

# CUET (UG) Exam Paper 2025

## National Testing Agency

### ECONOMICS

(Solved)

[This includes Questions pertaining to Domain Specific Subject only]

Time Allowed: 60 Mins.

Maximum Marks: 250

#### General Instructions :

- (i) This Test contains 50 questions.
- (ii) Five (5) marks will be given for each correct answer.
- (iii) One (1) mark will be deducted for each incorrect answer.
- (iv) If more than one option is chosen, then it will be considered as an incorrect answer.
- (v) Unanswered questions will be given no mark.

#### 1. Match List-I with List-II.

List-I	List-II
(A) Increase in demand > Increase in Supply	(i) Increase in both equilibrium price and quantity.
(B) Increase in demand < Increase in Supply	(ii) Decrease in both equilibrium price and quantity.
(C) Increase in demand = Increase in Supply	(iii) Decrease in equilibrium price but increase in equilibrium quantity
(D) Decrease in demand < Decrease in supply	(iv) Increase in equilibrium quantity but no change in equilibrium price.

Choose the **correct** answer from the options given below:

- (1) (A) - (i), (B) - (ii), (C) - (iv), (D) - (iii)
- (2) (A) - (i), (B) - (iii), (C) - (iv), (D) - (ii)
- (3) (A) - (ii), (B) - (i), (C) - (iv), (D) - (iii)
- (4) (A) - (iii), (B) - (i), (C) - (iv), (D) - (ii)

Ans. Option (2) is correct.

**Explanation:** When the increase in demand is greater than the increase in supply, it leads to excess demand in the market, which increases the equilibrium price and equilibrium quantity. On the other hand, when an increase in demand is less than an increase in supply, it creates excess supply in the market, which creates competition among the sellers and hence the equilibrium price falls, but the equilibrium quantity rises. In case of a proportionate change in both demand and supply i.e., when the increase in demand is equal to the increase in supply or the decrease in demand is equal to the decrease in supply—it neither creates excess demand nor excess supply,

and hence, there is no change in the equilibrium price.

**Note:** There is an error in the questions, when decrease in demand is less than decrease in supply, there will be a rise in equilibrium price and a decrease in equilibrium quantity.

#### 2. Full employment in context of determination of income, implies ?

- (1) Absence of voluntary unemployment.
- (2) Absence of involuntary unemployment.
- (3) Absence of frictional unemployment.
- (4) Everyone in the economy is employed.

Ans. Option (2) is correct.

**Explanation:** Full employment, in the context of income determination, implies that all resources are fully employed in the economy and that the output or income generated is at the maximum possible level. However, at the full employment level, there exists a natural rate of unemployment, which includes frictional, structural and seasonal unemployment. Full employment only implies the absence of involuntary unemployment, meaning that people who are able and willing to work do not fail to get a job at the prevailing wage rate.

#### 3. Lata likes to eat burgers and has already eaten two. Her marginal utility from the last burger she consumes is 90 utils. If the price of burger is Rs. 25 per unit and marginal utility of a rupee is 3 utils, then ?

- (1) Lata should increase the consumption of burgers to attain equilibrium.
- (2) Lata should have consumed lesser burgers to attain equilibrium.
- (3) Lata is in equilibrium so she should not change the level of consumption.
- (4) The given information is insufficient to determine the consumption behaviour of Lata.

**Ans. Option (1) is correct.**

**Explanation:** Consumer Equilibrium Condition:

$$MU_x / MU_m = P_x$$

Where:

- $MU_x$  = Marginal utility of the good (burger)
- $MU_m$  = Marginal utility of money
- $P_x$  = Price of the good
- $MU_x = 90$  utils
- $MU_m = 3$  utils per ₹
- $P_x = ₹ 25$

$$MU_x / MU_m = 90 / 3 = 30$$

$$P_x = 25$$

$$MU_x / MU_m = 30 > 25 = P_x$$

This means the marginal utility per rupee from the burger is greater than its price. Lata is getting more utility per rupee than the price she pays, so she should consume more burgers to reach equilibrium.

4. In an imaginary economy, the planned spending falls short of planned output at a certain level of employment. Arrange the following consequences of the same in sequential order.

- (A) Unintended accumulation of inventories.
- (B) The employment level falls.
- (C) The output and income fall and the equilibrium is restored
- (D) Producers plan to produce less in the next period.

Choose the **correct** answer from the options given below

- (1) (A), (B), (C), (D)      (2) (A), (C), (B), (D)
- (3) (A), (D), (B), (C)      (4) (B), (A), (D), (C)

**Ans. Option (3) is correct.**

**Explanation:** When planned spending — which implies planned aggregate demand falls short of planned output, it leads to an increase in inventory or an unintended piling up of stock. This discourages producers from producing further, and hence, they may cut down employment levels. A fall in employment will reduce output and income levels in the economy, thereby helping to restore equilibrium.

