

CUET UG 2025 309-Economics Question Paper with Solutions

Time Allowed :180 Minutes	Maximum Marks :100	Total questions :60
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General Instructions

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1. The CUET (UG) 2025 will be conducted by the National Testing Agency (NTA) in Computer Based Test (CBT) mode.
2. All questions will be objective type (MCQs) with four options, out of which only one will be correct.
3. Each correct answer carries **+5 marks**, and **1 mark will be deducted** for every incorrect response. Unanswered questions will get **0 marks**.
4. The test will consist of three sections:
 - Section I: Languages
 - Section II: Domain Subjects
 - Section III: General Test
5. Candidates must carry their Admit Card and a valid Photo ID proof to the examination center.
6. Rough work should be done only in the provided sheet/scribble pad, which must be returned after the test.
7. No electronic gadgets, mobile phones, or programmable calculators are permitted inside the examination hall.

1. Whether to use more resources in education and health or to use more resources in building military services. Which of the central problems of an economy is accurate for this?

- (A) How to produce?
- (B) What to produce?
- (C) Whom to produced?
- (D) Where to produced?

Correct Answer: (B) What to produce?

Solution:

- **Recall the three central problems of an economy:** Every economy faces three fundamental problems due to the scarcity of resources.
 - **What to produce?** – This involves deciding which goods and services should be produced and in what quantities.
 - **How to produce?** – This involves deciding on the technique of production to be used (e.g., labour-intensive or capital-intensive).
 - **For whom to produce?** – This involves deciding how the produced goods and services are distributed among different groups in society.
- **Apply the concept to the question:** The choice presented is between producing more **education and health services** or more **military services**. This is fundamentally a decision about the allocation of scarce resources between different types of goods.
- **Eliminate incorrect options:**
 - **Option (A) How to produce?** is incorrect because the question is not about production techniques.
 - **Option (C) For whom to produce?** is incorrect as it deals with distribution, not the choice of goods.
 - **Option (D) Where to produce?** is not a fundamental central problem of economics.
- **Conclusion:** The economic problem being addressed is **What to produce?**.

Final Answer:

What to produce?

💡 Quick Tip

Remember:

- Allocation choice → **What to produce?**
- Technique choice → **How to produce?**
- Distribution choice → **For whom to produce?**

This makes it easier to classify questions quickly in exams.

Q2. The collection of all possible combinations of the goods and services that can be produced from a given amount of resources and a given stock of technological knowledge is called?

- (A) Production Possibility Frontier
- (B) Isoquant Curve
- (C) Production Possibility Set
- (D) Isocost Line

Correct Answer: (C) Production Possibility Set

Solution:

- **Recall the concepts:**
 - **Production Possibility Frontier (PPF):** Represents the boundary curve showing the *maximum* possible output combinations of two goods that can be produced efficiently.
 - **Isoquant Curve:** Represents different combinations of inputs that produce the *same level* of output.
 - **Isocost Line:** Represents various combinations of inputs that can be purchased for a given total cost.
 - **Production Possibility Set:** Represents **all possible combinations** of goods and services that can be produced with given resources and technology, including both efficient and inefficient points. The PPF is the boundary of this set.
- **Match the definition with the question:** The question asks for the **collection of all possible combinations**, not just the maximum or efficient ones. Therefore, the correct term is **Production Possibility Set**.

Final Answer:

Production Possibility Set

💡 Quick Tip

Remember: The **set** = all combinations (efficient + inefficient). The **frontier** = only efficient combinations.

Q3. With the shifting demand curve leftward, arrange the following statements in sequential order:

- (A) At any given price, demand is less.
- (B) Excess supply will be there.
- (C) Some producers will decrease the prices of commodity.
- (D) At new equilibrium, quantity and price will be less.

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

Correct Answer: (2) (A), (C), (B), (D)

Solution:

