CUET-UG Economics Sample Paper-8

Duration: 1 Hour **Maximum Marks: 250**

Instructions

- This paper contains a total of 50 Multiple Choice Questions.
- Each correct answer carries **+5 marks**.
- Each incorrect answer carries **-1 mark**.
- No negative marking for unattempted questions.

Q1. If the price of Good X rises and it leads to an increase in the demand for Good Y, and both goods are consumed together to satisfy a single want, this indicates:

(A) X and Y are substitutes.

(B) X and Y are Giffen goods.

(C) The cross-price elasticity is negative.

(D) There is a violation of the Law of Demand.

Q2. Assertion (A): An Indifference Curve is always convex to the origin. Reason (R): The Marginal Rate of Substitution (MRS) decreases as the consumer substitutes one good for another.

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

(B) Both A and R are true but R is not the correct explanation.

(C) A is true, R is false.

(D) A is false, R is true.

Q3. A consumer consumes two goods, X and Y. If M U x / P x < M U y / P y MU x /P x <MU y /P y

, how will the consumer react to reach equilibrium?

(A) Increase consumption of X and decrease Y.

(B) Increase consumption of Y and decrease X.

(C) Increase consumption of both.

(D) Decrease consumption of both.

Q4. Calculate the Price Elasticity of Demand using the Point Method at the mid-point of a linear demand curve.

(A) 0

(B) 1

(C) Infinite

(D) Less than 1

Q5. Which of the following would cause a "Shift" in the demand curve rather than a "Movement along" the curve?

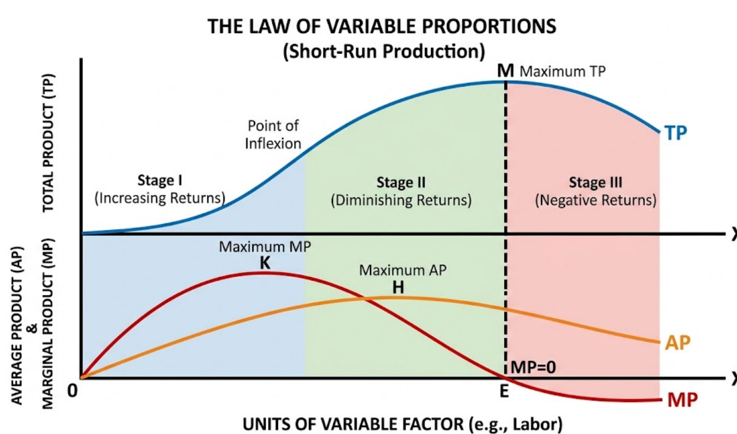
(A) A change in the price of the own commodity.

(B) An improvement in production technology.

(C) A change in the price of a complementary good.

(D) A decrease in the cost of raw materials.

Q6. Based on the laws of production, at the point where the Marginal Product (MP) is zero, what is the status of the Total Product (TP)?



(A) TP is at its maximum.

(B) TP starts falling.

(C) TP is equal to AP.

(D) TP is at its point of inflection.

Q7. In the 'Diminishing Returns to a Factor' stage of production (Stage II):

(A) MP is falling but remains positive.

(B) TP starts falling.

(C) MP becomes negative.

(D) AP is at its minimum.

Q8. Identify the correct relationship between Average Variable Cost (AVC) and Marginal Cost (MC):

(A) MC cuts AVC from above at its minimum point.

(B) MC cuts AVC from below at its minimum point.

(C) AVC and MC are always equal in the long run.

(D) When MC is rising, AVC must be rising.

Q9. Which cost curve is represented as an 'unending' rectangular hyperbola?

(A) Average Fixed Cost (AFC)

(B) Average Variable Cost (AVC)

(C) Total Fixed Cost (TFC)

(D) Marginal Cost (MC)

Q10. Under Perfect Competition, a firm is a 'Price Taker' because:

(A) Products are heterogeneous.

(B) There is a single seller.

(C) The firm's share in total market supply is insignificant.

(D) There are barriers to entry.

Q11. In the short run, a perfectly competitive firm will continue to produce even if it is making losses, as long as:

(A) Price $\geq$ AC

(B) Price $\geq$ AVC

(C) Price $\geq$ AFC

(D) MC is falling.

Q12. The supply curve of a perfectly competitive firm in the short run is represented by:

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

(B) The rising portion of the AC curve.

(C) The entire MC curve.

(D) The horizontal MR curve.

Q13. If the market price is currently above the equilibrium price, what will be the immediate consequence in a perfectly competitive market?

(A) Shortage and price rise.

(B) Surplus and price fall.

(C) Demand will increase.

(D) Supply will decrease.

Q14. A 'Price Floor' (such as Minimum Support Price) is usually set by the government:

(A) Below the equilibrium price to protect consumers.

(B) Above the equilibrium price to protect producers.

(C) At the equilibrium price to stabilize the market.

(D) To eliminate excess supply.

Q15. If both Demand and Supply increase in the same proportion, what is the effect on equilibrium price and quantity?

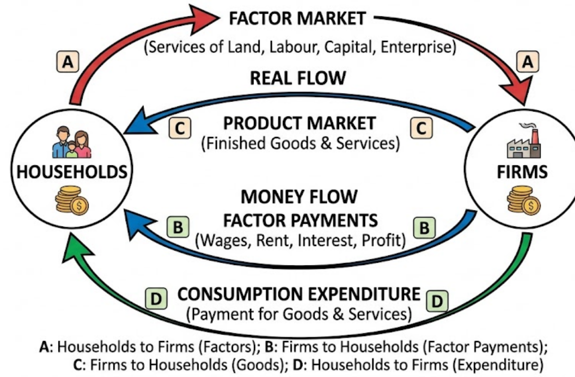
(A) Price increases, Quantity remains same.

(B) Price remains same, Quantity increases.

(C) Both Price and Quantity increase.

(D) Price decreases, Quantity increases.

Q16. Which arrow represents the 'Real Flow' of Goods and Services from the production sector to the household sector?



(A) Arrow A

(B) Arrow B

(C) Arrow C

(D) Arrow D

Q17. Which of the following items is NOT included in the estimation of National Income?

(A) Brokerage on the sale of second-hand goods.

(B) Windfall gains like lottery winnings.

(C) Imputed rent of self-occupied houses.

(D) Employer's contribution to social security.

Q18. If GNP_{mp} is ₹ 10,000 Cr, Depreciation is ₹ 1,000 Cr, and Net Factor Income from Abroad (NFIA) is (−) ₹ 500 Cr, what is the value of NDP_{mp}?

(A) ₹ 9,500 Cr

(B) ₹ 8,500 Cr

(C) ₹ 9,000 Cr

(D) ₹ 10,500 Cr

Q19. Real GDP is considered a better indicator of economic growth than Nominal GDP because:

(A) It includes the effect of price changes.

(B) It eliminates price fluctuations and reflects physical output.

(C) It is always numerically higher than Nominal GDP.

(D) It includes government transfer payments.

Q20. Statement I: All Producer goods are Capital goods.
Statement II: Capital goods are those which are used in the production process for several years.

(A) Both statements are true.

(B) Both statements are false.

(C) Statement I is true, II is false.

(D) Statement I is false, II is true.

Q21. In a circular flow of income (two-sector model), a 'leakage' from the flow refers to:

(A) Investment

(B) Savings

(C) Exports

(D) Consumption expenditure

Q22. If the Legal Reserve Ratio (LRR) is fixed at 20%, the value of the Money Multiplier will be:

(A) 2

(B) 5

(C) 10

(D) 0.2

Q23. To control an inflationary situation in the economy, the Central Bank (RBI) should:

(A) Lower the Bank Rate.

(B) Buy securities in the Open Market.

(C) Increase the Repo Rate.

(D) Decrease the Cash Reserve Ratio.

Q24. Which of the following is classified as a 'Qualitative' tool of monetary policy?

(A) Open Market Operations

(B) Moral Suasion

(C) Statutory Liquidity Ratio

(D) Repo Rate

Q25. If the Marginal Propensity to Save (MPS) is 0.25, the value of the Investment Multiplier (k) is:

(A) 1.25

(B) 4

(C) 5

(D) 0.75

Q26. In a two-sector model, the economy is said to be in equilibrium when:

(A) Savings equal Investment ($S = I$).

(B) Aggregate Demand equals Aggregate Supply ($AD = AS$).

(C) Total Income equals $C + I$.

(D) All of the above.

Q27. Ex-ante Investment in an economy refers to:

(A) Actual investment realized in the economy.

(B) Desired or planned investment during a year.

(C) Unplanned increase in inventories.

(D) Investment made only by the public sector.

Q28. To correct a 'Deflationary Gap' (Deficient Demand), the government should:

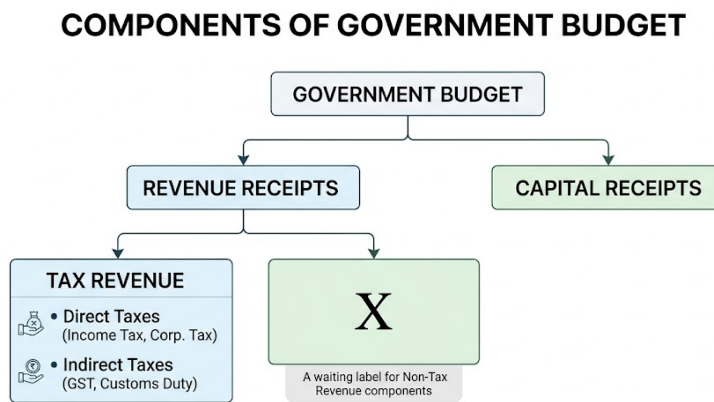
(A) Increase taxes.

