: Long-Run Industry Supply Curve in Perfect Competition.

Solution: In a perfectly competitive industry characterized by free entry and exit, the long-run supply curve's shape depends on how input costs change as the industry expands. In the standard case of a constant-cost industry, input prices do not change as new firms enter. If an increase in market demand temporarily raises the price, firms earn short-run profits. This attracts new firms to enter the industry, which increases the market supply. This entry continues until the price is driven back down to the original minimum average total cost, eliminating the economic profits. As a result, the industry can supply any quantity at this constant price, making the long-run supply curve perfectly elastic (a horizontal line).

Answer: (C)

Q14.

Solution

Concept: Effect of Taxation on Market Equilibrium.

Solution: A specific tax imposed on producers effectively increases their cost of production for each unit they sell. This increase in marginal cost makes it less profitable to produce at any given price. Consequently, firms will reduce the quantity they are willing to supply at every price level. This is represented graphically as a leftward (or upward) shift of the entire market supply curve. Given a stable demand curve, this shift in supply will lead to a new, higher equilibrium price and a lower equilibrium quantity in the market.

Answer: (B)

Q15.

Solution

Concept: Price Controls and Market Disequilibrium.

Solution: A price ceiling is a legal maximum price that can be charged for a product. For it to be effective or 'binding', it must be set below the natural market equilibrium price. At this artificially low price, the law of demand states that consumers will want to buy more of the good (quantity demanded increases). At the same time, the law of supply states that producers will be willing to sell less of the good (quantity supplied decreases). When the quantity demanded exceeds the quantity supplied, the result is a market shortage.

Answer: (C)

Q16.

Solution

Concept: National Income Accounting and Transfer Payments.

Solution: National income measures the total income earned by a nation's residents through their participation in productive activities. It includes factor payments like wages, rent, interest, and profits. Transfer payments are payments made without any corresponding good or service being produced in the current period. Unemployment benefits are a classic example; the government transfers income to jobless individuals, but this payment is not in exchange for any current production. Including transfer payments would result in double-counting, as the income was already counted when it was originally earned (e.g., as tax revenue from a worker's wage).

Answer: (C)

Q17.

Solution

Concept: Aggregates of National Income.

Solution: Net National Product (NNP) at Factor Cost is the official term for National Income (NI). Let's break it down: "Net National Product" means it is the Gross National Product (GNP) minus depreciation (consumption of fixed capital). "Factor Cost" means it measures the income paid to the factors of production before indirect taxes are added and subsidies are subtracted. This calculation—the net value of national output measured at the cost of the factors of production—represents the total income (wages, rent, interest, profit) earned by the residents of a country. This is the definition of National Income.

Answer: (B)

Q18.

Solution

Concept: Distinction between Nominal and Real GDP.

Solution: Nominal GDP measures a country's economic output using current prices, making it susceptible to distortion from inflation. Real GDP measures output using constant, base-year prices, providing a measure of the actual change in the volume of production. The relationship can be approximated as: % Change in Nominal GDP % Change in Real GDP + Inflation Rate. If Nominal GDP rose by 10% while Real GDP (actual production) fell by 2%, it indicates that the overall price level must have increased substantially (by approximately 12%). This significant inflation more than offset the decline in physical output, causing the nominal value to rise.

Answer: (B)

Q19.

Solution

Concept: Limitations of GDP as a Measure of Economic Welfare.

Solution: While GDP is the most widely used measure of an economy's output, it has significant limitations as an indicator of overall societal well-being. A key limitation is that it is an aggregate measure and provides no information on how income and wealth are distributed among the population. A country can have a high GDP per capita, but if the majority of that income is concentrated in the hands of a small percentage of the population, the standard of living for the average citizen may be low. Other limitations include the exclusion of non-market transactions, leisure, environmental quality, and social factors.

Answer: (B)

Q20.

Solution

Concept: Circular Flow of Income: Leakages and Injections.

Solution: The circular flow of income model illustrates how money circulates between households and firms. Leakages (or withdrawals) are parts of income that are not passed on directly in the circular flow. The three main leakages are Savings (S), Taxes (T), and Imports (M). Imports are considered a leakage because they represent spending by domestic residents on goods and services produced in foreign countries. This diverts money out of the domestic economy to foreign producers, rather than channeling it back to domestic firms as revenue. In contrast, injections (Investment, Government Spending, and Exports) add money to the circular flow.