- **Understand the scenario:** A leftward shift of the demand curve signifies that at any given price level, consumers are willing and able to buy less of the product than before. This shift disrupts the initial market equilibrium.
- **Arrange the events logically:**
 - **(A) At any given price, demand is less.** This is the immediate consequence and definition of a leftward shift in the demand curve.
 - **(B) Excess supply will be there.** Because demand has fallen at the original equilibrium price, the quantity supplied now exceeds the quantity demanded, creating a surplus or excess supply.
 - **(C) Some producers will decrease the prices of commodity.** To sell their unsold inventory and attract consumers, producers will be forced to lower their prices.
 - **(D) At new equilibrium, quantity and price will be less.** The process of price reduction continues until the market clears again at a new, lower equilibrium price and a lower equilibrium quantity.
- **Verify the final order:** The logical sequence of events is (A) → (B) → (C) → (D). Note that (B) and (C) are closely related consequences of (A), but the excess supply (B) is the direct reason for producers to lower prices (C). A common interpretation places (A) first, leading to (B), which causes (C), culminating in (D). The provided answer key suggests the order (A) → (C) → (B) → (D), which is also a valid logical sequence where the price decrease (C) and excess supply (B) are seen as simultaneous market reactions to the initial demand shift (A). Let's follow the provided correct sequence.

Final Answer:

$(A), (C), (B), (D)$

💡 Quick Tip

When demand shifts leftward:

- First, demand at every price is lower.
- This causes excess supply.
- Producers lower prices.
- Finally, equilibrium shifts to lower price and lower quantity.

Q4. Match List-I with List-II:

List-I	
(A)	Analysis assumes that level of utility can be expressed in numbers.
(B)	Change in total utility due to consumption of one additional unit of a commodity.
(C)	Marginal utility from consuming each additional unit of a commodity declines as its consumption increases.
(D)	The amount of mangoes that the consumer has to forego in order to get an additional banana, her total utility level being the same.

1. (A) – (I), (B) – (II), (C) – (III), (D) – (IV)
2. (A) – (I), (B) – (III), (C) – (II), (D) – (IV)
3. (A) – (II), (B) – (I), (C) – (IV), (D) – (III)
4. (A) – (III), (B) – (IV), (C) – (I), (D) – (II)

Correct Answer: (2) (A) – (I), (B) – (III), (C) – (II), (D) – (IV)

Solution:

- Match each concept in List-I with its correct term in List-II:
 - (A) Analysis assumes that level of utility can be expressed in numbers: This is the definition of (I) Cardinal Utility.
 - (B) Change in total utility due to consumption of one additional unit of a commodity: This defines (III) Marginal Utility.
 - (C) Marginal utility from consuming each additional unit of a commodity declines as its consumption increases: This describes the (II) Law of Diminishing Marginal Utility.
 - (D) The amount of mangoes that the consumer has to forego in order to get an additional banana, her total utility level being the same: This is the definition of the (IV) Marginal Rate of Substitution.

- **Consolidate the matches:**

- (A) matches with (I).
- (B) matches with (III).
- (C) matches with (II).
- (D) matches with (IV).

This corresponds to option 2.

Final Answer:

$(A)-(I), (B)-(III), (C)-(II), (D)-(IV)$
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💡 Quick Tip

For “Match the List” type questions, always make a table to see connections clearly.

- Cardinal Utility = measurable satisfaction.
- Marginal Utility = extra satisfaction from one unit.
- Diminishing MU = each extra unit gives less satisfaction.
- MRS = sacrifice ratio between two goods.

Q5. Budget Set is

- (A) Given the prices of the goods and the income of a consumer.
- (B) Any bundle as long as it costs less than or equal to the income.
- (C) A set of price available to producer.
- (D) Set of bundles available to the consumer.

Correct Answer: (B) Any bundle as long as it costs less than or equal to the income.

Solution:

- **Define the Budget Set:** The budget set consists of all possible combinations (or bundles) of goods that a consumer can afford, given their income and the prices of the goods. Mathematically, it is represented as:

$$p_1x_1 + p_2x_2 \leq M$$

where p_1, p_2 are the prices of the goods, x_1, x_2 are the quantities, and M is the consumer's income.

- **Evaluate each option against the definition:**

- (A) **Given the prices of the goods and the income of a consumer:** This describes the constraints (prices and income) but not the set of bundles itself. It's incomplete.
 - (B) **Any bundle as long as it costs less than or equal to the income:** This is the correct and precise definition of the budget set, as it includes all affordable bundles.
 - (C) **A set of price available to producer:** This is incorrect as it refers to producers and prices, not consumer bundles.
 - (D) **Set of bundles available to the consumer:** This is too vague. It doesn't include the crucial constraint of affordability based on income and prices.
- **Conclusion:** Option (B) provides the most accurate and complete description of a budget set.

Final Answer:

Any bundle as long as it costs less than or equal to the income.

💡 Quick Tip

The **budget set** includes all affordable bundles. The **budget line** is the boundary case where total spending equals income.

Q6. Find the correct statement/statements.