(B) Reduce public expenditure.

(C) Increase public expenditure.

(D) Increase the margin requirement.

Q29. What is the correct label for the box marked 'X'?



(A) Recovery of Loans

(B) Borrowings

(C) Non-Tax Revenue

(D) Disinvestment

Q30. Which of the following is an example of a Capital Receipt for the government?

(A) Income tax collections.

(B) Interest received on loans given to states.

(C) Recovery of loans.

(D) Dividends from Public Sector Undertakings.

Q31. Fiscal Deficit is mathematically defined as:

(A) Total Expenditure – Total Receipts (excluding borrowings).

(B) Revenue Expenditure – Revenue Receipts.

(C) Interest Payments – Primary Deficit.

(D) Capital Expenditure – Capital Receipts.

Q32. A 'Debit' entry in the Balance of Payments (BOP) account indicates:

(A) Export of goods.

(B) Foreign investment into the country.

(C) Import of services.

(D) Unilateral transfers received from abroad.

Q33. In a 'Managed Floating' exchange rate system:

(A) The rate is determined solely by market forces.

(B) The rate is strictly fixed by the government.

(C) The Central Bank intervenes to moderate fluctuations.

(D) The exchange rate is pegged to the value of gold.

Q34. If the price of 1 US Dollar rises from ₹ 80 to ₹ 85, it is a case of:

(A) Appreciation of the Indian Rupee.

(B) Depreciation of the Indian Rupee.

(C) Revaluation of the Indian Rupee.

(D) None of the above.

Q35. The 'Karve Committee' (1955) in the Indian context was primarily associated with:

(A) Large scale industries.

(B) Village and small-scale industries.

(C) Land reforms.

(D) Foreign trade policy.

Q36. Under the Industrial Policy Resolution (IPR) 1956, industries in India were classified into how many categories?

(A) Two

(B) Three

(C) Four

(D) Five

Q37. The primary objective of implementing 'Land Ceiling' legislation was:

(A) To increase the average size of agricultural holdings.

(B) To reduce the concentration of land ownership.

(C) To promote the use of chemical fertilizers.

(D) To encourage cooperative farming.

Q38. Which of the following was a defining feature of the Green Revolution in India?

(A) Focus on pulses and oilseeds.

(B) Use of HYV seeds for wheat and rice.

(C) Significant decrease in the use of chemical fertilizers.

(D) Decrease in regional economic disparities.

Q39. The immediate trigger for the 1991 Economic Reforms in India was:

(A) High domestic inflation.

(B) A severe crisis in the Balance of Payments.

(C) Poor performance of Public Sector Undertakings.

(D) All of the above.

Q40. Which of the following was NOT a component of the 'Liberalisation' process in 1991?

(A) Abolition of industrial licensing for most industries.

(B) Reduction in the role of the public sector.

(C) Devaluation of the Rupee.

(D) Fixation of all bank interest rates by the RBI.

Q41. The term 'Navratnas' in the Indian economy refers to:

(A) Highly profitable Private Sector Companies.

(B) Specific Public Sector Enterprises given greater functional autonomy.

(C) Nine major agricultural crops grown during the Green Revolution.

(D) The board of directors of the Reserve Bank of India.

Q42. Human Capital formation is considered superior to Physical Capital because:

(A) Human capital is perfectly mobile across countries.

(B) Human capital is intangible and built into the body.

(C) Human capital creates both private and social benefits.

(D) Human capital depreciates faster than physical capital.

Q43. Which of the following is classified as a source of 'Institutional Credit' in rural India?

(A) Local Moneylenders.

(B) Regional Rural Banks (RRBs).

(C) Traders and Commission agents.

(D) Large Landlords.

Q44. 'Casualisation of the workforce' in the Indian economy refers to:

(A) Growth of the organized service sector.

(B) Moving from self-employment/regular work to casual wage work.

(C) Increase in the proportion of skilled labor.

(D) Shift from agriculture to manufacturing.

Q45. Sustainable development as a concept aims at:

(A) Rapid industrialization at any environmental cost.

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

(C) Maximizing current GDP at the cost of resource depletion.

(D) Increasing the use of fossil fuels for energy.

Q46. What is the main reason for the 'inverted pyramid' (structural shift) in India's sectoral growth?

(A) Agriculture grew faster than the services sector.

(B) Direct shift from Agriculture to Services, bypassing Manufacturing.

(C) Manufacturing grew significantly faster than Services.

(D) A sharp decline in the importance of IT services.

Q47. The 'Golden Revolution' in India is specifically related to the growth of:

(A) Food grain production.

(B) Horticulture and Honey.

(C) Poultry and Egg production.

(D) Oilseed production.

Q48. Statement I: Outsourcing is one of the important outcomes of the globalisation process. Statement II: India has become a favorable destination for outsourcing due to low wage rates and skilled manpower.

(A) Both statements are true.

(B) Both statements are false.

(C) Statement I is true, II is false.

(D) Statement I is false, II is true.

Q49. In which year did China introduce its 'Great Leap Forward' (GLF) industrialization campaign?

(A) 1953

(B) 1958

(C) 1978

(D) 1991

Q50. Identify the correct descending order of countries based on their Human Development Index (HDI) rank:

(A) India > China > Pakistan

(B) China > India > Pakistan

(C) Pakistan > India > China

(D) China > Pakistan > India

Detailed Solutions

Q1.

Solution

Concept: Cross-price elasticity of demand and classification of goods (substitutes, complements).

Solution: When the price of Good X rises and it leads to an increase in the demand for Good Y, it signifies that consumers are switching from Good X to Good Y because Good X has become relatively more expensive. This direct relationship between the price of one good and the demand for another good is the defining characteristic of substitute goods. For substitute goods, the cross-price elasticity of demand is positive. If the goods were complementary, a rise in the price of X would typically lead to a *decrease* in the demand for Y. The phrase "both goods are consumed together to satisfy a single want" might be misleading if interpreted as complementarity; in economics, substitutes satisfy the same want alternatively, not necessarily together.

Final Answer : "X and Y are substitutes"

Answer: (A)

Q2.

Solution

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

Solution: Assertion (A) states that an Indifference Curve is always convex to the origin. This is a true statement, reflecting the diminishing willingness of a consumer to give up units of one good for an additional unit of another as they consume more of the latter. Reason (R) states that the Marginal Rate of Substitution (MRS) decreases as the consumer substitutes one good for another. This is also true. MRS measures the rate at which a consumer is willing to give up one good (Y) to obtain one more unit of another good (X) while remaining on the same indifference curve. As a consumer consumes more of Good X, its marginal utility tends to decrease, and the marginal utility of Good Y (which is being given up) tends to increase. Consequently, the consumer is willing to give up less and less of Y for each additional unit of X, causing MRS to diminish. This diminishing MRS is precisely what gives the indifference curve its convex shape. Therefore, R is the correct explanation for A.

Final Answer : "Both A and R are true and R is the correct explanation"

Answer: (A)

Q3.

Solution

Concept: Consumer equilibrium and the Law of Equi-Marginal Utility.

Solution: A consumer reaches equilibrium when they maximize their total utility given their income and the prices of goods. According to the Law of Equi-Marginal Utility, this equilibrium occurs when the marginal utility derived per unit of currency spent on each good is equal, i.e., MUx/Px = MUy/Py.

If the current situation is MUx/Px < MUy/Py, it means that the consumer is getting less marginal utility per rupee spent on Good X compared to Good Y. To increase total utility, the consumer should reallocate their spending. They should reduce the consumption of Good X (which will, due to the law of diminishing marginal utility, increase MUx) and increase the consumption of Good Y (which will decrease MUy). This process of substitution will continue until MUx/Px rises and MUy/Py falls, eventually bringing the ratios back to equality, thus restoring equilibrium.

Final Answer : "Increase consumption of Y and decrease X"

Answer: (B)

Q4.

Solution

Concept: Price Elasticity of Demand using the Point Method for a linear demand curve.

Solution: For a linear demand curve, the price elasticity of demand (Ed) varies along its length. The point method formula for elasticity is Ed = (Q/P) * (P/Q), which can also be geometrically interpreted as the ratio of the lower segment to the upper segment of the demand curve from the point where elasticity is being calculated.

Consider a downward-sloping linear demand curve.

At the upper intercept (where the curve meets the price axis, Q=0), elasticity is infinite ().

At the lower intercept (where the curve meets the quantity axis, P=0), elasticity is zero (0).

Precisely at the mid-point of a linear demand curve, the lower segment is equal in length to the upper segment. Therefore, the ratio (lower segment / upper segment) becomes 1. This means that at the mid-point, the percentage change in quantity demanded is exactly equal to the percentage change in price (in absolute terms), resulting in unitary elastic demand (Ed = 1).

Final Answer : "1"

Answer: (B)

Q5.

Solution

Concept: Distinction between movement along and shift in the demand curve.