Answer: (D)

Q21.

Solution

Concept: The Barter System and the Functions of Money.

Solution: A barter system is a pre-monetary economic system where goods and services are exchanged directly for other goods and services. The primary and most significant difficulty of this system is the need for a "double coincidence of wants." This means that for a trade to occur, each party must have something the other party wants, and they must want it at the same time and place. This requirement makes trade extremely inefficient, cumbersome, and limited in scope. Money solves this fundamental problem by acting as a medium of exchange that is universally accepted by all parties.

Answer: (D)

Q22.

Solution

Concept: The Money Multiplier and Reserve Requirements.

Solution: The money multiplier illustrates the maximum potential expansion of the money supply resulting from a change in bank reserves. Its value is inversely related to the Required Reserve Ratio (RRR), which is the fraction of deposits that commercial banks are legally required to hold as reserves and not lend out. The simple formula is Money Multiplier = 1 / RRR. If the RRR is increased (a larger fraction must be held in reserve), the denominator of the formula increases, which causes the value of the multiplier to decrease. Intuitively, if banks must hold more money in reserve, they can lend out less, thus reducing the amount of new money created at each step of the process.

Answer: (B)

Q23.

Solution

Concept: Functions of a Central Bank.

Solution: One of the primary roles of a country's central bank is to act as the government's banker and fiscal agent. In India, this function is performed by the Reserve Bank of India (RBI). As the 'banker to the government', the RBI maintains the deposit accounts of the central and state governments, processes payments on their behalf, manages the issuance and servicing of public debt (government bonds), and provides short-term loans to the government when needed. It also acts as an advisor to the government on monetary and financial policy matters.

Answer: (C)

Q24.

Solution

Concept: Monetary Policy Tools: Open Market Operations (OMOs).

Solution: Open Market Operations are the primary tool used by central banks to manage the money supply. When the central bank wants to decrease the money supply (a contractionary policy), it conducts an open market sale.
It sells government securities (bonds) to commercial banks and the public. The purchasers pay for these securities, and the money flows from their bank accounts to the central bank. This action directly reduces the reserves held by the commercial banking system. With fewer reserves, banks have less capacity to make loans, which leads to a reduction in the overall money supply and tends to push interest rates up.

Answer: (B)

Q25.

Solution

Concept: The Paradox of Thrift in Keynesian Macroeconomics.

Solution: The paradox of thrift, a central concept in Keynesian economics, highlights a potential conflict between individual and aggregate economic rationality. For an individual, saving more money is generally a prudent financial decision. However, if every household in an economy simultaneously decides to increase its savings, the collective outcome can be detrimental. An increase in the desire to save means a corresponding decrease in the desire to consume. This leads to a fall in aggregate demand for goods and services. Faced with declining sales, businesses reduce production, cut back on investment, and lay off workers. This, in turn, leads to a decrease in overall national income and employment. The "paradox" is that the collective attempt to save more can ultimately lead to a recession, which lowers incomes so much that total actual savings may end up being lower than before.

Answer: (B)

Q26.

Solution

Concept: Keynesian Equilibrium and Full Employment.

Solution: In the Keynesian model, macroeconomic equilibrium occurs at the level of income where aggregate demand (total spending) is equal to aggregate supply (total output). A key departure from classical economics is Keynes's argument that this equilibrium is not automatically at the full employment level. An economy can be in an "underemployment equilibrium" if aggregate demand is insufficient. A full employment equilibrium, however, is the specific and ideal scenario where the equilibrium level of output coincides with the economy's potential output. Potential output is the level of production achieved when all available resources, especially labor, are fully and efficiently utilized.
Therefore, a full employment equilibrium occurs precisely when aggregate demand is high enough to equal the potential output of the economy.

Answer: (D)

Q27.

Solution

Concept: Marginal Propensities to Consume (MPC) and Save (MPS).

Solution: Any change in disposable income () can be allocated to only two uses: a change in consumption () or a change in saving (). This can be expressed as the identity: = + .

The Marginal Propensity to Consume (MPC) is the fraction of this additional income that is consumed, defined as MPC = / .