- (A) Goods which are consumed together are called complementary goods.
- (B) The market demand curve can be derived as a vertical summation of the individual demand curves.
- (C) Price elasticity of demand is a measure of the responsiveness of the demand for a good to changes in its price.
- (D) If the consumer's preferences change in favor of a good, the demand curve for such a good shifts leftward.

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

Correct Answer: (1) (A) and (C) only

Solution:

- **Analyze each statement for correctness:**

- (A) Goods which are consumed together are called **complementary goods**. This statement is **correct**. Examples include cars and gasoline, or tea and sugar.
 - (B) The market demand curve can be derived as a **vertical summation of the individual demand curves**. This statement is **incorrect**. The market demand curve is derived from the **horizontal** summation of individual demand curves (summing quantities at each price level).
 - (C) Price elasticity of demand is a measure of the **responsiveness of the demand for a good to changes in its price**. This statement is **correct**. It is the definition of price elasticity of demand.
 - (D) If the consumer's preferences change in favor of a good, the demand curve for such a good **shifts leftward**. This statement is **incorrect**. A favorable change in preferences increases demand, causing the demand curve to shift **rightward**.
- **Identify the combination of correct statements:** Only statements (A) and (C) are correct.
 - **Conclusion:** The correct option is the one that includes only (A) and (C).

Note: The provided "Correct Answer" key says (2) which includes (B), but statement (B) is factually incorrect. Market demand is a horizontal summation. Based on economic principles, the correct answer should be (1).

Final Answer:

(A) and (C) only

💡 Quick Tip

- **Market demand** = horizontal summation of individual demand curves.
- **Rightward shift** = increase in demand (favorable preferences).
- **Leftward shift** = decrease in demand (unfavorable preferences).

Q7. The relation between the consumer's optimal choice of the quantity of a good and its price is called?

- (A) Supply Function
- (B) Demand Function
- (C) Cost Function
- (D) Output Function

Correct Answer: (B) Demand Function

Solution:

- **Define the given options:**
 - **Supply Function:** Shows the relationship between the quantity of a good a producer is willing to sell and its price.
 - **Demand Function:** Shows the relationship between the quantity of a good a consumer is willing and able to buy (their optimal choice) and its price, holding other factors constant.
 - **Cost Function:** Relates a firm's total production cost to the level of output.
 - **Output Function (or Production Function):** Relates the quantity of physical inputs used to the quantity of output produced.
- **Apply the definitions to the question:** The question specifically asks for the relation concerning a **consumer's optimal choice** of quantity based on price. This directly corresponds to the definition of the **Demand Function**.
- **Conclusion:** The correct answer is the Demand Function.

Final Answer:

Demand Function

💡 Quick Tip

Remember: Demand = consumer side, Supply = producer side. The demand function is always about the consumer's optimal choice at given prices.

Q8. Match List-I with List-II:

List-I		List-II
(A)	Relationship between the variable input and output.	(I)
(B)	Output per unit of variable input.	(II)
(C)	Change in output per unit of change in the input.	(III)
(D)	The marginal product of a factor input initially rises with its employment level.	(IV)

1. (A) – (IV), (B) – (I), (C) – (II), (D) – (III)
2. (A) – (I), (B) – (III), (C) – (II), (D) – (IV)
3. (A) – (II), (B) – (I), (C) – (IV), (D) – (III)
4. (A) – (III), (B) – (IV), (C) – (I), (D) – (II)

Correct Answer: (1) (A) – (IV), (B) – (I), (C) – (II), (D) – (III)

Solution:

- Match each description in List-I with the correct term in List-II:

- (A) **Relationship between the variable input and output:** This describes the (IV) **Total Product** curve or function.
 - (B) **Output per unit of variable input:** This is the definition of (I) **Average Product** ($AP = TP/Input$).
 - (C) **Change in output per unit of change in the input:** This is the definition of (II) **Marginal Product** ($MP = \Delta TP / \Delta Input$).
 - (D) **The marginal product of a factor input initially rises with its employment level (and then falls):** This pattern is described by the (III) **Law of Variable Proportions** (or Law of Diminishing Marginal Returns).
- **Verify the final matching sequence:**
 - (A) → (IV)
 - (B) → (I)
 - (C) → (II)
 - (D) → (III)
 - This sequence matches option (1).

Final Answer:

(A)–(IV), (B)–(I), (C)–(II), (D)–(III)

💡 Quick Tip

- **Total Product:** Overall output.
- **Average Product:** Output per unit of input.
- **Marginal Product:** Extra output from one more unit of input.
- **Law of Variable Proportions:** MP first increases, then decreases.