5. Which of the following is a quantitative tool of credit control by the reserve bank of India?

- (1) Open market operations.
- (2) Margin requirements.
- (3) Moral suasion.
- (4) Direct Action.

**Ans. Option (1) is correct.**

**Explanation:** Open Market Operations (OMO) are a quantitative tool of credit control where the central bank buys or sells government securities in the open market to regulate the money supply. Selling securities reduces credit, while buying increases it.

6. Anand consumes lesser units of good X when its price falls but more units of X when his income rises. Which of the following statements is true about good X.

- (1) Good X is an inferior good for Anand but not a Giffen good.
- (2) Good X is a Giffen good for Anand but not inferior.
- (3) Good X is normal good for Anand.
- (4) Good X is both inferior and Giffen good for Anand.

**Ans. Option (4) is correct.**

**Explanation:** Good X shows the defining trait of a Giffen good—Anand consumes less of it when its price falls, violating the law of demand. This happens when the negative income effect outweighs the substitution effect, a feature unique to Giffen goods.

Since all Giffen goods are a subset of inferior goods, good X must also be inferior. Although Anand consumes more of X when income rises, this does not disqualify it from being inferior in economic terms, as the price-based response is the decisive factor. Hence, good X is both inferior and Giffen.

7. Suppose an initial cash deposit of INR 100 crores has been made in a commercial bank where a total credit of INR 500 crores has been created in the economy. The required reserve ratio in this country is.....

- (1) 5%      (2) 10%
- (2) 20%      (4) 25%

**Ans. Option (3) is correct.**

**Explanation:** Initial Deposit = ₹ 100

Total Credit Created = ₹ 500

Credit Multiplier = Credit Creation / Initial Deposit = 500/100 = 5

Also, Credit Multiplier = 1 / Required Reserve Ratio

$$5 = 1 / RR$$

$$\text{Required Reserve Ratio} = 1/5 = 0.20 = 20 \%$$

8. What is required to be subtracted from personal income in order to obtain personal disposable income?

- (1) Net current transfers by the government to the households.
- (2) Net remittances received by households from rest of the world.
- (3) Net tax payments by the households.
- (4) Nothing is to be subtracted as personal income is same as personal disposable income.

**Ans. Option (3) is correct.**

**Explanation:** Personal disposable income refers to the income received by individuals and households from all sources.

Personal disposable income refers to that part of income which is used for consumption and saving.

To calculate personal disposable income, net taxes are subtracted from personal income

Personal disposable income = Personal income – Net taxes paid by households

9. If the average fixed cost of production is the fixed cost per unit of output produced. Then it will .....

- (1) Remains same at all levels of output.
- (2) Increases with increase in the level of output.
- (3) Decreases with increase in level of output.
- (4) First increases and then decreases as the output is increased.

Ans. Option (3) is correct.

**Explanation:** Average fixed cost = Fixed cost / Output produced.

Fixed cost remains the same at all the levels of output.

Hence, fixed cost per unit of output falls as the output produced increases.

For example, if TFC = ₹ 10

Output	1	2	3	4
TFC	10	10	10	10
AFC = TFC/Q	10	5	3.33	2.5

10. Deficient demand is said to exist in the economy when:

- (1) Aggregate demand exceeds aggregate supply at full employment.
- (2) Aggregate demand falls short of aggregate supply at any level of employment.
- (3) Aggregate demand exceeds aggregate supply at any level of employment.
- (4) Aggregate demand falls short of aggregate supply at full employment.

Ans. Option (4) is correct.

**Explanation:** Deficient demand refers to a situation when aggregate demand is less than aggregate supply at the full employment level. It leads to a deflationary gap in the economy.

11. Which of the following statements is true?

- (A) Gross domestic income is a subset of national income.
- (B) Corporate profit tax is a factor in income earned by the government.
- (C) The production of wheat by a farmer retained by himself for his self-consumption will be included in the national income of the country.
- (D) All capital goods are producer goods, but all producer goods are not necessarily capital goods.

Choose the **correct** answer from the options given below

- (1) (A), (B) and (D) only
- (2) (A) (B) and (C) only
- (3) (A) and (B) only
- (4) (C) and (D) only

Ans. Option (4) is correct.

**Explanation:** GDI and national income are different concepts. Domestic income is based on the location of production, while national income is based on the residency of income earners.

Corporate profit tax is not a factor income for the government, but it is a transfer income.

Wheat produced by a farmer and retained by himself for self-consumption is included in the national income, as it is the production carried out in the economy by using the productive resources.

All capital goods like machinery, tools and equipments are durable producer goods. However, there are intermediate goods like raw material, fuel and power which are single-use producer goods and cannot be referred to as capital goods.

12. Which of the following represents the borrowing requirements of the government for the purposes other than interest payments?

- (1) Revenue deficit
- (2) Fiscal deficit.
- (3) Primary Deficit.
- (4) Budgetary deficit.

Ans. Option (3) is correct.