The Marginal Propensity to Save (MPS) is the fraction of this additional income that is saved, defined as MPS = / .
If we divide the entire identity equation by , we get:
(/) = (/) + (/)
This simplifies to: 1 = MPC + MPS.
This relationship is a fundamental accounting identity, meaning the sum of the proportion of additional income consumed and the proportion saved must always equal 1.

Answer: (C)

Q28.

Solution

Concept: Inflationary Gap in Macroeconomics.

Solution: An inflationary gap exists when the actual level of aggregate demand in an economy exceeds the level of aggregate supply that can be produced at the full employment level of output. In other words, the total planned spending by households, firms, and the government is greater than the economy's maximum sustainable production capacity. Since real output cannot increase beyond the full employment level in the short run, this excess demand exerts strong upward pressure on the general price level, leading to demand-pull inflation. It represents a situation of "too much money chasing too few goods." The opposite scenario, where aggregate demand is less than aggregate supply at full employment, is known as a deflationary or recessionary gap.

Answer: (C)

Q29.

Solution

Concept: Calculating the Average Propensity to Consume (APC).

Solution: The Average Propensity to Consume (APC) measures the proportion of total income that is spent on consumption. It provides a snapshot of spending habits at a specific level of income. The formula to calculate APC is:
APC = Total Consumption (C) / Total Income (Y)
Given the information:
Total Consumption (C) = ₹ 8,000
Total Income (Y) = ₹ 10,000
Applying the formula:
APC = ₹ 8,000 / ₹ 10,000 = 0.8 This means that at an income level of ₹ 10,000, the individual consumes 80% of their income. The remaining 20% (APC of 0.2) is their Average Propensity to Save (APS).

Answer: (B)

Q30.

Solution

Concept: Types of Government Deficits: Revenue Deficit.

Solution: The revenue deficit is a key indicator of a government's fiscal health, focusing specifically on its current operations. It is calculated as the excess of total revenue expenditure over total revenue receipts.

Revenue Expenditure: Day-to-day spending on administration, salaries, interest payments, subsidies, etc. This spending does not create assets.

Revenue Receipts: Income from taxes (like income tax, GST) and non-tax sources (like dividends, fees).
A high revenue deficit implies that the government's regular income is not enough to cover its regular, non-asset-creating expenses. It indicates that the government is borrowing to finance consumption, which is generally considered fiscally imprudent as it increases future liabilities without creating corresponding income-generating assets.

Answer: (B)

Q31.

Solution

Concept: Objectives and Tools of Fiscal Policy.

Solution: Fiscal policy involves the use of government spending, taxation, and borrowing to influence macroeconomic conditions. It is a primary tool for managing the economy, alongside monetary policy. The main objectives of fiscal policy are to achieve stable and sustainable economic growth, maintain price stability (control inflation), and attain a high level of employment (full employment). By adjusting tax rates and levels of government spending, policymakers can influence aggregate demand, the distribution of income, and the allocation of resources within the economy. In contrast, controlling the money supply and regulating banks are the primary responsibilities of the central bank through monetary policy.

Answer: (B)

Q32.

Solution

Concept: Classification of Government Budget Components.

Solution: Government budget items are classified into receipts and expenditures, which are further divided into 'revenue' and 'capital' categories.

Revenue Expenditure: These are recurring expenses incurred in the normal functioning of the government that do not create any assets or reduce liabilities. Examples include salaries, pensions, and subsidies.

Capital Expenditure: These are non-recurring expenses that either create physical or financial assets (e.g., building roads, schools, purchasing shares) or reduce liabilities (e.g., repayment of loans).
Subsidies are financial assistance provided by the government to firms or households to lower the price of a good or service. Since this is a recurring transfer payment that does not result in the creation of an asset for the government, it is classified as revenue expenditure.

Answer: (C)

Q33.

Solution

Concept: The Structure of the Balance of Payments (BoP) Account.

Solution: The Balance of Payments (BoP) is a statement that records all economic transactions between a country and the rest of the world. It is divided into the current account and the capital account.

Current Account: Records transactions in goods, services, primary income (e.g., wages, profits, interest from abroad), and secondary income (e.g., remittances). These transactions do not create future claims.