Solution: A movement along the demand curve occurs solely due to a change in the *price of the commodity itself*. For example, if the price of Good X decreases, the quantity demanded of Good X increases, causing a downward movement along the existing demand curve.
A shift in the demand curve occurs when any *non-price determinant of demand* changes. Non-price determinants include factors like consumer tastes and preferences, income, price of related goods (substitutes and complements), consumer expectations, and population size.
Let's analyze the options:
(A) Change in price of the commodity: This causes a *movement along* the demand curve.
(B) Improvement in production technology: This affects the *supply curve*, causing it to shift, not the demand curve.
(C) Change in price of a complementary good: This is a non-price determinant of demand for the commodity in question. For example, if the price of petrol (a complementary good to cars) decreases, the demand for cars would increase, causing the demand curve for cars to shift to the right.
(D) Decrease in cost of raw materials: This affects the *supply curve*, causing it to shift, not the demand curve.
Therefore, a change in the price of a complementary good causes a shift in the demand curve.

Final Answer : "Change in price of a complementary good"

Answer: (C)

Q6.

Solution

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

Solution: Total Product (TP) is the total output produced by a given quantity of inputs. Marginal Product (MP) is the additional output produced by employing one more unit of a variable input, while keeping other inputs constant. The relationship between TP and MP is crucial:
When MP is positive and increasing, TP increases at an increasing rate.
When MP is positive but decreasing, TP increases at a decreasing rate.
When MP is zero, it means that the last unit of the variable input added nothing to the total output. At this point, TP has reached its maximum level.
If MP becomes negative (beyond zero), it means that adding more of the variable input actually reduces total output, causing TP to start falling.
Therefore, when MP is zero, TP is at its peak.

Final Answer : "TP is at its maximum"

Answer: (A)

Q7.

Solution

Concept: Stages of production under the Law of Variable Proportions (short run).

Solution: The Law of Variable Proportions describes the short-run production function, divided into three stages:
Stage I (Increasing Returns to a Factor): TP increases at an increasing rate, MP is rising, and AP is also rising (MP > AP). This stage ends when AP is at its maximum and MP = AP.
Stage II (Diminishing Returns to a Factor): In this stage, TP continues to increase, but at a decreasing rate. This is because MP is falling but remains positive. AP also starts falling after its maximum point, and MP < AP. This stage is considered the 'rational' stage of production for a firm as TP is still increasing. This stage ends when MP becomes zero, and TP reaches its maximum.
Stage III (Negative Returns to a Factor): In this stage, TP starts falling because MP becomes negative.
Based on this, in the 'Diminishing Returns to a Factor' stage (Stage II), MP is falling but remains positive.

Final Answer : "MP is falling but remains positive"

Answer: (A)

Q8.

Solution

Concept: Relationship between Marginal Cost (MC) and Average Variable Cost (AVC).

Solution: There is a specific and consistent relationship between Marginal Cost (MC) and Average Variable Cost (AVC):
1. When MC is below AVC (MC < AVC): AVC must be falling. Adding an additional unit of output costs less than the current average variable cost, pulling the average down.
2. When MC is above AVC (MC > AVC): AVC must be rising. Adding an additional unit of output costs more than the current average variable cost, pushing the average up.
3. When MC is equal to AVC (MC = AVC): This occurs exactly at the minimum point of the AVC curve. Since MC pulls AVC down when it's below and pulls AVC up when it's above, it must intersect AVC at its lowest point.
Graphically, the MC curve cuts the AVC curve from below at the minimum point of the AVC curve.

Final Answer : "MC cuts AVC from below at its minimum"

Answer: (B)

Q9.

Solution

Concept: Shapes of short-run cost curves.

Solution: A rectangular hyperbola is a curve such that for any point on the curve, the product of its x and y coordinates is a constant. In economics, this shape is characteristic of the Average Fixed Cost (AFC) curve.
AFC is calculated as Total Fixed Cost (TFC) divided by the quantity of output (Q): AFC = TFC / Q.
Since TFC remains constant regardless of the level of output (in the short run), as Q increases, AFC must continuously decrease. Conversely, as Q decreases, AFC increases. The AFC curve approaches both the x-axis (quantity) and the y-axis (cost) but never actually touches them, because TFC is always a positive constant and Q can never be zero for meaningful production. This inverse relationship, where AFC * Q = TFC (a constant), geometrically represents a rectangular hyperbola.

Final Answer : "AFC"

Answer: (A)

Q10.

Solution

Concept: Characteristics of Perfect Competition and price-taking behavior.

Solution: Under perfect competition, a firm is considered a "price taker" because it has no power to influence the market price of the product it sells. This characteristic stems from several key features of a perfectly competitive market:

1. Large Number of Buyers and Sellers: There are so many individual firms and consumers that no single participant can significantly affect the total market supply or demand.
2. Homogeneous Products: All firms produce identical or undifferentiated products. Consumers perceive no difference between the product of one firm and another.
3. Perfect Information: Both buyers and sellers have complete information about prices and product quality.
4. Free Entry and Exit: Firms can easily enter or leave the market.

Because of the extremely large number of firms and the homogeneous nature of the product, each individual firm's output represents an insignificant fraction of the total market supply. If a firm tries to charge a price even slightly above the market price, it will lose all its customers to competitors selling the identical product at the lower market price. Conversely, there is no incentive to sell below the market price, as the firm can sell all it wants at the prevailing market price. Therefore, the firm must accept the market-determined price.

Final Answer : "Firm's share in market supply is insignificant"

Answer: (C)

Q11.

Solution

Concept: Short-run shut-down condition for a perfectly competitive firm and cost-benefit analysis in production.

Solution: In the short run, a perfectly competitive firm faces two types of costs: fixed costs (which do not vary with output and must be paid even if production is zero) and variable costs (which vary with output). When a firm is incurring losses (Price < Average Total Cost), it must decide whether to continue producing or shut down temporarily. The rational decision rule for the short run is based on covering variable costs:

1. If Price (P) is greater than or equal to Average Variable Cost (AVC) (P AVC): The firm should continue to produce. In this scenario, the revenue generated from selling each unit is at least covering the direct, per-unit costs of production (raw materials, labor directly tied to output). Any amount by which Price exceeds AVC contributes to covering the fixed costs. By continuing to produce, the firm minimizes its losses because it is covering all its variable costs and some portion, or all, of its fixed costs. If it were to shut down, it would lose all its fixed costs.
2. If Price (P) is less than Average Variable Cost (AVC) (P < AVC): The firm should shut down immediately. In this case, the revenue from selling units isn't even enough to cover the variable costs of producing those units. Every unit produced adds to the loss, over and above the fixed costs. By shutting down, the firm's losses are limited to its total fixed costs, which is less than the losses it would incur by continuing to produce.

Therefore, a perfectly competitive firm continues production even with losses as long as its price is greater than or equal to its average variable cost.

Final Answer : "Price AVC"

Answer: (B)

Q12.

Solution

Concept: Derivation of the short-run supply curve for a perfectly competitive firm and profit maximization conditions.

Solution: For a perfectly competitive firm, profit maximization (or loss minimization) occurs where Marginal Revenue (MR) equals Marginal Cost (MC). Since a perfectly competitive firm is a price taker, its Marginal Revenue is equal to the market Price (P), so the condition becomes P = MC. However, a firm will only produce if it can cover at least its variable costs in the short run. As established in the previous question, the shut-down point occurs when Price falls below the minimum Average Variable Cost (AVC).

Combining these two conditions:

1. The firm's optimal output level is where P = MC.
2. The firm will only produce at this level if P minimum AVC.

Therefore, the firm's short-run supply curve is represented by the portion of its Marginal Cost (MC) curve that lies above the minimum point of its Average Variable Cost (AVC) curve. Any part of the MC curve below minimum AVC is not part of the supply curve because the firm would choose to shut down rather than produce at such a low price.

Final Answer : "Rising portion of MC above minimum AVC"

Answer: (A)

Q13.

Solution

Concept: Market disequilibrium: excess supply and price adjustment mechanisms.

Solution: The equilibrium price in a market is the unique price at which the quantity demanded by consumers exactly matches the quantity supplied by producers. This is the point where the demand and supply curves intersect.

If the market price is currently set above the equilibrium price:

Quantity Demanded (QD): At a higher price, consumers will demand less of the good, moving upward along the demand curve.

Quantity Supplied (QS): At a higher price, producers will be willing to supply more of the good, moving upward along the supply curve.

Consequence: Since QS > QD, there will be an excess supply or a surplus of the good in the market. Producers will find themselves with unsold inventory.

To eliminate this surplus and clear their stock, producers will be forced to lower their prices. This downward pressure on price will continue as long as the surplus persists. As the price falls, quantity demanded will increase, and quantity supplied will decrease, eventually moving the market back towards the equilibrium price where QD = QS.

Final Answer : "Surplus and price fall"

Answer: (B)

Q14.

Solution

Concept: Government intervention: price floor and its economic implications.

Solution: A price floor is a government-imposed legal minimum price that sellers can charge for a good or service. Governments typically implement price floors to protect producers, ensuring they receive a certain minimum income (e.g., minimum wage laws, agricultural price supports).
For a price floor to be effective and have a noticeable impact on the market outcome, it must be set above the market equilibrium price.
If the price floor were set *below* the equilibrium price, the market would naturally clear at the higher equilibrium price, making the floor irrelevant or "non-binding."
If the price floor is set *above* the equilibrium price, it prevents the market price from falling to its natural clearing level. At this artificially high price, the quantity supplied will exceed the quantity demanded, leading to an excess supply or a surplus in the market. This is a common outcome of effective price floors.