**Explanation:** Primary Deficit = Fiscal Deficit – Interest Payments

This means the Primary Deficit shows the government's borrowing excluding interest payments. It reflects how much the government needs to borrow for purposes other than paying interest, like capital expenditure or covering the revenue deficit.

13. Which of the following are included while calculating national income by expenditure method?

- (A) Expenditure on single-use producer goods purchased by firms.
- (B) Expenditure incurred by a private trust running an orphanage on the education of the children.
- (C) Expenditure incurred by the government on building dams and bridges across the nation.
- (D) Expenditure by foreigners on the final goods produced in the country.

Choose the correct answer from the options given below:

- (1) (A), (B) and (D) only
- (2) (A), (B) and (C) only
- (3) (A), (B), (C) and (D)
- (4) (B), (C) and (D) only

Ans. Option (4) is correct.

**Explanation:** Expenditure on producing single-use producer goods is not included as these are intermediate goods. The value of such goods is already included in the value of final goods.

Expenditure incurred by any trust or NGO for the welfare is considered as private final consumption expenditure.

Expenditure by government on construction of dams is considered as apart of Gross Domestic Capital Formation.

Expenditure by foreigners on the production of goods and services produced domestically is classified as exports.

14. The value of the nominal GNP of an economy was Rs 5000 crores in a particular year. The value of GNP of that country during the same year, evaluated at the prices of same base year, was Rs 6000 crores. What is the value of the GNP deflator of the year.

- (1) 120 (2) 83.33  
(3) 100 (4) 125

Ans. Option (2) is correct.

**Explanation:** Nominal GNP = ₹ 5000  
Real GNP = ₹ 6000  
GNP deflator =  $\frac{\text{Nominal GNP}}{\text{Real GNP}} \times 100$   
 $= \frac{5000}{6000} \times 100$   
 $= 83.33 \%$

15. Which of the following are correct about the short run cost concepts?

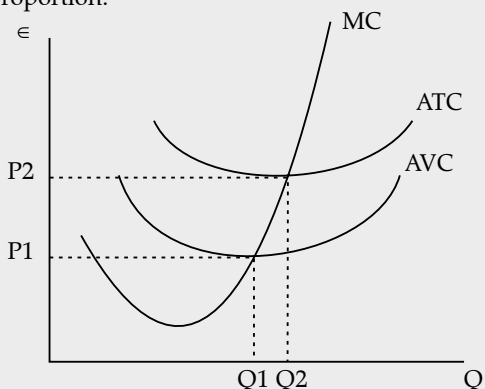
- (A) Both the average cost and average variable cost curves are U-shaped.  
(B) Average cost and average variable cost curves are parallel to each other.  
(C) Marginal cost is equal to both average cost and average variable costs at their respective minimum levels.  
(D) Average cost and average variable cost can never be equal to each other.

Choose the **correct** answer from the options given below:

- (1) (A), (B) and (D) only (2) (A), (B) and (C) only  
(3) (A), (B), (C) and (D) (4) (A) (C) and (D) only

Ans. Option (4) is correct.

**Explanation:** Referring AC, AVC and MC curve in the diagram below Both AC and AVC are U-shaped curves due to the law of variable proportion.



AC and AVC curves can never be parallel to each other, as the difference between AC and AVC is AFC, and AFC always falls as the output

increases. Hence, the distance between AC and AVC falls and these two curves come closer to each other as the output increases. These two curves can never be equal, as AFC can never be ZERO.

The MC curve intersects AC and AVC at their respective minimum points. This is because, when MC is below AC or AVC, these two curves continuously fall. When MC is above AC or AVC, these two curves continuously rise. Hence, MC intersects at their respective minimum point.

16. Which of the following is/are a qualitative tool of credit control adopted by the central bank of a country?

- (A) Repurchase agreement.  
(B) Moral suasion.  
(C) Open market operations.  
(D) Margin requirements.

Choose the **correct** answer from the options given below.

- (1) (B) only (2) (B) and (D) only  
(3) (B) and (C) only (4) (A) and (B) only

Ans. Option (2) is correct.

**Explanation:** Qualitative tools are the instruments used by Central Banks to influence the direction of credit in the economy. These include Margin Requirements, Moral Suasion, and Direct Actions, etc.

17. There may be times when demand exceeds available output under conditions of high employment and thus may give rise to inflation. In such situations, restrictive conditions may be needed to reduce demand. This intervention by the government is considered as

- (1) Allocation function of the government.  
(2) Redistribution function of the government.  
(3) Stabilisation function of the government.  
(4) Public provision by the government.

Ans. Option (3) is correct.

**Explanation:** Economic stability means the absence of large-scale fluctuations in prices. Such fluctuations create uncertainties in the economy. The government can exercise control over these fluctuations through taxes and expenditure. For example, under inflationary situations, the government may discourage spending by increasing taxes or reducing its own expenditure.

18. A firm is operating in a market where it can sell more only by lowering the price of the good. Arrange the changes in total revenue of this firm in a sequential order.