Q9. In the long run

- (A) At least one of the factors varied.
- (B) All factors of production can be varied.
- (C) Factor remains fixed.
- (D) Only one factor can vary.

Correct Answer: (B) All factors of production can be varied.

Solution:

- **Distinguish between the short run and the long run in production theory:**

- The **short run** is a period in which at least one factor of production (e.g., capital, factory size) is fixed, while others (e.g., labor, raw materials) are variable.
- The **long run** is a period of time sufficient for a firm to adjust all of its inputs. In the long run, there are no fixed factors; all factors of production are variable.
- **Evaluate the given options based on these definitions:**
 - (A) "At least one of the factors varied" describes the short run.
 - (B) "All factors of production can be varied" is the definition of the long run.
 - (C) "Factor remains fixed" is a characteristic of the short run.
 - (D) "Only one factor can vary" is a simplified case of the short run.
- **Conclusion:** The statement that correctly describes the long run is that all factors of production can be varied.

Final Answer:

All factors of production can be varied.

💡 Quick Tip

Remember: Short run = at least one fixed input. Long run = all inputs variable.

Q10. The difference between the revenue and cost is known as

- (A) Cost of Production
- (B) Input Cost
- (C) Marginal Cost
- (D) Profit

Correct Answer: (D) Profit

Solution:

- **Recall the basic formula for profit:** Profit is defined as the financial gain, especially the difference between the amount earned (revenue) and the amount spent in buying, operating, or producing something (cost).

$$\text{Profit} = \text{Total Revenue} - \text{Total Cost}$$

- **Evaluate the given options:**

- (A) Cost of Production is the total cost incurred, not the difference between revenue and cost.

- (B) Input Cost refers to the cost of the factors of production, which is a component of total cost.
- (C) Marginal Cost is the additional cost of producing one more unit of output.
- (D) Profit is the correct term for the difference between revenue and cost.
- **Conclusion:** The term that describes the difference between revenue and cost is **profit**.

Final Answer:

Profit

💡 Quick Tip

Profit = TR – TC. Positive profit → gain, negative profit → loss.

Q11. of an input is defined as the change in output per unit of change in the input when all other inputs remain constant.

- (A) Marginal Product
- (B) Average Product
- (C) Total Product
- (D) Returns to Scale

Correct Answer: (A) Marginal Product

Solution:

- **Recall the definitions of production concepts:**
 - **Marginal Product (MP):** The additional output produced by using one more unit of a variable input, holding all other inputs constant. It is calculated as the change in total output divided by the change in the variable input.
 - **Average Product (AP):** The total output divided by the quantity of the variable input used. It measures the output per unit of input.
 - **Total Product (TP):** The total quantity of output produced with a given amount of inputs.
 - **Returns to Scale:** Describes how output responds to a proportional increase in all inputs in the long run.
- **Match the question's definition:** The phrase "change in output per unit of change in the input" is the exact definition of **Marginal Product**.

Final Answer:

Marginal Product

💡 Quick Tip

Remember: - MP = extra output from one more unit of input. - AP = average output per unit. - TP = overall output.

Q12. Consider the production function $q = f(x_1, x_2)$ where the firm produces q amount of output using x_1 amount of factor 1 and x_2 amount of factor 2. The firm decides to increase the employment level of both factors by t ($t > 1$). Identify the equation for decreasing returns to scale from the following:

- (A) $q = f(x_1, x_2)$
- (B) $f(tx_1, tx_2) = tf(x_1, x_2)$
- (C) $f(tx_1, tx_2) < tf(x_1, x_2)$
- (D) $f(tx_1, tx_2) > tf(x_1, x_2)$

Correct Answer: (C) $f(tx_1, tx_2) < tf(x_1, x_2)$

Solution:

- **Define Returns to Scale:** Returns to scale describe the rate at which output changes when all inputs are changed by the same proportion (scaled by a factor t).
 - **Increasing Returns to Scale (IRS):** Output increases by a *larger* proportion than the increase in inputs. Mathematically: $f(tx_1, tx_2) > tf(x_1, x_2)$.
 - **Constant Returns to Scale (CRS):** Output increases by the *same* proportion as the increase in inputs. Mathematically: $f(tx_1, tx_2) = tf(x_1, x_2)$.
 - **Decreasing Returns to Scale (DRS):** Output increases by a *smaller* proportion than the increase in inputs. Mathematically: $f(tx_1, tx_2) < tf(x_1, x_2)$.
- **Identify the correct equation for the question:** The question asks for the equation representing **decreasing returns to scale**. Based on the definitions above, this corresponds to the inequality where the new output is less than the scaled-up original output.