Therefore, a price floor is set above the equilibrium price.

Final Answer : "Above equilibrium price"

Answer: (B)

Q15.

Solution

Concept: Simultaneous shifts in demand and supply curves and their impact on equilibrium price and quantity.

Solution: When both demand and supply curves shift, the net effect on equilibrium price and quantity depends on the direction and magnitude of each shift.
Let's analyze the individual effects of an increase in demand and an increase in supply:
1. Increase in Demand (Demand curve shifts right): This, in isolation, tends to increase both the equilibrium price and the equilibrium quantity.
2. Increase in Supply (Supply curve shifts right): This, in isolation, tends to decrease the equilibrium price and increase the equilibrium quantity.

Now, consider what happens if both increase equally:
Effect on Quantity: Both an increase in demand and an increase in supply push the equilibrium quantity in the same direction – upwards. Therefore, if both increase, the equilibrium quantity will unambiguously increase.
Effect on Price: The increase in demand puts upward pressure on price, while the increase in supply puts downward pressure on price. If these two forces are of equal magnitude, they will perfectly offset each other, meaning the equilibrium price will remain the same.

Thus, if demand and supply both increase equally, the equilibrium quantity increases, and the equilibrium price remains unchanged.

Final Answer : "Price same, quantity increases"

Answer: (B)

Q16.

Solution

Concept: Circular Flow of Income model: distinction between real flow and money flow.

Solution: The Circular Flow of Income is a macroeconomic model illustrating the interdependence of different sectors in an economy. It describes the continuous movement of money, goods, and services between these sectors.
There are two main types of flows:
1. Real Flow: This represents the flow of physical goods and services, and factors of production (land, labor, capital, entrepreneurship).
From Households to Firms: Households provide factor services (labor, land, capital) to firms.
From Firms to Households: Firms use these factor services to produce goods and services, which they then sell to households. This is the real flow of goods from firms to households.
2. Money Flow: This represents the monetary payments for these goods, services, and factors of production.
From Firms to Households: Firms pay factor incomes (wages, rent, interest, profit) to households for their factor services.
From Households to Firms: Households spend their income to buy goods and services from firms.

In a typical diagram, Arrow A usually depicts the flow of finished goods and services from the business sector (firms) to the household sector, representing the real flow of goods.

Final Answer : "Arrow A"

Answer: (A)

Q17.

Solution

Concept: Components and exclusions from National Income (NI) accounting, particularly distinguishing between productive income and transfers/windfall gains.

Solution: National Income (NI) aims to measure the total value of final goods and services produced within an economy over a specific period, or the total income earned by residents from productive activities. To avoid overestimation and to accurately reflect current production, certain items are typically excluded:
Brokerage on second-hand goods: While the sale of second-hand goods themselves is not included in NI (as they were produced in a prior period), the brokerage commission earned for facilitating the sale represents payment for a *current service rendered*. This service adds value and is therefore included in National Income.
Lottery winnings: These are considered transfer payments or windfall gains. They represent a transfer of money from one person (or the lottery organization) to another, without any corresponding productive activity in the current period. They do not represent income earned from contributing to current production of goods and services. Therefore, lottery winnings are NOT included in National Income.
Imputed rent of owner-occupied houses: This is an estimated value of the housing services consumed by homeowners who live in their own homes. It's included in NI to avoid understating the value of housing services and to ensure comparability with rented housing, which clearly generates income for landlords. This is an included item.
Employer's social contribution: This refers to contributions made by employers to social security and similar schemes on behalf of their employees. It is considered part of the compensation of employees (a factor income) and is therefore included in National Income.

Based on the analysis, lottery winnings are not included in National Income.

Final Answer : "Lottery winnings"

Answer: (B)

Q18.

Solution

Concept: Conversion between National Income Aggregates (Gross vs. Net, National vs. Domestic).

Solution: We are given Gross National Product at Market Price (GNPmp) and need to calculate Net Domestic Product at Market Price (NDPmp). The key transformations involved are:
1. Gross to Net: To convert a 'Gross' aggregate to a 'Net' aggregate, we subtract Depreciation. Depreciation accounts for the wear and tear on capital goods during production.
Gross - Depreciation = Net
2. National to Domestic: To convert a 'National' aggregate to a 'Domestic' aggregate, we subtract Net Factor Income from Abroad (NFIA). NFIA is the difference between factor income received from abroad and factor income paid to abroad. A positive NFIA means residents earn more from abroad than foreigners earn from domestically located production. A negative NFIA means the opposite.
National - NFIA = Domestic

Given values:
GNPmp = ₹ 10,000 Cr
Depreciation = ₹ 1,000 Cr
NFIA = –₹ 500 Cr

Let's apply the conversions:
First, convert from Gross (GNPmp) to Net (NNPmp):
NNPmp = GNPmp - Depreciation
NNPmp = ₹ 10,000 Cr - ₹ 1,000 Cr = ₹ 9,000 Cr

Next, convert from National (NNPmp) to Domestic (NDPmp):
NDPmp = NNPmp - NFIA
NDPmp = ₹ 9,000 Cr - (–₹ 500 Cr)
NDPmp = ₹ 9,000 Cr + ₹ 500 Cr
NDPmp = ₹ 9,500 Cr

Alternatively, one could do it in one step:
NDPmp = GNPmp - Depreciation - NFIA
NDPmp = ₹ 10,000 Cr - ₹ 1,000 Cr - (–₹ 500 Cr)
NDPmp = ₹ 10,000 Cr - ₹ 1,000 Cr + ₹ 500 Cr
NDPmp = ₹ 9,000 Cr + ₹ 500 Cr
NDPmp = ₹ 9,500 Cr

Final Answer : "₹ 9,500 Cr"

Answer: (A)

Q19.

Solution

Concept: Distinction between Real GDP and Nominal GDP and their utility as measures of economic activity.

Solution: Nominal GDP (GDP at current prices): This measures the total value of all final goods and services produced within a country's borders in a specific period using the actual market prices prevailing in that same period. Nominal GDP can increase either due to an increase in the actual quantity of goods and services produced or due to an increase in their prices (inflation).
Real GDP (GDP at constant prices): This measures the total value of all final goods and services produced within a country's borders in a specific period, but it uses the prices from a designated base year. By keeping prices constant, Real GDP isolates the changes in the *physical volume* of output.

Real GDP is considered a better measure for comparing economic output across different time periods because it eliminates the effect of price changes (inflation or deflation). If Nominal GDP increases from one year to the next, it's hard to tell if the economy genuinely produced more or if prices simply rose. Real GDP allows economists and policymakers to gauge whether the economy's productive capacity has actually grown, providing a more accurate picture of economic growth and living standards.

Final Answer : "Eliminates price fluctuations"

Answer: (B)

Q20.

Solution

Concept: Classification of goods in national income accounting: producer goods, consumer goods, capital goods, intermediate goods.

Solution: Let's analyze each statement regarding the classification of goods:

Statement I: All producer goods are capital goods.
Producer goods are goods used in the production process of other goods and services. This category is broad and includes both intermediate goods (single-use producer goods like raw materials, fuel, or electricity that are completely used up or transformed in one production cycle) and capital goods (multi-use producer goods like machinery, tools, buildings that are durable and used repeatedly over several years).
Since intermediate goods are producer goods but not capital goods, the statement that all producer goods are capital goods is false. For example, cotton for a textile factory is a producer good, but it's an intermediate good, not a capital good.

Statement II: Capital goods are used for several years.
This is the defining characteristic of capital goods. They are fixed assets that are durable and contribute to production over an extended period, typically more than one accounting year. Examples include plant, machinery, equipment, and factory buildings.
Therefore, this statement is true.

Based on the analysis, Statement I is false, and Statement II is true.

Final Answer : "I false, II true"

Answer: (D)

Q21.

Solution

Concept: Circular Flow of Income model: identification of leakages.

Solution: The circular flow of income model depicts the continuous movement of money and goods/services between households, firms, government, and the rest of the world.
Leakages are components that withdraw money from this continuous flow, meaning that income earned by households or firms is not immediately spent on domestically produced goods and services. The main types of leakages in an economy are:
1. Savings (S): When households or firms save a portion of their income instead of spending it on current consumption or investment within the domestic economy. This money is set aside and does not immediately re-enter the spending stream.
2. Taxes (T): When households or firms pay a portion of their income to the government. This money leaves the direct spending flow between households and firms.
3. Imports (M): When households, firms, or the government spend money on goods and services produced in other countries. This money flows out of the domestic economy.

Let's examine the given options:
(A) Investment: Investment (I) is an injection into the circular flow, as it represents spending by firms on capital goods.
(B) Savings: Savings (S) is a leakage from the circular flow, as it represents income not spent on consumption.
(C) Exports: Exports (X) are an injection into the circular flow, as they represent spending by foreigners on domestically produced goods.
(D) Consumption: Consumption (C) is the primary expenditure component within the basic circular flow between households and firms; it's the core of the flow, not a leakage.

Therefore, savings represent a leakage in the circular flow of income.

Final Answer : "Savings"

Answer: (B)

Q22.

Solution

Concept: Money Multiplier and Legal Reserve Ratio (LRR).