Capital Account: Records all transactions that involve a change in the country's assets or liabilities with the rest of the world. This includes Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), loans, and borrowings. Borrowing from abroad represents an inflow of financial capital that creates a liability for the domestic country (the loan must be repaid in the future). Therefore, it is recorded as a credit item in the capital account.

Answer: (C)

Q34.

Solution

Concept: Exchange Rate Policy: Devaluation.

Solution: The terms 'devaluation' and 'depreciation' both describe a fall in a currency's value, but they apply to different exchange rate regimes.

Depreciation occurs in a floating exchange rate system, where the currency's value is determined by the market forces of supply and demand.

Devaluation is a policy action taken by a government or central bank under a fixed or managed exchange rate system. It is a deliberate and official reduction of the currency's value relative to another currency (e.g., the US dollar) or a basket of currencies. Governments typically devalue their currency to make their exports cheaper and more competitive on the global market, thereby aiming to improve the trade balance.

Answer: (C)

Q35.

Solution

Concept: History of Economic Planning in India.

Solution: After achieving independence in 1947, India embarked on a path of planned economic development to overcome poverty, build a modern industrial base, and achieve self-reliance. To architect and guide this process, the Government of India established the Planning Commission through a Cabinet resolution in March 1950. It was an extra-constitutional, non-statutory body chaired by the Prime Minister. The Planning Commission was responsible for formulating India's Five-Year Plans, which set out development goals and allocated resources among different sectors of the economy. It served as the central planning body until it was replaced by the NITI Aayog in 2015.

Answer: (B)

Q36.

Solution

Concept: Agrarian and Land Reforms in India.

Solution: Land reforms were a cornerstone of India's post-independence agricultural policy, aimed at rectifying historical inequities and improving productivity. One of the major issues plaguing Indian agriculture was the fragmentation of land holdings, where a single farmer's land was often scattered in several small, separate plots.

This made cultivation inefficient and hindered the adoption of modern technology. To address this, the government implemented the policy of consolidation of land holdings. This measure involved pooling all the fragmented land parcels in a village and then re-allotting them to the farmers in such a way that each farmer received a single, contiguous block of land of equivalent value. This was a crucial reform to improve farm efficiency.

Answer: (B)

Q37.

Solution

Concept: The foundational components of India's New Economic Policy (NEP) introduced in 1991, which marked a significant departure from the country's previous economic strategy.

Solution: The New Economic Policy of 1991 was a response to a severe economic crisis and aimed to make the Indian economy more market-oriented and integrated with the global economy. This comprehensive set of reforms is famously summarized by the acronym LPG, which stands for its three main pillars:

Liberalisation: This involved a drastic reduction in government control over the economy and the dismantling of the 'Licence-Permit-Quota Raj'. Key measures included the abolition of industrial licensing for most industries, de-reservation of many industries previously reserved for the public sector, and reforms in the financial sector to allow greater autonomy for banks and the entry of private sector banks. The goal was to unshackle the economy from bureaucratic hurdles and promote competition.

Privatisation: This referred to the policy of increasing the role and participation of the private sector in the economy, which also involved reducing the role of the public sector. This was to be achieved through two primary methods: disinvestment (selling off part of the equity of Public Sector Undertakings - PSUs) and strategic sale (transferring ownership and management of a PSU to a private entity). The underlying objective was to improve efficiency, reduce the financial burden on the government from loss-making PSUs, and introduce market discipline.

Globalisation: This pillar focused on integrating the Indian economy with the rest of the world. Key policies included a significant reduction in customs duties (tariffs) on imports and the removal of quantitative restrictions (quotas). The policy also actively encouraged the inflow of foreign capital, both as Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI), and initiated reforms in the foreign exchange market.

The other options represent the pre-1991 policy framework that the NEP sought to change. Option (A) and (C) list hallmarks of the old, state-controlled, inward-looking economy. Option (D) lists macroeconomic tools, and while fiscal consolidation was part of the crisis response, these are not the three overarching structural pillars of the NEP.

Final Answer : Liberalisation, Privatisation, Globalisation.

Answer: (B)

Q38.

Solution

Concept: The transformative impact of the 1991 economic reforms on the structure and competitive environment of the Indian industrial sector.