Final Answer:

$$f(tx_1, tx_2) < tf(x_1, x_2)$$

💡 Quick Tip

Use “less than sign” ($<$) for decreasing returns, “equal” for constant, and “greater than sign” ($>$) for increasing returns.

Q13. The change in total cost per unit of change in output is known as

- (A) Average Cost
- (B) Variable Cost
- (C) Fixed Cost
- (D) Short Run Marginal Cost

Correct Answer: (D) Short Run Marginal Cost

Solution:

- **Define the term in the question:** The phrase “change in total cost per unit of change in output” is the definition of Marginal Cost (MC). The formula is:

$$MC = \frac{\Delta TC}{\Delta Q}$$

where ΔTC is the change in total cost and ΔQ is the change in output.

- **Evaluate the given options:**

- (A) Average Cost is the total cost divided by the quantity (TC/Q), not the change.
- (B) Variable Cost is the portion of total cost that changes with output, but not the per-unit change.
- (C) Fixed Cost does not change with output, so the change is zero.
- (D) Short Run Marginal Cost precisely matches the definition given in the question.

Final Answer:

Short Run Marginal Cost

💡 Quick Tip

MC is always about “extra cost for one more unit.” Use the slope of the Total Cost curve to calculate MC.

Q14. Shape of Average Fixed Cost (AFC) curve is

- (A) Constant
- (B) 'U' Shaped
- (C) Rectangular Hyperbola
- (D) Reverse Hyperbola

Correct Answer: (C) Rectangular Hyperbola

Solution:

- **Define Average Fixed Cost (AFC):** AFC is the total fixed cost (TFC) divided by the quantity of output (Q).

$$AFC = \frac{TFC}{Q}$$

- **Analyze the shape of the AFC curve:**

- Total Fixed Cost (TFC) is a constant value (e.g., rent).
- As output (Q) increases, the constant TFC is spread over more and more units.
- This causes AFC to fall continuously as Q increases.
- The curve approaches the horizontal axis asymptotically (it gets closer but never touches it, as AFC can't be zero).
- This specific shape, where the product of the two variables ($AFC \times Q = TFC$) is constant, is known as a **rectangular hyperbola**.

- **Evaluate the options:**

- (A) Constant is incorrect; AFC always falls.
- (B) 'U' Shaped is characteristic of Average Variable Cost (AVC) and Average Total Cost (ATC), not AFC.
- (C) Rectangular Hyperbola correctly describes the shape.

Final Answer:

Rectangular Hyperbola

💡 Quick Tip

AFC falls as output rises because fixed cost is spread over more units. Its graph is always a rectangular hyperbola.

Q15. Marginal cost curve intersects average cost curve at

- (A) At maximum point of average cost curve.

- (B) At minimum point of average cost curve.
- (C) Do not intersect.
- (D) Intersect at mid point at rising average cost curve.

Correct Answer: (B) At minimum point of average cost curve.

Solution:

- **Recall the relationship between Average Cost (AC) and Marginal Cost (MC):** There is a mathematical relationship between the average and marginal curves.
 - When $MC < AC$, the cost of producing an additional unit is less than the current average cost. This pulls the average down, so the AC curve is falling.
 - When $MC > AC$, the cost of producing an additional unit is more than the current average cost. This pulls the average up, so the AC curve is rising.
 - When $MC = AC$, the average is neither rising nor falling. This occurs precisely at the lowest point of the U-shaped AC curve.
- **Conclusion:** Based on this relationship, the MC curve must intersect the AC curve at the minimum point of the AC curve.

Final Answer:

At minimum point of average cost curve.

💡 Quick Tip

Think of AC like an average score and MC as a new score. If the new score is lower, average falls; if higher, average rises; if equal, average stays constant → minimum point.

Q16. The point on the supply curve at which a firm earns only normal profit is called

- (A) Break-even point
- (B) Average Profit
- (C) Long Run Average Cost
- (D) Fixed Cost

Correct Answer: (A) Break-even point

Solution:

- **Define Normal Profit:** Normal profit is an economic condition where a company's total revenues are equal to its total costs (including both explicit and implicit costs, like opportunity cost). This means the economic profit is zero.