Solution: The money multiplier (also known as the credit multiplier or deposit multiplier) quantifies the total amount of money that commercial banks can create in the economy for every unit of initial deposit. It is inversely related to the Legal Reserve Ratio (LRR), which is the fraction of deposits that commercial banks are legally required to keep as reserves with the central bank (Cash Reserve Ratio, CRR) and in liquid assets (Statutory Liquidity Ratio, SLR).
The formula for the money multiplier (k) is:
k = 1 / LRR
Given, LRR = 20% = 0.20 (as a decimal).
Therefore, Money Multiplier = 1 / 0.20 = 5.
This means that an initial deposit can lead to a total creation of deposits 5 times its value in the banking system.

Final Answer : "5"

Answer: (B)

Q23.

Solution

Concept: Monetary policy tools for inflation control (Contractionary Monetary Policy).

Solution: Inflation refers to a persistent increase in the general price level, often caused by an excess of aggregate demand relative to aggregate supply. To control inflation, the Reserve Bank of India (RBI) needs to implement a contractionary monetary policy, which aims to reduce the money supply and credit availability in the economy, thereby curbing aggregate demand.
Let's analyze the given options:
(A) Lower bank rate: The bank rate is the rate at which RBI lends to commercial banks without collateral. Lowering it would make borrowing cheaper for commercial banks, encouraging them to borrow more from RBI and lend more to the public. This would *increase* the money supply, worsening inflation.
(B) Buy securities (Open Market Operations): When RBI buys securities from the public or commercial banks, it pays them with cash, injecting money into the economy. This would increase the money supply, worsening inflation.
(C) Increase repo rate: The repo rate is the rate at which commercial banks borrow funds from the RBI by selling securities with an agreement to repurchase them. Increasing the repo rate makes borrowing more expensive for commercial banks, discouraging them from borrowing and leading to a reduction in the credit they extend to the public. This effectively reduces the money supply and aggregate demand, helping to control inflation.
(D) Decrease CRR (Cash Reserve Ratio): CRR is the portion of deposits that commercial banks must keep with the RBI. Decreasing CRR would free up more funds for commercial banks to lend, thereby increasing the money supply, worsening inflation.
Therefore, increasing the repo rate is an appropriate measure to control inflation.

Final Answer : "Increase repo rate"

Answer: (C)

Q24.

Solution

Concept: Quantitative vs. Qualitative tools of Monetary Policy.

Solution: Monetary policy tools are broadly categorized into two types:
1. Quantitative (General) Tools: These tools influence the overall volume of credit and money supply in the economy. They affect all sectors uniformly. Examples include:
Bank Rate (or Repo Rate)
Reverse Repo Rate
Cash Reserve Ratio (CRR)
Statutory Liquidity Ratio (SLR)
Open Market Operations (OMOs)
2. Qualitative (Selective) Tools: These tools are used to control the direction, allocation, and flow of credit to specific sectors or for particular purposes. They aim to influence the quality of credit.
Examples include:
Margin Requirements (fixing minimum margin for secured loans)
Moral Suasion (persuading commercial banks to cooperate with RBI's policy)
Selective Credit Controls (regulating credit for specific commodities)

Let's examine the options:
(A) Open market operations: This is a quantitative tool, affecting the overall liquidity.
(B) Moral suasion: This involves the RBI using persuasion, appeals, and pressure to influence commercial banks' lending behavior without imposing legal compulsion. This is a qualitative tool.
(C) SLR (Statutory Liquidity Ratio): This is a quantitative tool, dictating the minimum percentage of deposits banks must maintain in liquid assets.
(D) Repo rate: This is a quantitative tool, influencing the cost of borrowing for commercial banks.

Therefore, Moral Suasion is a qualitative tool of monetary policy.

Final Answer : "Moral suasion"

Answer: (B)

Q25.

Solution

Concept: Investment Multiplier and Marginal Propensity to Save (MPS).

Solution: The investment multiplier (denoted by 'k') is a concept in Keynesian economics that explains how an initial change in autonomous expenditure (like investment, government spending, or exports) leads to a much larger change in the equilibrium level of national income.
The multiplier is directly related to the Marginal Propensity to Consume (MPC) and inversely related to the Marginal Propensity to Save (MPS).
The formulas for the multiplier are:
1. k = 1 / (1 - MPC)
2. k = 1 / MPS (since MPC + MPS = 1, so 1 - MPC = MPS)

Given, Marginal Propensity to Save (MPS) = 0.25.
Using the second formula:
Multiplier (k) = 1 / MPS
k = 1 / 0.25
k = 4

This means that an initial increase in investment (or other autonomous spending) by a certain amount will lead to a four-fold increase in the national income.

Final Answer : "4"

Answer: (B)

Q26.

Solution

Concept: Equilibrium conditions in a simple two-sector economy (Households and Firms).

Solution: In a simple two-sector economy model, there are only households and firms. The circular flow of income involves households providing factor services to firms and receiving income, and firms producing goods and services which households consume.
Equilibrium in this model signifies a state where there is no tendency for the level of income and output to change. This equilibrium can be expressed in several equivalent ways:
1. Aggregate Demand (AD) = Aggregate Supply (AS): Aggregate Demand in a two-sector model is the sum of Consumption (C) and Investment (I), i.e., AD = C + I. Aggregate Supply is the total output produced, which is distributed as income (Y) and is either consumed or saved, i.e., AS = Y = C + S. So, equilibrium is C + I = C + S.
2. Savings (S) = Investment (I): From the AD = AS condition (C + I = C + S), if we subtract C from both sides, we get I = S. This is the leakage-injection equality, where savings (S) are a leakage from the circular flow and investment (I) is an injection. Equilibrium requires leakages to equal injections.
3. Income (Y) = Aggregate Expenditure (C + I): Since Y is the total income generated and C + I represents the total spending in the economy, for equilibrium, total income must equal total expenditure. As we know Y = C + S, this condition is also equivalent to S = I.

All these conditions represent the same state of equilibrium in a two-sector economy. Therefore, all the given options are valid conditions for equilibrium.

Final Answer : "All of the above"

Answer: (D)

Q27.

Solution

Concept: Ex-ante vs. Ex-post economic variables.

Solution: In macroeconomics, it's crucial to distinguish between planned/intended actions and actual/realized outcomes.

Ex-ante refers to the planned, desired, or intended values of economic variables before an event or period of time. These are typically based on expectations and future plans.

Ex-post refers to the actual, realized, or observed values of economic variables after an event or period of time.

Applying this to investment:

Ex-ante investment is the amount of investment that firms (investors) plan or intend to undertake during a specific period. It is what they desire to spend on capital goods (new machinery, buildings, inventories).

Ex-post investment is the actual or realized investment that has occurred during that period. This can differ from ex-ante investment, especially if there are unplanned changes in inventory (e.g., if sales are lower or higher than expected, leading to unintended accumulation or depletion of stocks).

Therefore, ex-ante investment refers to planned investment.

Final Answer : "Planned investment"

Answer: (B)

Q28.

Solution

Concept: Fiscal Policy tools to correct a Deflationary Gap (Deficient Demand).

Solution: A deflationary gap (or deficient demand) occurs when the aggregate demand in the economy falls short of the aggregate supply required to achieve full employment without inflation. This leads to underutilization of resources, unemployment, and downward pressure on prices. To correct a deflationary gap, the government needs to implement an expansionary fiscal policy to boost aggregate demand.
Expansionary fiscal policy involves measures that either directly increase government spending or indirectly increase private spending (consumption and investment).
Let's analyze the options:
(A) Increase taxes: Increasing taxes reduces disposable income for households and profits for firms, which leads to a decrease in consumption and investment, further reducing aggregate demand and worsening the deflationary gap.
(B) Reduce expenditure: Reducing government expenditure (G) directly decreases aggregate demand, which would also worsen the deflationary gap.
(C) Increase expenditure: Increasing government expenditure (e.g., on infrastructure projects, social programs) directly adds to aggregate demand. This injection of spending has a multiplier effect, leading to a larger increase in overall national income and helping to close the deflationary gap.
(D) Increase margin requirement: This is a monetary policy tool (qualitative credit control) used by the central bank. Increasing margin requirements makes it harder and more expensive to borrow against collateral, which would reduce credit availability and further dampen aggregate demand, worsening deflation. (To correct deflation, margin requirement should be decreased).

Therefore, increasing government expenditure is an appropriate fiscal measure to correct a deflationary gap.

Final Answer : "Increase expenditure"

Answer: (C)

Q29.

Solution

Concept: Components of Government Budget: Revenue Receipts vs. Capital Receipts.

Solution: The government budget consists of two main parts: revenue budget and capital budget. Revenue Receipts are those receipts of the government that neither create a liability nor lead to a reduction in its assets. They are typically recurring in nature and include:
Tax Revenue: Income tax, corporate tax, GST, customs duties, excise duties.
Non-Tax Revenue: Interest receipts (from loans given), dividends and profits from public sector undertakings (PSUs), fees, fines, grants-in-aid from foreign countries or international organizations.