- (A) Total revenue falls.  
(B) Total revenue starts from origin.  
(C) Total revenue increases at a diminishing rate.  
(D) Total revenue reaches its maximum.

Choose the **correct** answer from the options given below:

- (1) (B), (C), (D), (A)      (2) (A), (C), (B), (D)  
(3) (B), (A), (D), (C)      (4) (C), (B), (D), (A)

**Ans. Option (1) is correct.**

**Explanation:** The market in which more can be sold by lowering the price is an imperfect competition. In this market, marginal revenue curve is downward sloping and total revenue curve is inversely U-shaped.

Total revenue starts from origin, which implies that when output sold is zero, TR is also zero.

Total revenue increases at a diminishing rate as MR falls but remains positive.

Total revenue reaches the maximum points as MR becomes zero.

Total revenue starts falling, as MR becomes negative.

- 19.** The RBI can influence money supply by changing the rate at which it gives long term loans to the commercial banks

This rate is called?

- (1) Bank rate.                      (2) Repa  
(3) Reverse repo.                (4) Margin requirements

**Ans. Option (1) is correct.**

**Explanation:** Bank rate is a quantitative tool used to influence the volume of credit in the economy.

- 20.** M3 is the most commonly used measure of money supply. It is also known as aggregate monetary resources. Which of the following is not a component of M3?

- (1) Currency held by public.  
(2) Demand deposits by people with commercial banks.  
(3) Savings deposits with Post Office savings banks.  
(4) Net time deposits of commercial banks.

**Ans. Option (3) is correct.**

**Explanation:** M1 = Currency held by public + Net demand deposits held by commercial banks  
M2 = M1 + Savings deposits with Post Office savings banks  
M3 = M1 + Net time deposits of commercial banks  
M4 = M3 + Total deposits with Post Office savings organisations (excluding National Savings Certificates)

- 21.** Arrange the following in chronological order, starting from the earliest.

- (A) Publishing of 'An inquiry into the Nature and Cause of the Wealth of Nations'.  
(B) The Great Depression.  
(C) Publishing of The Economic consequences of the Peace.  
(D) Publishing of 'General Theory of Employment, Interest and Money'.

Choose the **correct** answer from the options given below:

- (1) (A), (B) (C), (D)      (2) (A), (C), (B), (D)  
(2) (B), (A), (D), (C)      (3) (C), (B), (D), (A)

**Ans. Option (2) is correct.**

**Explanation:** A. An inquiry into the nature and cause of wealth of nations-1776

C. The economic consequences of peace-1919

B. The great depression - 1930s

D. The "General Theory of Employment, Interest and Money" - 1936.

- 22.** The increase in income in an economy is four times more than the increase in investment. What is the value of marginal propensity to consume in this economy?

- (1) 0.5                                      (2) 0.75  
(3) 08                                      (4) 1

**Ans. Option (3) is correct.**

**Explanation:** Change in income is four times than the increase in investments.

Therefore,  $\Delta Y = \Delta I + 4 \times \Delta I$   
 $= 5\Delta I$

Investment multiplier(K) = 5

$K = 1/1 - MPC$

$5 = 1/1 - MPC$

$1 - MPC = 1/5 = 0.2$

$MPC = 1 - 0.2 = 0.8$

- 23.** If the entire additional income is saved in an economy, the value of investment multiplier will be

- (1) 0  
(2) 1  
(3) More than 1 but finite.  
(4) Infinite.

**Ans. Option (2) is correct.**

**Explanation:** If the entire additional income is saved, the MPS = 1

Investment multiplier =  $1/MPS = 1/1 = 1$

- 24.** A consumer spends all his income of Rs 6000 on two goods-Food and clothing and is buying 12 units each of both the goods. At the present level of consumption, the marginal rate of substitution of clothing for food is 3. The price of food per unit is Rs. 400 whereas that of clothing is Rs. 100. What should the consumer do to attain the equilibrium?

- (1) He should reduce the consumption of food and increase the consumption of clothing.  
(2) He should increase the consumption of food and reduce the consumption of clothing.  
(3) He should reduce the consumption of both the goods  
(4) He shouldn't change his consumption level as he is already at equilibrium

**Ans. Option (1) is correct.**

**Explanation:** In consumer theory, a consumer maximises their utility (satisfaction) when the Marginal Rate of Substitution (MRS) between two goods is equal to the ratio of their prices.

MRS of clothing for food = 3

Price of food (PF) = 400

Price of clothing (PC) = 100

Price Ratio =  $PF/PC = 400/100 = 4$

Now, let us compare the MRS with the price ratio:

MRS = 3

Price Ratio (PF/PC) = 4

Since MRS (3) < Price Ratio (PF/PC) (4), this means:

The consumer is willing to give up 3 units of clothing to get one additional unit of food, while the market requires them to give up 4 units of clothing to get one additional unit of food.