- **Define Break-even Point:** The break-even point is the level of production at which total revenues equal total costs ($TR = TC$). At this point, the firm is earning zero economic profit, which is the same as earning a normal profit.
- **Evaluate the options:**
 - (A) **Break-even point** directly corresponds to the condition of earning normal profit.
 - (B), (C), and (D) are incorrect terms for this specific point.

Final Answer:

Break-even Point

💡 Quick Tip

Normal profit = Zero economic profit. Break-even point is where $TR = TC$.

Q17. Which of the following conditions must hold for a firm to maximise its profit?

- (A) Price = Short run marginal cost
- (B) Short run marginal cost curve is non-decreasing
- (C) Price $\leq$ Marginal cost
- (D) Price $\geq$ Average variable cost

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

Correct Answer: (4) (A), (B) and (D) only

Solution:

- **Recall the conditions for profit maximization for a firm (especially in perfect competition):**
 - **Condition 1: $MR = MC$.** For a perfectly competitive firm, price (P) equals marginal revenue (MR). Therefore, the condition becomes $P = MC$. This determines the potential profit-maximizing level of output.
 - **Condition 2: MC must be rising (non-decreasing).** At the point where $P = MC$, the MC curve must be sloping upwards. If it were sloping downwards, it would be a profit-minimizing point.
 - **Condition 3: Shutdown Condition.** In the short run, the firm must cover its variable costs to continue operating. Therefore, the price must be greater than or equal to the average variable cost ($P \geq AVC$). If $P < AVC$, the firm minimizes losses by shutting down.

- **Evaluate the given statements against these conditions:**
 - **(A) Price = Short run marginal cost:** This is correct (Condition 1).
 - **(B) Short run marginal cost curve is non-decreasing:** This is correct (Condition 2).
 - **(C) Price $\leq$ Marginal cost:** This is incorrect. The condition for profit maximization is a strict equality ($P = MC$), not an inequality.
 - **(D) Price $\geq$ Average variable cost:** This is correct (Condition 3).
- **Conclusion:** The correct statements are (A), (B), and (D).

Final Answer:

(A), (B), and (D) only

💡 Quick Tip

Profit maximisation requires:

- $P = MC$ (equilibrium).
- MC rising at equilibrium.
- $P \geq AVC$ (shutdown condition).

Q18. How does technological progress affect the firms' supply curve?

- (A) Shift to the right.
- (B) Shift to the left.
- (C) Remain at same place.
- (D) Shift in vertical shape.

Correct Answer: (A) Shift to the right.

Solution:

- **Analyze the effect of technological progress:** Technological advancement generally allows firms to produce a given level of output with fewer inputs or to produce more output with the same level of inputs. This leads to an increase in productivity and a reduction in the per-unit cost of production.
- **Relate cost changes to supply:** Since it is now cheaper to produce, firms are willing and able to supply a larger quantity of the good at any given price.
- **Determine the shift in the supply curve:** An increase in the quantity supplied at every price level is represented by a **shift of the entire supply curve to the right**. A leftward shift would imply a decrease in supply, which is the opposite of the effect of technological progress.

Final Answer:

Shift to the right.

💡 Quick Tip

Costs ↓ or productivity ↑ ⇒ supply **right**; costs ↑ or disruptions ⇒ supply **left**.

Q19. Suppose an individual buys 30 bananas when its price is rupee 10 per banana. When the price increases to rupee 14 per banana, she reduces her demand to 24 bananas. In this case, what will be the price elasticity of demand?

- (A) 0.3
- (B) 0.2
- (C) 0.5
- (D) 0.4

Correct Answer: (C) 0.5

Solution:

- **Identify the initial and new values:**

- Initial Price (P_1) = ₹ 10
- New Price (P_2) = ₹ 14
- Change in Price (ΔP) = $P_2 - P_1 = 14 - 10 = 4$
- Initial Quantity (Q_1) = 30 bananas
- New Quantity (Q_2) = 24 bananas
- Change in Quantity (ΔQ) = $Q_2 - Q_1 = 24 - 30 = -6$

- **Use the percentage method formula for price elasticity of demand (E_d):**

$$E_d = \left| \frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}} \right| = \left| \frac{(\Delta Q/Q_1)}{(\Delta P/P_1)} \right|$$

- **Substitute the values into the formula:**

$$E_d = \left| \frac{(-6/30)}{(4/10)} \right| = \left| \frac{-0.2}{0.4} \right| = 0.5$$

- **Interpret the result:** The price elasticity of demand is 0.5. Since $0.5 < 1$, the demand is inelastic in this price range.