Capital Receipts are those receipts of the government that either create a liability or lead to a reduction in its assets. They are generally non-recurring. Examples include:
Borrowings: From the public, RBI, or foreign governments. (Creates liability)
Recovery of Loans: Loans previously extended by the government are repaid. (Reduces assets, as the loan asset is extinguished)
Disinvestment: Sale of government shares in public sector undertakings. (Reduces assets)

Let's evaluate the options:
(A) Recovery of loans: Reduces government's assets (loans it had granted), so it's a capital receipt.
(B) Borrowings: Creates a liability for the government, so it's a capital receipt.
(C) Non-tax revenue: This explicitly falls under the definition of revenue receipts, as it neither creates a liability nor reduces assets.
(D) Disinvestment: Reduces government's financial assets (ownership in PSUs), so it's a capital receipt.

Therefore, non-tax revenue is an example of a revenue receipt.

Final Answer : "Non-tax revenue"

Answer: (C)

Q30.

Solution

Concept: Components of Government Budget: Revenue Receipts vs. Capital Receipts.

Solution: (Using the definitions provided in the explanation for Q29)
Capital Receipts are those government receipts that either create a liability for the government or lead to a reduction in its financial assets. They are typically non-recurring in nature.
Let's evaluate the given options:
(A) Income tax: This is a tax revenue; it neither creates a liability nor reduces government assets. Hence, it is a revenue receipt.
(B) Interest received: This is part of the government's non-tax revenue (e.g., interest on loans given to states or public enterprises); it neither creates a liability nor reduces assets. Hence, it is a revenue receipt.
(C) Recovery of loans: When the government recovers loans it had previously extended to states, union territories, or other parties, its asset (the loan outstanding) is reduced. Since it reduces a financial asset, it is classified as a capital receipt.
(D) PSU dividends: These are profits earned by the government from its ownership in Public Sector Undertakings. They are part of non-tax revenue and neither create a liability nor reduce assets. Hence, it is a revenue receipt.

Therefore, recovery of loans is an example of a capital receipt.

Final Answer : "Recovery of loans"

Answer: (C)

Q31.

Solution

Concept: Government Budget Deficits (Fiscal Deficit, Revenue Deficit, Primary Deficit).

Solution: The government budget can show different types of deficits, each indicating a specific aspect of the government's financial health:
1. Revenue Deficit: It is the excess of revenue expenditure over revenue receipts. Revenue Deficit = Revenue Expenditure – Revenue Receipts
2. Fiscal Deficit: It represents the total borrowing requirements of the government. It is the excess of total expenditure (both revenue and capital) over total receipts (both revenue and capital), *excluding borrowings*.
Fiscal Deficit = Total Expenditure – Total Receipts (excluding borrowings)
Alternatively, Fiscal Deficit = (Revenue Expenditure + Capital Expenditure) – (Revenue Receipts + Non-debt Capital Receipts)
3. Primary Deficit: It is the fiscal deficit minus interest payments on past loans. It indicates the government's borrowing requirement for current expenditures, excluding the burden of past debt.
Primary Deficit = Fiscal Deficit – Interest Payments

Let's examine the options:
(A) Total expenditure – total receipts (excluding borrowings): This precisely matches the definition of Fiscal Deficit.
(B) Revenue expenditure – revenue receipts: This is the definition of Revenue Deficit.
(C) Interest – primary deficit: This is a rearrangement of the Primary Deficit formula (Fiscal Deficit = Primary Deficit + Interest Payments), but it's not the primary definition of Fiscal Deficit itself.
(D) Capital expenditure – capital receipts: This is not a standard deficit measure; it simply compares two components of the capital budget.

Therefore, the correct formula for Fiscal Deficit is Total expenditure – total receipts (excluding borrowings).

Final Answer : "Total expenditure – total receipts (excluding borrowings)"

Answer: (A)

Q32.

Solution

Concept: Balance of Payments (BOP) Accounting: Debit and Credit Entries.

Solution: The Balance of Payments (BOP) is a systematic record of all economic transactions between residents of a country and the rest of the world during a given period. Transactions in the BOP are recorded using a double-entry bookkeeping system:
Credit entries (+): These record transactions that result in an inflow of foreign exchange into the country. This typically includes transactions that bring money in (e.g., exports, foreign investment received, remittances received).
Debit entries (–): These record transactions that result in an outflow of foreign exchange from the country. This typically includes transactions that send money out (e.g., imports, foreign investment made abroad, remittances paid).

Let's evaluate the options:
(A) Export of goods: When a country exports goods, it receives foreign currency from the buyers. This is an inflow of foreign exchange, hence a credit entry.
(B) Foreign investment: This term can be ambiguous. If it refers to foreign investment received (e.g., a foreign company investing in the domestic country), it's an inflow of foreign exchange and a credit entry. If it refers to investment made abroad by domestic residents, it's an outflow of foreign exchange and a debit entry. Given the common phrasing in multiple-choice questions, "foreign investment" often implies inward investment, hence a credit. However, if interpreted as outward investment, it would be a debit.
(C) Import of services: When a country imports services (e.g., tourism services from another country, shipping services from a foreign company), it pays in foreign currency. This is an outflow of foreign exchange, hence a debit entry.
(D) Transfers received: When residents receive gifts, remittances, or grants from abroad, foreign currency flows into the country. This is an inflow of foreign exchange, hence a credit entry.

Among the given options, "Import of services" unambiguously indicates an outflow of foreign exchange, making it a debit entry.

Final Answer : "Import of services"

Answer: (C)

Q33.

Solution

Concept: Exchange Rate Regimes: Fixed, Flexible, and Managed Floating.

Solution: Different countries adopt various exchange rate regimes to manage their currency's value relative to other currencies:
1. Fixed Exchange Rate Regime: The government or central bank officially pegs its currency's value to another currency (e.g., US dollar), a basket of currencies, or a commodity like gold. The central bank actively intervenes to maintain this fixed rate.
2. Flexible (or Pure Floating) Exchange Rate Regime: The exchange rate is determined entirely by the market forces of demand and supply for foreign exchange, with no intervention from the central bank.
3. Managed Floating Exchange Rate Regime (also known as Dirty Floating): This is a hybrid system that combines elements of both fixed and flexible exchange rates. Under this system, the exchange rate is primarily determined by market forces, but the central bank reserves the right to intervene in the foreign exchange market. The purpose of this intervention is usually to smooth out excessive fluctuations, prevent sharp appreciation or depreciation, or guide the exchange rate towards a desired range, without strictly pegging it. The central bank buys or sells foreign currency to influence the market.

Let's evaluate the options:
(A) Market determined: This describes a pure floating exchange rate system.
(B) Fixed by govt: This describes a fixed exchange rate system.
(C) Central bank intervenes: This is the defining characteristic of a managed floating exchange rate system. The central bank steps in when it deems necessary to influence the market-determined rate.
(D) Gold standard: This is a historical type of fixed exchange rate system where a country's currency value is directly linked to a specific weight of gold.

Therefore, managed floating exchange rate means that the central bank intervenes in the foreign exchange market.

Final Answer : "Central bank intervenes"

Answer: (C)

Q34.

Solution

Concept: Exchange Rate dynamics: Appreciation vs. Depreciation (in a flexible exchange rate system) and Revaluation vs. Devaluation (in a fixed exchange rate system).

Solution: The exchange rate indicates how much of one currency is required to purchase a unit of another currency.
When the exchange rate changes from ₹ 80 per U.S. dollar to ₹ 85 per U.S. dollar, it means that an individual now needs to give up more Indian Rupees (₹ 85 instead of ₹ 80) to obtain one U.S. dollar.
This signifies that the value of the Indian Rupee has fallen relative to the U.S. Dollar.
In a flexible exchange rate system (where rates are determined by market forces of demand and supply), a fall in the value of the domestic currency in terms of a foreign currency is called depreciation.
Conversely, a rise in the value of the domestic currency (e.g., from ₹ 85 to ₹ 80 per dollar) would be called appreciation.
Revaluation and devaluation are terms used specifically in a fixed exchange rate system when a government or central bank officially adjusts the pegged value of its currency upwards (revaluation) or downwards (devaluation). Since the question implies a market-driven change in value (or at least doesn't specify government fixing), depreciation is the appropriate term.

Therefore, ₹ 80 to ₹ 85 per dollar means the Indian Rupee has depreciated.

Final Answer : "Depreciation"

Answer: (B)

Q35.

Solution

Concept: Historical economic committees and their recommendations for industrial policy in India.

Solution: Post-independence India witnessed several committees formed to guide its economic development.
The Karve Committee, formally known as the Village and Small Scale Industries Committee, was constituted by the Planning Commission in 1955.
Its primary mandate was to study and recommend measures for the promotion and development of village and small-scale industries. The committee strongly emphasized the importance of these industries for:
Generating large-scale employment opportunities, especially in rural areas, to absorb the growing workforce.
Ensuring a more equitable distribution of income and wealth.
Mobilizing local resources and entrepreneurship.
The recommendations of the Karve Committee played a significant role in shaping India's industrial policy, particularly during the Second Five-Year Plan (1956-61), which prioritized the development of small-scale industries alongside heavy industries.

Therefore, the Karve Committee was related to small industries.

Final Answer : "Small industries"

Answer: (B)

Q36.

Solution

Concept: Industrial Policy Resolution (IPR) of 1956 and its classification of industries.