The consumer values food relatively less than the market does, or put differently, they value clothing relatively more than the market does. To maximise their utility, the consumer should buy less food and more clothing.

By buying less food, the marginal utility of food will increase (due to diminishing marginal utility), and by buying more clothing, the marginal utility of clothing will decrease. This will cause the MRS of clothing for food to increase until it equals the price ratio, at point the consumer will be in equilibrium.

**25. Match List-I with List-II**

List-I	List-II
(A) Decrease in consumer's income	(i) Budget line becomes steeper.
(B) Increase in price of Good X	(ii) Parallel and leftward shift in the budget line
(C) Equal reduction in price of both goods X and Y	(iii) Budget line becomes flatter
(D) Increase in price of Good Y	(iv) No change in the slope of the budget line

Choose the **correct** answer from the options given below:

- (1) (A) - (ii), (B) - (i), (C) - (iii), (D) - (iv)  
 (2) (A) - (ii), (B) - (iii), (C) - (i), (D) - (iv)  
 (3) (A) - (ii), (B) - (i), (C) - (iv), (D) - (iii)  
 (4) (A) - (ii), (B) - (iv), (C) - (i), (D) - (iii)

**Ans. Option (3) is correct.**

**Explanation:** When the consumer's income decreases, the budget line shifts left wards as they can purchase less of both the goods.

When the price of good X increases, the budget line rotates inwards along the X-axis, becoming steeper.

When there is an equal reduction in the price of good X and Y, there will be an outward shift in budget line but no change in its slope.

When there is an increase in the price of good Y, the budget line rotates inwards along the Y-axis, making it flatter.

**26. In a particular country, there was a severe heatwave. Arrange the following in the sequence of order in context of the market of ice-creams**

- (A) Rise in the price of ice cream.  
 (B) Supply will remain the same.  
 (C) Competition among the buyers of ice cream increases.  
 (D) The demand for ice cream increases.

Choose the **correct** answer from the options given below:

- (1) (A), (8), (C) (D)      (2) (D), (B), (C), (A)  
 (3) (B), (A) (D), (C)      (4) (C), (B), (A), (D)

**Ans. Option (2) is correct.**

**Explanation:** When there is a severe heat wave in a particular country, the market for ice cream changes in the following manner.

There is an increase in demand for ice cream, which shifts the demand curve towards the right. The supply remains constant. This will increase the competition among buyers due to excess demand. Excess demand leads to rise in the price of the product.

**27. The ratio of increase in income to increase in investment is termed as**

- (1) Marginal propensity to save.  
 (2) Marginal propensity to consume.  
 (3) Marginal propensity to invest.  
 (4) Investment Multiplier.

**Ans. Option (4) is correct.**

**Explanation:** The ratio of the increase in income to the increase in investment is called investment multiplier. It implies that as the investment increases, income increases multiple times. The number of times income increases due to an increase in investment is known as the investment multiplier (K).

**28. Match List-I with List-II**

List-I	List-II
(A) Non-monetary exchange	(i) Can be positive or negative
(B) Externalities	(ii) Price Index
(C) Per capita income	(iii) Domestic services by housewives
(D) GDP deflator	(iv) Total income/Population

Choose the **correct** answer from the options given below:

- (1) (A) - (i), (B) - (ii), (C) - (iii), (D) - (iv)  
 (2) (A) - (i), (B) - (iii), (C) - (ii), (D) - (iv)

- (3) (A) - (iii), (B) - (i), (C) - (iv), (D) - (ii)  
 (4) (A) - (iii), (B) - (iv), (C) - (i), (D) - (ii)

Ans. Option (3) is correct.

**Explanation:** Non-monetary exchange includes transactions that do not involve any exchange of money in return of goods or services. Example: Domestic services provided by family member to each other.

The GDP deflator measures the extent to which the price level has increased from base year to current year.

Externalities refer to benefits (positive) or harms (negative) experienced by a third party due to an activity undertaken by someone else.

Per capita income is the average income earned by a person in an economy. It helps assess the standard of living in the country. It is the ratio of total income to total population.

## 29. Match List-I with List-II

List-I	List-II
(A) Marginal rate of substitution	(i) Slope of Budget line
(B) $MU_x / MU_y = P_x / P_y$	(ii) more of at least one good and no less of the other good
(C) $-(P_x / P_y)$	(iii) Law of equi marginal utility
(D) Monotonic Preferences.	(iv) Slope of indifference curve

Choose the **correct** answer from the options given below:

- (1) (A) - (i), (B) - (ii), (C) - (iii), (D) - (iv)  
 (2) (A) - (i), (B) - (iii), (C) - (iv), (D) - (ii)  
 (3) (A) - (i), (B) - (ii), (C) - (iv), (D) - (iii)  
 (4) (A) - (iv), (B) - (iii), (C) - (i), (D) - (ii)

Ans. Option (4) is correct.