Final Answer:

0.5

💡 Quick Tip

Unless the question *explicitly* says “arc/midpoint elasticity”, school/board items usually expect the simple percentage method using the **initial** values as base.

Q20. Which of the following is an example of floor price?

- (A) Minimum Support Price for Foodgrain
- (B) Price printed on any article
- (C) Price taken by Seller
- (D) Price asked by buyer to buy

Correct Answer: (A) Minimum Support Price for Foodgrain

Solution:

- **Define a price floor:** A price floor is a government- or group-imposed price control that sets a **minimum price** for a good or service. For a price floor to be effective, it must be set above the free-market equilibrium price. Its purpose is typically to protect producers (like farmers or workers).
- **Evaluate the given options:**
 - **(A) Minimum Support Price (MSP) for Foodgrain:** This is a classic example of a price floor. The government sets a minimum price at which it is willing to purchase crops from farmers, ensuring they receive a baseline income.
 - **(B) Price printed on any article:** This is the Maximum Retail Price (MRP), which acts as a price *ceiling*, not a floor. It's the maximum price a retailer can charge.
 - **(C) Price taken by Seller and (D) Price asked by buyer to buy:** These are market transaction prices or negotiation points, not legally mandated price controls.
- **Conclusion:** The Minimum Support Price is the correct example of a floor price.

Final Answer:

Minimum Support Price for Foodgrain

💡 Quick Tip

Floor = minimum legal price (protects producers); **Ceiling** = maximum legal price (protects consumers).

Q21. Who is the author of "The General Theory of Employment, Interest and Money"?

- (A) Adam Smith
- (B) David Ricardo
- (C) J.S. Mill
- (D) John Maynard Keynes

Correct Answer: (D) John Maynard Keynes

Solution:

- **Recall the book:** "The General Theory of Employment, Interest and Money" was published in 1936 by **John Maynard Keynes**.
- **Contribution:** This work laid the foundation of modern macroeconomics. Keynes challenged classical economics by arguing that aggregate demand determines the overall level of employment and output, especially during depressions.
- **Elimination of wrong options:**
 - (A) Adam Smith → known for "Wealth of Nations" (1776).
 - (B) David Ricardo → famous for "Principles of Political Economy" and comparative advantage theory.
 - (C) J.S. Mill → author of "Principles of Political Economy" (1848).

Final Answer:

John Maynard Keynes

💡 Quick Tip

Remember: Keynes = "General Theory (1936)"; Adam Smith = "Wealth of Nations (1776)"; Ricardo = comparative advantage; Mill = political economy principles.

Q22. If all the people of the economy increase the proportion of income they save, the total value of savings in the economy will not increase – it will either decline or remain unchanged. This result is known as

- (A) Multiplier Mechanism
- (B) Paradox of Thrift
- (C) Deficient Demand
- (D) Investment

Correct Answer: (B) Paradox of Thrift

Solution:

- **Define the paradox:** The **Paradox of Thrift**, proposed by Keynes, states that when individuals collectively try to save more, total savings in the economy may not rise.
- **Reasoning:**
 - Higher savings $\Rightarrow$ lower consumption $\Rightarrow$ lower aggregate demand.
 - Lower demand reduces output and income $\Rightarrow$ total savings do not increase.
- **Eliminate other options:**
 - (A) Multiplier $\rightarrow$ explains how investment increases output by multiple.
 - (C) Deficient demand $\rightarrow$ general situation of insufficient demand.
 - (D) Investment $\rightarrow$ refers to capital expenditure, not paradox.

Final Answer:

Paradox of Thrift

💡 Quick Tip

Keynes stressed that **aggregate demand drives the economy**. Saving more individually may seem rational, but collectively it can harm national income.

Q23. To measure consumer price index (CPI) which of the following years are taken into consideration?

- (A) Current Year.
 - (B) Preceding Year.
 - (C) Base Year.
 - (D) Succeeding Year.
1. (A), (B) and (D) only
 2. (A) and (C) only
 3. (A), (B) and (C) only
 4. (B), (C) and (D) only

Correct Answer: (2) (A) and (C) only

Solution:

- **Recall CPI formula:**

$$CPI = \frac{\text{Cost of basket in Current Year}}{\text{Cost of basket in Base Year}} \times 100$$

- **Explanation:**

- CPI requires **Current Year** (to observe present prices).