Solution: The Industrial Policy Resolution (IPR) of 1956 was a pivotal document that provided the framework for industrial development in India for several decades, emphasizing the public sector's leading role in the economy. It categorized industries into three schedules to define the respective roles of the public and private sectors:
1. Schedule A: This list comprised 17 industries that were to be the exclusive responsibility of the State. These included strategic and heavy industries like arms and ammunition, atomic energy, iron and steel, heavy electrical plants, coal, mineral oils, railways, air transport, etc. No new private sector units were allowed in these areas.
2. Schedule B: This list included 12 industries where the State would generally take the initiative in establishing new undertakings, but private enterprise was expected to supplement the State's efforts. Industries like machine tools, ferro-alloys, fertilizers, road transport, basic and intermediate products required by chemical industries, etc., fell under this category.
3. Schedule C: This included all the remaining industries not listed in Schedule A or B. These industries were left open for the private sector, but they were subject to various government regulations and controls (like industrial licensing, which was prevalent until 1991).

Thus, IPR 1956 classified industries into three categories.

Final Answer : "Three"

Answer: (B)

Q37.

Solution

Concept: Land Reforms in India, specifically the objectives of land ceiling legislation.

Solution: After India's independence, agrarian reforms were considered crucial for economic development and social justice. Land ceiling was a significant component of these reforms. Land ceiling legislation aimed to fix a statutory maximum limit on the amount of agricultural land that an individual or a family could own.

The primary objectives of imposing land ceilings were:

1. Reduce concentration of land ownership: Historically, land ownership was highly concentrated in the hands of a few large landlords, leading to significant inequality in rural areas. Land ceiling laws aimed to break up these large holdings.
2. Promote equitable distribution of land: By acquiring surplus land (land held above the ceiling limit), the government could redistribute it among landless laborers and small and marginal farmers, thereby ensuring a more even distribution of this critical resource.
3. Enhance social justice and reduce poverty: Providing land to the landless was seen as a way to empower the rural poor and improve their livelihoods.

Options (A) and (D) are incorrect because land ceiling aimed to reduce large farm sizes (not increase) and focused on redistribution rather than directly promoting fertilizers or encouraging cooperation (though cooperation could be a follow-up policy). Option (B) accurately reflects the core aim.

Final Answer : "Reduce concentration"

Answer: (B)

Q38.

Solution

Concept: Key features and impacts of the Green Revolution in Indian agriculture.

Solution: The Green Revolution, which commenced in India in the mid-1960s, was a major agricultural transformation focused on increasing food grain production, especially wheat and rice, to achieve self-sufficiency and combat famine. Its defining features were:
High-Yielding Variety (HYV) seeds: This was the cornerstone of the Green Revolution. New, genetically improved varieties of wheat and rice seeds were introduced, which had a much higher yield potential compared to traditional varieties.
Increased use of chemical fertilizers and pesticides: HYV seeds were highly responsive to chemical fertilizers. To achieve optimal yields and protect the new varieties from pests and diseases, there was a substantial increase in the application of chemical fertilizers and pesticides.
Assured irrigation facilities: HYV seeds required controlled and adequate water supply, leading to significant investments in irrigation infrastructure.
Use of modern farm machinery: Tractors, power tillers, threshers, and other modern farm equipment were adopted to enhance efficiency and speed up agricultural operations.

Let's evaluate the options:
(A) Focus on pulses: The Green Revolution primarily focused on wheat and rice, not pulses.
(B) HYV seeds: This was the most critical feature.
(C) Less fertilizers: On the contrary, it involved a greater use of chemical fertilizers.
(D) Reduced disparity: Initially, the Green Revolution tended to increase disparities, as only wealthier farmers with access to irrigation, credit, and new inputs could adopt the new technology.

Thus, HYV seeds were a core feature of the Green Revolution.

Final Answer : "HYV seeds"

Answer: (B)

Q39.

Solution

Concept: The economic crisis in India that led to the 1991 New Economic Policy (LPG reforms).

Solution: The year 1991 marked a watershed moment in India's economic history with the introduction of comprehensive economic reforms (Liberalization, Privatization, Globalization - LPG). These reforms were not a gradual progression but an urgent response to a severe economic crisis.

Several intertwined factors triggered this crisis:

1. Balance of Payments (BOP) Crisis: This was the most immediate trigger. India's foreign exchange reserves had plummeted to a critically low level, barely enough to finance a few weeks of imports. The country was on the brink of defaulting on its international debt obligations, losing creditworthiness.
2. High Inflation: The economy was plagued by high and persistent inflation, which was fueled by large government fiscal deficits, excessive money supply growth, and supply-side rigidities. This eroded the purchasing power of citizens and created economic instability.
3. Large and Unsustainable Fiscal Deficit: The government's expenditure consistently outstripped its revenue, leading to a massive fiscal deficit. This deficit was often financed through borrowing, which increased public debt and interest payment obligations, and by printing money, which contributed to inflation.
4. Inefficiency and Poor Performance of Public Sector Undertakings (PSUs): Many PSUs were operating inefficiently, incurring losses, and were a drain on government resources instead of contributing to economic growth.
5. Lack of International Confidence: The deteriorating economic indicators led to a loss of confidence among international lenders and investors, making it difficult for India to secure further loans or foreign investment.

All these factors collectively culminated in a severe economic crisis that necessitated a radical shift in economic policy.

Final Answer : "All"

Answer: (D)

Q40.

Solution

Concept: Key components of economic liberalization policy as part of the 1991 reforms.

Solution: Liberalization refers to the process of freeing the economy from unnecessary government controls and restrictions, thereby encouraging private sector participation, competition, and efficiency. It was a major pillar of India's 1991 New Economic Policy.
Let's analyze each option in the context of liberalization:
(A) End licensing (Industrial De-licensing): This was a primary feature of liberalization. The requirement for private sector firms to obtain licenses for starting new units, expanding existing ones, or diversifying production was largely abolished (except for a few strategic industries). This aimed to boost industrial growth and competition. So, this *is* part of liberalization.
(B) Reduce public sector (Privatisation/Disinvestment): While integral to the 1991 reforms, reducing the role of the public sector through disinvestment and opening up industries to the private sector falls more squarely under Privatization. Although related, it's conceptually distinct from liberalization, which focuses on easing controls on *private* economic activity. However, in the broad context of reforms, reducing the public sector's dominance was a policy direction.
(C) Devaluation: The Indian Rupee was devalued in 1991 as part of the immediate crisis management. While it aimed to make exports cheaper and boost foreign exchange earnings, it is an exchange rate policy tool rather than a direct measure of *liberalizing domestic economic controls*. However, it signals a shift towards a more market-oriented exchange rate regime, which is in line with the broader spirit of reforms.
(D) Fix interest rates: Liberalization aimed at deregulating interest rates. Before 1991, the Reserve Bank of India (RBI) largely dictated interest rates. Post-1991 reforms sought to allow market forces (demand and supply of credit) to determine interest rates, making the financial sector more efficient and competitive. Therefore, *fixing* interest rates is contrary to the spirit of liberalization; it represents government control.

Thus, "Fix interest rates" is NOT a part of liberalization, as liberalization involved moving towards market-determined interest rates.

Final Answer : "Fix interest rates"

Answer: (D)

Q41.

Solution

Concept: Public Sector Undertakings (PSUs) in India: Classification and autonomy status.

Solution: In India, "Navratnas" (literally meaning "nine jewels") refers to a special category of Public Sector Undertakings (PSUs) that have been granted enhanced financial and operational autonomy by the Government of India. This status was first conferred in 1997 to nine select PSUs, allowing them greater freedom to undertake capital expenditure, form joint ventures, and make strategic decisions without requiring prior government approval for every step.
The objective behind granting Navratna status was to enable these high-performing PSUs to become global players, compete effectively in the international market, and operate more efficiently and professionally, akin to large private corporations. Over time, the list of Navratnas has expanded. This autonomy distinguishes them from other PSUs that have less decision-making power.

Therefore, Navratnas refer to Autonomous PSUs.

Final Answer : "Autonomous PSUs"

Answer: (B)

Q42.

Solution

Concept: The importance and unique characteristics of Human Capital as a factor of production.

Solution: Human capital refers to the skills, knowledge, abilities, health, and education embodied in individuals, which enhance their productivity and economic value. While physical capital (machinery, buildings) is essential, human capital is often considered superior or more fundamental for several reasons:
Ability to create social benefits (Positive Externalities): Investment in human capital (e.g., through education, training, and healthcare) yields not only private benefits to the individual (higher earnings, better quality of life) but also significant benefits for society as a whole.
A more educated and healthier populace contributes to:
Innovation and technological progress: Skilled individuals drive research, development, and new ideas.
Increased productivity: A healthy and educated workforce is more productive, leading to higher economic output.
Improved governance and civic participation: Educated citizens tend to be more engaged in democratic processes.
Better public health outcomes: A healthier population reduces the burden on healthcare systems.
These positive spillover effects for society are a key differentiator from physical capital.
Source of innovation and adaptability: Unlike physical capital, human capital can innovate, learn, adapt to new technologies, and apply knowledge in diverse contexts. It's the human mind that designs, operates, and improves physical capital.
Foundation for all other capital: Ultimately, the creation and effective utilization of physical capital depend on human capital.

While human capital is indeed intangible (B) and can be mobile (A), these characteristics don't fully capture its "superiority" in a developmental sense. While it can depreciate (skills become obsolete without renewal), it can also appreciate through continuous learning, making (D) an incomplete or misleading statement in isolation. The ability to create broad social benefits is a uniquely powerful aspect of human capital.