**Explanation:** Marginal Rate of Substitution (MRS) is the slope of the indifference curve. It represents the rate at which a consumer is willing to substitute one good for another while maintaining the same level of satisfaction. The law of equi-marginal utility is also known as the law of substitution or the law of maximum satisfaction or the principle of proportionality between prices and marginal utility. The slope of the budget line represents the rate at which a consumer can substitute one good for another in the market, given their prices. It is equal to the negative ratio of the prices of the two goods ( $-P_x/P_y$ ). Monotonic preference means a consumer prefers a bundle with more of at least one good and no less of the other, as it gives higher satisfaction.

## 30. According to the law of variable proportions, Which among the the following option is correct?

- (1) The marginal product of an input initially rises and then, it starts falling.

- (2) The marginal product of an input initially falls and then, it starts rising.  
 (3) The marginal product of an input throughout falls.  
 (4) The marginal product remains constant throughout.

Ans. Option (1) is correct.

**Explanation:** In the Law of Variable Proportion, the Marginal Product (MP) initially increases due to better utilisation of fixed resources, then diminishes as input increases further, and eventually becomes negative when overuse leads to inefficiency.

## 31. Which of the following central problems deals with the choice of technique of production?

- (1) What to Produce?  
 (2) How to produce?  
 (3) For whom to produce?  
 (4) Problem of full employment of resources.

Ans. Option (2) is correct.

**Explanation:** The problem of choice of technique is known as "How to produce". This economic problem relates to choosing between labour intensive or capital-intensive technique of production. In a free market, this decision is taken based on the least-cost method.. The technique that is available at a lower cost is chosen in a free market system.

## 32. During the period of COVID, there was an apprehension that the Indian economy might slip into recession. Therefore, to combat the situation, the Reserve bank of India reduced the Repo rate by 110 basis points. Arrange the consequences of the same in sequential order.

- (A) Increase in aggregate demand.  
 (B) Reduction in the market lending rate by commercial banks  
 (C) Increase in money supply.  
 (D) Increase in borrowings by the public

Choose the correct answer from the options given below

- (1) (A), (B) (C) (D)      (2) (A), (C), (B), (D)  
 (3) (B), (A), (D), (C)      (4) (B), (D), (C), (A)

Ans. Option (4) is correct.

**Explanation:** In order to stabilise the economy after COVID, the RBI decides to reduce the repo rate. This is a contractionary monetary policy. When the repo rate reduces, the commercial banks also reduce the lending rate. Due to a fall in lending rates, the borrowing will become cheaper and it will increase the lending capacity of the commercial banks. This increases the money supply and hence aggregate demand also increases.

## 33. A profit-maximizing firm will attain its equilibrium at that level of output where?

- (1) The excess of total revenue over total cost is maximum.

- (2) Where the excess of total cost over total revenue is maximum.
- (3) Where the excess of marginal revenue over marginal cost is maximum.
- (4) Where the excess of marginal cost over marginal revenue is maximum.

Ans. Option (1) is correct.

**Explanation:** The profit-maximising firm will produce the level of output where it attains the equilibrium. For attaining the equilibrium level of output or maximum profits, the difference between TR and TC should be maximum.

**34.** The progressive taxation system seeks to achieve which of the following objectives of the government budget?

- (1) Reallocation of resources.
- (2) Economic Stability.
- (3) Balanced regional development.
- (4) Redistribution of income.

Ans. Option (4) is correct.

**Explanation:** Under a progressive tax system, the tax rate increases with the increase in income. The burden of tax is more on the rich and less on the poor. This tax system is meant to reduce the inequalities in the distribution of income and wealth.

**35.** Match List-I with List-II

List-I	List-II
(A) Purchase of stocks of a private company by the general government.	(i) Capital receipts
(B) Sale of equity of a public sector enterprise to private sector	(ii) Revenue receipts
(C) Payment of interest by the government on loans from financial institutions	(iii) Capital Expenditure
(D) Stamp duty received by the government on property transactions in the country	(iv) Revenue expenditure

Choose the **correct** answer from the options given below:

- (1) (A) - (ii), (B) - (i), (C) - (iii), (D) - (iv)
- (2) (A) - (iii), (B) - (i), (C) - (iv), (D) - (ii)
- (3) (A) - (iv), (B) - (i), (C) - (ii), (D) - (iii)
- (4) (A) - (iii), (B) - (iv), (C) - (i), (D) - (ii)

Ans. Option (2) is correct.

**Explanation:** Revenue expenditure in the government budget refers to those expenses of the government which neither increase the assets nor reduce the liabilities of the government. Examples: Interest paid, subsidies granted, compensation to government employees.

Revenue receipts in the government budget refer to those receipts of the government which neither increase the liabilities nor reduce the assets of the government. Examples: Taxes – Direct and Indirect (Stamp Duty), interest received.

Capital expenditure in the government budget refers to those expenses of the government which either increase the assets or reduce the liabilities of the government. Examples: Purchase of shares, development of infrastructure. Capital receipts are funds received by the government or a business that either create a liability (like loans) or reduce assets (like disinvestment).