Solution: Prior to 1991, the Indian industrial sector operated in a highly protected environment characterized by the 'License Raj', high tariffs, and a dominant public sector. The 1991 reforms completely altered this landscape. The most significant and immediate outcome was the infusion of competition from both domestic and foreign players.

End of 'License Raj': The abolition of industrial licensing meant that private entrepreneurs no longer needed government permission to start a new venture or expand an existing one in most sectors. This unleashed domestic competition.

Entry of Foreign Firms: The opening up of the economy to Foreign Direct Investment (FDI) allowed multinational corporations (MNCs) to set up manufacturing and service facilities in India. These firms brought with them advanced technology, large-scale capital, superior managerial techniques, and strong brand presence.

Lowering of Trade Barriers: The drastic reduction in import duties meant that domestic firms had to compete with cheaper and often better-quality imported goods.

This multi-pronged increase in competition forced Indian industries to become more efficient, cost-conscious, and quality-focused to survive and grow. It led to a wider variety of goods and services for consumers at more competitive prices. Option (A) is incorrect as licensing was drastically reduced. Option (C) is incorrect because the reforms were export-oriented. Option (D) is not the most accurate summary; while growth fluctuated, the defining change was the new competitive environment that spurred modernization and efficiency gains across the sector.

Final Answer : Greater competition and foreign investment.

Answer: (B)

Q39.

Solution

Concept: The immediate and critical trigger that compelled the Indian government to undertake sweeping economic reforms in 1991.

Solution: The economic reforms of 1991 were not a proactive choice but a reactive measure forced by a grave economic crisis. The primary and most acute reason was a severe Balance of Payments (BoP) crisis. A BoP crisis arises when a nation's external payments significantly exceed its external receipts, leading to a rapid depletion of its foreign exchange reserves.

By mid-1991, India's situation was dire due to a confluence of factors:

High Fiscal Deficit: Persistent high government spending led to a large fiscal deficit, which was financed by borrowing, causing high inflation.

Worsening Trade Balance: Imports were growing much faster than exports. The 1990-91 Gulf War exacerbated this by causing a sharp rise in oil prices (a major import) and a fall in remittances from Indian workers in the Gulf.

Depleting Forex Reserves: Consequently, India's foreign exchange reserves plummeted to just over $1 billion, barely enough to cover imports for about two weeks.

This situation brought India to the verge of defaulting on its international loan obligations. To avert this, India had to seek an emergency bailout loan from the International Monetary Fund (IMF) and the World Bank.
These institutions provided the necessary funds but attached strict "conditionalities," requiring India to implement structural reforms. These conditionalities formed the blueprint for the New Economic Policy, focusing on liberalising, privatising, and globalising the economy. The other options describe a healthy economy (A, B, D), which is the exact opposite of the situation India faced in 1991.

Final Answer : A severe balance of payments crisis.

Answer: (C)

Q40.

Solution

Concept: The distinction between formal (institutional) and informal (non-institutional) sources of credit available in rural India.

Solution: Rural credit sources are categorized based on their structure, regulation, and operational principles.

Non-Institutional Sources: These are informal, largely unregulated lenders who have traditionally dominated the rural credit market. This category includes professional moneylenders, landlords, traders, and commission agents. While they offer credit with flexibility and minimal paperwork, they are notorious for charging usurious (extremely high) interest rates and using exploitative practices, often trapping borrowers in a cycle of debt.

Institutional Sources: To counter the exploitative nature of non-institutional lenders and to promote agricultural and rural development, the government has actively promoted a network of formal, regulated financial institutions. These institutions aim to provide adequate credit at affordable interest rates. The major institutional sources are:

Commercial Banks: Following their nationalization, they were mandated to serve rural and agricultural sectors.

Co-operative Credit Societies: A network of member-owned financial entities designed to provide credit to their members.

Regional Rural Banks (RRBs): These are specialized banks established by the government in 1975 specifically to cater to the credit needs of the weaker sections in rural areas, such as small and marginal farmers, agricultural labourers, and artisans. They combine the local knowledge of co-operatives with the professional structure of commercial banks.

Given the options, Moneylenders (A), Traders (B), and Landlords (D) are classic examples of non-institutional sources. The Regional Rural Banks (RRBs) are a key component of the formal, government-sponsored institutional credit structure in India.

Final Answer : Regional Rural Banks (RRBs).