Final Answer : "Creates social benefits"

Answer: (C)

Q43.

Solution

Concept: Sources of agricultural and rural credit in India, distinguishing between institutional and non-institutional channels.

Solution: Access to credit is crucial for the development of the agricultural and rural sectors. Sources of credit are broadly classified into two categories:
1. Non-institutional sources: These are informal and unregulated lenders. Historically, they were dominant in rural India but often charged very high interest rates and exploited borrowers.
Examples include:
Moneylenders
Traders and commission agents
Landlords
Relatives and friends
2. Institutional sources: These are formal, organized, and regulated financial entities that provide credit at reasonable terms and conditions, often with government support. They play a vital role in providing timely and affordable credit to farmers and rural entrepreneurs.
Examples include:
Commercial Banks (including their rural branches)
Cooperative Banks (Primary Agricultural Credit Societies, District Central Cooperative Banks, State Cooperative Banks)
Regional Rural Banks (RRBs): Established specifically to cater to the credit needs of small and marginal farmers, agricultural laborers, and rural artisans.
NABARD (National Bank for Agriculture and Rural Development) as an apex financing institution.

Let's examine the options:
(A) Moneylenders: Non-institutional.
(B) RRBs (Regional Rural Banks): These are government-sponsored banks established to serve the rural areas with basic banking and financial services. They are clearly an institutional source of credit.
(C) Traders: Non-institutional.
(D) Landlords: Non-institutional.

Therefore, RRBs are an institutional credit source.

Final Answer : "RRBs"

Answer: (B)

Q44.

Solution

Concept: Labour market trends: Casualisation of the workforce.

Solution: Casualisation of the workforce is a significant and often observed trend in the labor markets of many developing economies, including India. It refers to a process where there is an increasing proportion of the total workforce employed on a casual, temporary, or daily wage basis, while the proportion of workers in regular, permanent, and salaried employment either declines or grows at a slower pace.
Key characteristics and implications of casual work include:
Lack of job security: Casual workers typically do not have long-term contracts and can be easily terminated.
Absence of social security benefits: They usually do not receive benefits such as provident fund, gratuity, pension, paid leave, or health insurance, which are common for regular salaried employees.
Irregular and uncertain income: Their earnings are often dependent on the availability of work, leading to income instability.
Vulnerability to exploitation: Due to lack of formal contracts and unionization, casual workers are often more vulnerable to low wages and poor working conditions.

This trend essentially signifies a shift from more formal, secure employment to less formal, less secure work arrangements.

Final Answer : "Shift to casual work"

Answer: (B)

Q45.

Solution

Concept: Definition and principles of sustainable development.

Solution: Sustainable development is a comprehensive concept that aims to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. It involves integrating economic growth, social equity, and environmental protection.
Let's analyze the options:
(A) Industrialization: Industrialization itself is not sustainable development. It can be a component of economic growth, but if not managed sustainably, it can lead to environmental degradation and resource depletion.
(B) Future protection: This aligns perfectly with the core principle of intergenerational equity, which is central to sustainable development. It means conserving resources and protecting the environment for the well-being of future generations.
(C) Max GDP: Maximizing Gross Domestic Product (GDP) often prioritizes economic output at the expense of environmental sustainability and social equity. Unfettered GDP growth can lead to over-exploitation of natural resources and increased pollution, which are unsustainable.
(D) Fossil fuel use: While fossil fuels are currently a major energy source, their extensive use is a primary driver of climate change and air pollution, making it an unsustainable practice in its current form. Sustainable development seeks to transition towards renewable energy sources.

Therefore, sustainable development essentially means protecting the ability of future generations to meet their needs, hence "future protection."

Final Answer : "Future protection"

Answer: (B)

Q46.

Solution

Concept: Sectoral composition of workforce and GDP in the context of economic development, specifically the "inverted pyramid" phenomenon.

Solution: In the context of economic development, a typical pattern is a shift from an agrarian economy (dominant primary sector) to an industrial economy (dominant secondary sector), and then to a service-based economy (dominant tertiary sector). An "inverted pyramid" often refers to a situation where:
The primary sector (agriculture) continues to employ a very large proportion of the workforce, despite contributing a smaller share to the GDP.
The secondary sector (manufacturing) does not expand sufficiently to absorb the labor released from agriculture.
The tertiary sector (services) grows rapidly and becomes dominant in terms of GDP contribution but is often characterized by "jobless growth," meaning it creates relatively fewer jobs for the vast unskilled/semi-skilled labor force compared to what manufacturing would, or generates jobs that are highly skilled at one end and highly informal at the other.
This situation occurs due to a direct shift from agriculture to services, bypassing a robust manufacturing phase. This is sometimes called "premature deindustrialization" or "jobless growth" in the Indian context, where the service sector has grown significantly without a parallel strong growth in manufacturing, leading to a large segment of the population still dependent on agriculture or informal services.

Let's evaluate the options:
(A) Fast agriculture: This is generally not observed in a developing economy aiming for growth; agriculture's share in GDP typically declines.
(B) Direct shift to services: This accurately describes the phenomenon where a country moves from primary to tertiary sector dominance without a strong secondary sector, leading to an "inverted pyramid" of employment.
(C) Fast manufacturing: This would lead to balanced growth and robust job creation in the secondary sector, preventing an "inverted pyramid."
(D) Decline in IT: A decline in IT (part of services) would contradict the growth of the service sector.

Final Answer : "Direct shift to services"

Answer: (B)

Q47.

Solution

Concept: Various "Revolutions" associated with specific agricultural or economic sectors in India.

Solution: India has witnessed several "revolutions" aimed at boosting production in different sectors:
Green Revolution: Associated with a dramatic increase in food grain production (wheat and rice) in the mid-1960s, through the adoption of High-Yielding Variety (HYV) seeds, fertilizers, and irrigation.
White Revolution (Operation Flood): Related to the significant increase in milk production and dairy development.
Blue Revolution: Associated with the growth of fish production and aquaculture.
Yellow Revolution: Linked to the increase in the production of oilseeds.
Golden Revolution: Refers to a period of remarkable growth in the horticulture sector (fruits, vegetables), honey production, and floriculture, which occurred roughly between 1991 and 2003 in India. It focused on diversifying agriculture beyond traditional food grains.
Silver Revolution: Related to the increase in egg production and poultry.

Therefore, the Golden Revolution relates to horticulture and honey.

Final Answer : "Horticulture & honey"

Answer: (B)

Q48.

Solution

Concept: Definition and impact of outsourcing in the global economy.
Assumed Statements (as they were missing in the question):
Statement I: Outsourcing is the process of contracting out non-core activities to an outside agency.
Statement II: India has emerged as a major destination for global outsourcing services.

Solution: Let's analyze the assumed statements: Statement I: Outsourcing is the process of contracting out non-core activities to an outside agency.
This statement is true. Outsourcing is indeed the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed in-house by the company's own employees and staff. Companies often outsource non-core functions (like customer support, IT services, accounting, manufacturing components) to focus on their core competencies and achieve cost efficiencies.
Statement II: India has emerged as a major destination for global outsourcing services.
This statement is also true. India became a global hub for outsourcing, particularly in Information Technology Enabled Services (ITES) and Business Process Outsourcing (BPO), due to factors like a large English-speaking population, a skilled workforce (especially in IT), lower labor costs, and a favorable time zone difference.

Since both assumed statements are true, the correct option would be (A). (Note: The actual question would provide these statements explicitly.)

Final Answer : "Both true"

Answer: (A)

Q49.

Solution

Concept: Major economic campaigns and historical events in China.

Solution: The Great Leap Forward was a disastrous economic and social campaign initiated by the Communist Party of China (CPC) and led by Mao Zedong. It aimed to rapidly transform China from an agrarian economy into a communist society through rapid industrialization and collectivization. The campaign was launched in 1958 and lasted until 1962. It famously involved ambitious agricultural and industrial targets, including backyard steel furnaces, which largely failed and led to one of the deadliest famines in human history.

Let's look at other years:
(A) 1953: Marked the beginning of China's First Five-Year Plan.
(B) 1958: The year the Great Leap Forward was launched.
(C) 1978: Marked the beginning of China's significant economic reforms under Deng Xiaoping, leading to market-oriented policies.
(D) 1991: The year India introduced its major economic reforms.

Therefore, the Great Leap Forward was launched in 1958.

Final Answer : "1958"

Answer: (B)

Q50.

Solution

Concept: Human Development Index (HDI) and comparative development status of countries.

Solution: The Human Development Index (HDI) is a composite index developed by the United Nations Development Programme (UNDP) to measure a country's average achievements in three basic dimensions of human development:
1. A long and healthy life: Measured by life expectancy at birth.
2. Knowledge: Measured by mean years of schooling and expected years of schooling.
3. A decent standard of living: Measured by Gross National Income (GNI) per capita (PPP).

When comparing India, China, and Pakistan based on recent HDI reports (e.g., UNDP Human Development Reports), the consistent trend is:
China typically ranks significantly higher, often in the "High Human Development" category. It has made substantial progress in health, education, and income over decades.
India generally ranks in the "Medium Human Development" category, consistently above Pakistan.
Pakistan also ranks in the "Medium Human Development" category, but consistently below India.

Therefore, the correct HDI order from highest to lowest is China > India > Pakistan.

Final Answer : "China > India > Pakistan"

Answer: (B)

Answer Key

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