**36.** There are 2496 students in a school as on 1st April 2023. During the session, there were 186 new admissions whereas 43 students withdrew from the school. At the end of the session, there were 2539 students in the school, out of whom 1800 were boys and the rest were girls, in this case, which of the following figures represent a flow variable?

- (1) 186                      (2) 1800
- (3) 2496                    (4) 2539

Ans. Option (1) is correct.

**Explanation:** Flow variables refer to the variables that are measured over a period of time.

186 students were added to the total count during the session. Since the number of students who took admission is measured over an entire session, it is a flow variable.

**37.** The saving function of a two sector economy is given as  $S = (-)100 + 0.2Y$ . The equilibrium level of income of this economy is 1000, then calculate the value of consumption at equilibrium?

- (1) 100                      (2) 500
- (3) 900                      (4) 1000

Ans. Option (3) is correct.

**Explanation:**  $S = -100 + 0.2Y$

Equilibrium level of income = ₹ 1000

Substituting,

$S = -100 + 0.2(1000) = ₹ 100$

Income (Y) = Consumption (C) + Saving (S)

$1000 = C + 100$

$C = ₹ 900$

**38.** Delhi has become the most polluted city in India. Due to this, how will the production possibility curve of Delhi be affected?

- (1) Will shift to the left.
- (2) No effect on the production possibilities curve.
- (3) Downward movement along the same production possibilities curve.
- (4) Upward movement along the same production possibilities curve.

Ans. Option (1) is correct.

**Explanation:** Due to pollution in Delhi, human productivity falls. Rise in pollution levels leads to health problems in terms of breathing difficulties, skin issues or lung cancer. This reduces the quality of human resources in the state. As the quality of resources deteriorates, PPC shifts towards left indicating that less of both goods will be produced.

**39.** The total revenue of a firm is increasing at a constant rate. Which of the following is true about this firm?

- (1) It is operating in an imperfect market and can sell any quantity of the good at given price.
- (2) It is operating in a perfect market and can sell any quantity of the good at given price.
- (3) It is operating in an imperfect market and can sell more only by lowering the price.
- (4) It is operating in a perfect market and can sell more only by lowering the price.

**Ans. Option (2) is correct.**

**Explanation:** If total revenue is increasing at a constant rate, it implies that marginal revenue (i.e., slope of TR) is constant.

When MR is constant, the AR (price) is also constant.

Prices remain constant in a perfectly competitive market. In this market, a firm can sell any quantity of output at the given or constant price.

**40.** Which of the following statements is true about public goods?

- (A) Public goods are non rival in nature.
- (B) Public goods are non-excludable in nature.
- (C) Public goods may be produced by the government or the private sector.
- (D) Public goods and public production can be used interchangeably.

Choose the **correct** answer from the options given below:

- (1) (A), (B) and (C) only
- (2) (A), (B) and (D) only
- (3) (A), (B), (C) and (D)
- (4) (B), (C) and (D) only

**Ans. Option (1) is correct.**

**Explanation:** Public goods are those goods which are non-excludable and non-rivalrous in nature. These goods can be produced by both public and private sectors. However, the private sector is usually reluctant to produce such goods due to feature of non-excludability, i.e., a person using the good cannot prevent others from consuming it, and non-rivalry, i.e., shared consumption is possible in such goods.

Public production means production of goods and services done by the government like public parks, education. Public goods and public production cannot be used interchangeably.

## Comprehension:

Read the passage carefully and answer the questions based on the passage:

### Income and the Exchange Rate

When income of a country increases, consumer spending increases. Spending on imported goods is also likely to increase. When imports increase, the demand curve for foreign exchange shifts to the right. There is a depreciation of the domestic currency. If there is an increase in income abroad as well, domestic exports will rise and the supply curve of foreign exchange shifts outward. On balance, the domestic currency may or may not depreciate. What happens will depend on whether exports are growing faster than imports. In general, other things remaining equal, a country whose aggregate demand grows faster than the rest of the world's normally finds its currency depreciating because its imports grow faster than its exports. Its demand curve for foreign currency shifts faster than its supply curve.

Sub Question No: 41

**41.** If the income of the country and income abroad increase simultaneously, then the domestic currency will

- (1) Depreciates
- (2) Appreciates
- (3) May or may not depreciate
- (4) Initially appreciates and then depreciate

**Ans. Option (3) is correct.**

**Explanation:** As the income of the nation increases, it increases the imports of that nation. This will shift the demand curve for the foreign currency to the right. Simultaneously, if the income of another country also increases, it will lead to an increase in the exports of domestic country, shifting the supply curve of currency towards right. Hence, the foreign currency may or may not depreciate, as it depends on the fact that which variable (export or import) rises at the greater rate.