Answer: (C)

Q41.

Solution

Concept: The definition of disguised unemployment, a specific type of underemployment prevalent in labor-surplus economies.

Solution: Disguised unemployment is a situation where individuals appear to be employed, but their contribution to the total output is negligible or zero. If some of these workers were to be withdrawn from the job, the total output would not decrease. This means their marginal productivity is zero. This phenomenon is commonly observed in the agricultural sector of developing countries, where more family members work on a farm than are actually required.

Open unemployment: Refers to people who are jobless and actively seeking work.

Seasonal unemployment: Occurs when people are unemployed during particular seasons of the year.

Structural unemployment: Arises from a mismatch between the skills workers have and the skills demanded by employers.

Final Answer : Disguised unemployment.

Answer: (C)

Q42.

Solution

Concept: The core principle of sustainable development as defined by the Brundtland Commission.

Solution: Sustainable development is an organizing principle for meeting human development goals while simultaneously sustaining the ability of natural systems to provide the natural resources and ecosystem services upon which the economy and society depend. The most widely accepted definition comes from the 1987 Brundtland Report, which defines it as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." This concept emphasizes inter-generational equity, environmental protection, and a balance between economic, social, and environmental goals. Options (A), (C), and (D) represent unsustainable practices that prioritize short-term gains over long-term viability and ecological balance.

Final Answer : Meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Answer: (B)

Q43.

Solution

Concept: The defining characteristics of employment in the informal or unorganized sector.

Solution: The informal sector consists of economic activities, enterprises, and workers that are not regulated or protected by the state. A key feature of this sector is the absence of formal employment contracts. Consequently, workers in the informal sector typically lack social security benefits such as pensions, health insurance, paid sick leave, and maternity leave. Their jobs are also highly insecure, with no protection against arbitrary dismissal. While some may lack skills (A) or access to materials (B), these are not the defining characteristics of the sector itself. Lack of willingness to work (D) is an incorrect generalization. The most universal feature is the absence of a social safety net and job security.

Final Answer : Social security benefits and job security.

Answer: (C)

Q44.

Solution

Concept: Identifying a primary structural challenge within the Indian healthcare system.

Solution: Despite progress, a major and persistent challenge in India's health sector is the significant inequality in healthcare access and affordability. There is a vast urban-rural divide, with healthcare infrastructure and personnel concentrated in urban areas. Additionally, high out-of-pocket expenditure on health services pushes many families into poverty. Therefore, ensuring equitable access to quality and affordable healthcare for all sections of society remains a primary challenge.

(A) is incorrect; public spending on healthcare in India is relatively low as a percentage of GDP compared to many other countries.

(C) is incorrect; there is a shortage, not a surplus, of medical professionals, especially in rural areas.

(D) is incorrect; while traditional medicine is prevalent, the mainstream system is allopathic, not completely reliant on traditional forms.

Final Answer : Equitable access to affordable healthcare services.

Answer: (B)

Q45.

Solution

Concept: The core objective and legal provision of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).

Solution: MGNREGA, enacted in 2005, is a landmark social security and employment generation program. Its primary objective is to enhance livelihood security in rural areas by providing a legal guarantee of employment. The Act mandates that every rural household whose adult members are willing to do unskilled manual work must be provided with at least 100 days of wage employment in a financial year. It is a demand-driven scheme, meaning the work is provided upon request, and it serves as a crucial social safety net, especially during times of agricultural distress. The other options describe different types of government schemes related to credit (A), education (C), or urban housing (D).

Final Answer : 100 days of wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work.

Answer: (B)

Q46.

Solution

Concept: Determinants of a shift in the demand curve in a standard supply-demand model.

Solution: A rightward shift of the demand curve (from D1 to D2) indicates an increase in demand, meaning consumers are willing and able to buy more of the good at every price level. This shift is caused by factors other than the good's own price.

(A) A decrease in production cost affects the supply curve, shifting it to the right.

(B) For a normal good, an increase in consumer income leads to an increase in demand, causing the demand curve to shift to the right.

(C) A decrease in the price of the good itself causes a movement along the existing demand curve (increase in quantity demanded), not a shift of the entire curve.