**42.** A country whose aggregate demand grows faster than the rest of the world's normally finds its currency

- (1) Appreciating
- (2) Depreciating.
- (3) Initially appreciating and then depreciate
- (4) Initially depreciating and then appreciating

**Ans. Option (2) is correct.**

**Explanation:** A country experiencing a rise in aggregate demand faster than other nations implies that people will purchase more goods from abroad. This will increase the nation's imports. To import goods, there is a need to demand foreign currency. A rise in the demand for foreign currency will lead to a depreciation of the domestic currency.

43. A decrease in income of a country leads to?
- (1) Leftward shift in the demand curve of foreign exchange.
  - (2) Rightward shift in the demand curve of the foreign exchange.
  - (3) Depreciation of domestic currency.
  - (4) Appreciation of foreign currency.

Ans. Option (1) is correct.

*Explanation:* If the income of the nation falls, this will reduce the import of goods and services, thereby lowering the demand for foreign currency and causing a leftward shift in the demand curve.

44. Other things remaining same, If the income abroad increases, what is the likely effect of the same on national income of the domestic economy?
- (1) National income is likely to fall.
  - (2) National income is likely to rise.
  - (3) National income will remain unaffected.
  - (4) National income will initially fall and then rise

Ans. Option (2) is correct.

*Explanation:* When income abroad increases, it is likely that exports of the domestic economy will increase. This will increase the aggregate demand of the domestic economy and hence the income or output is likely to increase.

45. If the volume of imports of a country are growing faster than its volume of exports, its gross domestic product
- (1) Will Fall
  - (2) Will Rise
  - (3) Remains unaffected.
  - (4) May rise or fall.

Ans. Option (1) is correct.

*Explanation:* When the value of imports grows faster than the volume of exports, the net exports (exports minus imports) decrease or become negative, which causes the GDP to fall or slow down.

## Comprehension:

Read the passage carefully and answer the questions based on the passage:

### Concept of Price Ceiling

It is not very uncommon to come across instances where the government fixes a maximum allowable price for certain goods. The government-imposed upper limit on the price of a good or service is called a price ceiling. A price ceiling is generally imposed on necessary items like wheat, rice, kerosene, sugar etc. The objective of the price ceiling is to restrict the price of a good so that it becomes affordable for consumers to buy. However, it does not always generate the desired results. Most of the time, intervention by the government in the form of a price ceiling leads to various socio-problems.

Sub Question No: 46

46. Price ceilings are also known as...

- (1) Price floor.
- (2) Random price fixation.
- (3) Maximum price fixation.
- (4) Minimum Support price.

Ans. Option (3) is correct.

*Explanation:* Price ceiling is known as maximum price fixation, as buyers and sellers are legally bound to buy and sell the commodity at the maximum price fixed by the government. It is fixed below the equilibrium price.

47. Suppose the market determined rent for apartments is \$200 per month. The government intervenes and sets the rent control at \$250 per month. What is the likely impact of this intervention on market of apartments?

- (1) There will now be excess supply of apartments.
- (2) There will now be excess demand for apartments.
- (3) The market determined rent will now rise above 200 per month.
- (4) There will be no impact of this intervention on the market of apartments.

Ans. Option (4) is correct.

*Explanation:* Since the government's rent control (\$250) is above the market-determined rent (\$200), the price ceiling is non-binding, it has no effect on the market because landlords are already charging less than the controlled price.

48. Imposition of price ceilings usually results into?

- (1) Excess demand for the good in the market.
- (2) Excess supply of the good in the market.
- (3) Surplus availability of the good in the market.
- (4) No effect on the market.

Ans. Option (1) is correct.

*Explanation:* The imposition of a price ceiling will lead to excess demand in the market because the price ceiling is imposed below the equilibrium price. At lower prices, quantity demanded is greater than quantity supplied which is known as excess demand.

49. The market determined price of a good is Rs. 40. The government determines the price ceiling on the good as Rs. 25. Calculate the excess demand/excess supply it will cause if the demand and supply functions are  $Q_d = 200 - p$  and  $Q_s = 120 + p$  respectively

- (1) Excess demand of 25 units
- (2) Excess supply of 25 units
- (3) Excess demand for 30 units
- (4) Excess supply of 30 unit

Ans. Option (3) is correct.

**Explanation:**  $Q_d = 200 - P$

$Q_s = 120 + P$

At price ceiling = ₹ 25

$Q_d = 200 - 25 = 175$  units

$Q_s = 120 + 25 = 145$  Units

At ₹ 25, there is an excess demand of 30 units  
(175 – 145)

**50.** In order to be effective, the price ceiling should be determined

- (1) Below the market determined price.
- (2) Above the market determined price.

(3) At the same level as of the market determined price.

(4) Either above or below the market determined price.

**Ans. Option (1) is correct.**

**Explanation:** The price ceiling is effective only when it is imposed below the market-determined price. If it is imposed above the market-determined price, it will create a surplus of goods. Since there are no binding constraints on price reduction, the excess supply will cause the price to fall, and the market-determined price will prevail, making the price ceiling ineffective.

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