(D) A complementary good is consumed along with another good (e.g., petrol and cars). An increase in the price of a complement would make the primary good less attractive, causing its demand curve to shift to the left, not right. Therefore, an increase in consumer income for a normal good is the correct cause for the described shift.

Final Answer : An increase in consumer income for a normal good.

Answer: (B)

Q47.

Solution

Concept: Identifying recessionary (deflationary) and inflationary gaps in the Keynesian AD-AS model.

Solution: The model shows the equilibrium level of output (Y1), where the Aggregate Demand (AD1) and Aggregate Supply (AS) curves intersect. The full-employment level of output (YF) represents the economy's potential output when all resources are fully utilized. The image clearly depicts that the equilibrium output Y1 is less than the full-employment output YF (Y1 < YF). This gap between the actual output and the potential output is known as a deflationary gap or a recessionary gap. It signifies that the aggregate demand in the economy is insufficient to generate full employment, leading to unemployment and underutilization of resources. An inflationary gap would occur if the equilibrium output were greater than the full-employment output (Y1 > YF).

Final Answer : A deflationary gap.

Answer: (B)

Q48.

Solution

Concept: Interpreting trends in the poverty headcount ratio as an indicator of economic development.

Solution: The poverty headcount ratio is the percentage of the population living below the national poverty line. The line graph shows a consistent and significant decline in this ratio over the years (from 45% to 22%). This downward trend is a primary indicator of successful economic development in terms of poverty reduction. It reflects the combined effect of economic growth (which creates jobs and increases incomes) and targeted poverty alleviation programs implemented by the government.

(A) is incorrect as poverty has reduced, not been completely eradicated.

(B) cannot be concluded from this data alone; the poverty ratio can fall even if income inequality rises.

(D) is not necessarily true; while the absolute number of poor might still be large, a falling percentage strongly suggests that the rate of people moving out of poverty is faster than population growth among the poor.
The most direct and accurate conclusion is that policies and growth have been successful in alleviating poverty.

Final Answer : Success in poverty alleviation programs and economic growth.

Answer: (C)

Q49.

Solution

Concept: In the Keynesian AD-AS model, the relationship between the equilibrium level of output and the full-employment level of output determines the state of the economy. A deflationary gap (or recessionary gap) occurs when the equilibrium output is below the full-employment output.

Solution: The graph illustrates the short-run equilibrium in an economy. The equilibrium point is where the Aggregate Demand curve (AD1) intersects the Aggregate Supply curve (AS). This intersection occurs at the real GDP level Y1. The model also indicates the full-employment level of output (YF), which represents the maximum potential output the economy can sustain without generating inflationary pressure.

In the given diagram, the equilibrium output Y1 is clearly less than the full-employment output YF (Y1 < YF). This shortfall means that the total demand in the economy is insufficient to purchase the potential output, leading to underutilization of resources, such as high unemployment. This specific situation is defined as a deflationary gap or a recessionary gap. An inflationary gap, conversely, would exist if the equilibrium output were greater than the full-employment output.

Final Answer : "A deflationary gap."

Answer: (B)

Q50.

Solution

Concept: The poverty headcount ratio is a key metric used to measure the prevalence of poverty and assess the effectiveness of economic policies and development over time.

Solution: The line graph displays India's poverty headcount ratio, which is the percentage of the population living below the national poverty line. The trend shows a substantial decline from approximately 45% in 1993-94 to around 22% in 2011-12. This halving of the poverty rate over two decades is a strong positive indicator of economic development.

This reduction is generally attributed to a combination of factors:

Economic Growth: Sustained GDP growth during this period led to increased job opportunities and higher average incomes, lifting many people out of poverty.

Poverty Alleviation Programs: The government implemented various targeted schemes aimed at providing social safety nets, employment, and access to essential services for the poor.

Evaluating the options:
(A) is incorrect as poverty was not completely eradicated; 22% is still a significant number.
(B) cannot be concluded from this graph alone, as the poverty ratio does not provide information about income distribution or inequality.
(D) is incorrect; such a large percentage drop strongly implies a decrease, not an increase, in the absolute number of poor people, even with population growth.
Therefore, the trend most directly indicates success in both broad economic growth and specific poverty reduction policies.

Final Answer : "Success in poverty alleviation programs and economic growth."

Answer: (C)

Answer Key

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