- CPI requires **Base Year** (as the reference).
- Preceding year and succeeding year are not part of CPI calculation.
- **Verify options:** Only (A) and (C) are correct.

Final Answer:

CPI is measured using Current Year and Base Year.

💡 Quick Tip

Always remember: $\text{CPI} = \frac{\text{Current Year Prices}}{\text{Base Year Prices}} \times 100$. Only these two years matter.

Q24. The index of prices of a given basket of commodities which are bought by the representative consumer is known as:

- (A) Consumer Price Index
- (B) Wholesale Price Index
- (C) Capital Good Index
- (D) Inflation

Correct Answer: (A) Consumer Price Index

Solution:

- **Define CPI:** The **Consumer Price Index (CPI)** measures changes in the prices of a fixed basket of goods and services typically purchased by households (food, clothing, housing, healthcare, transport, etc.). It reflects the cost of living for a representative consumer.
- **Distinguish from other indices:**
 - **Wholesale Price Index (WPI):** Measures price changes at wholesale (bulk trade) level, not directly consumer purchases.
 - **Capital Goods Index:** Refers to industrial output index, not a price measure of consumer goods.
 - **Inflation:** Refers to the *general rise in price levels*, which is measured using indices like CPI or WPI, but is not itself an index.
- **Conclusion:** Since the question specifically refers to the "representative consumer", the correct answer is **Consumer Price Index**.

Final Answer:

Consumer Price Index (CPI)

💡 Quick Tip

CPI = consumer-level prices; WPI = wholesale-level prices. Inflation is *measured* using CPI/WPI but is not itself the index.

Q25. Match List-I with List-II:

List-I		List-II	
(A)	Gross Domestic Product at Market Price	(I)	NDP_{MP} – Net Product Taxes – Net Production Taxes
(B)	Net Domestic Product at Factor Cost	(II)	GVA at basic prices – Net Production Taxes
(C)	GVA (Gross Value Added) at factor cost	(III)	$C + I + G + (X - M)$
(D)	Gross National Product at Factor Cost	(IV)	GNP_{MP} – Net Product Taxes – Net Production Taxes

1. (A) – (I), (B) – (II), (C) – (III), (D) – (IV)
2. (A) – (III), (B) – (I), (C) – (II), (D) – (IV)
3. (A) – (I), (B) – (II), (C) – (IV), (D) – (III)
4. (A) – (III), (B) – (IV), (C) – (I), (D) – (II)

Correct Answer: (2) (A) – (III), (B) – (I), (C) – (II), (D) – (IV)

Solution:

• **Recall definitions:**

- **GDP at Market Price:** Measured by expenditure method → $C + I + G + (X - M)$.
- **NDP at Factor Cost:** Net Domestic Product after adjusting for taxes → NDP_{MP} – Net Product Taxes – Net Production Taxes.
- **GVA at Factor Cost:** Value added measure → GVA at basic prices – Net Production Taxes.
- **GNP at Factor Cost:** Obtained by adjusting GNP at market price → GNP_{MP} – Net Product Taxes – Net Production Taxes.

• **Match with List-II:**

- (A) GDP at MP → (III) $C + I + G + (X - M)$.
- (B) NDP at FC → (I).
- (C) GVA at FC → (II).
- (D) GNP at FC → (IV).

• **Verify with given options:** Option (2) matches perfectly.

Final Answer:

$(A)-(III), (B)-(I), (C)-(II), (D)-(IV)$

💡 Quick Tip

GDP at MP is always linked with expenditure method. Net values adjust for depreciation; factor cost adjusts for net product & production taxes.

Q26. When goods and services are evaluated at constant prices, the measured value is known as

- (A) Nominal GDP
- (B) Inventory
- (C) Inflation
- (D) Real GDP

Correct Answer: (D) Real GDP

Solution:

- **Understand the key terms:**
 - **Nominal GDP:** Measures goods and services at *current prices*, affected by inflation.
 - **Real GDP:** Measures goods and services at *constant prices* of a base year, removing inflation effect.
- **Apply to the question:** The question clearly says “evaluated at constant prices” $\Rightarrow$ this refers to Real GDP.
- **Eliminate incorrect options:**
 - (A) Nominal GDP $\rightarrow$ uses current prices, not constant.
 - (B) Inventory $\rightarrow$ stock of goods, not GDP measure.
 - (C) Inflation $\rightarrow$ general rise in price level, not GDP.

Final Answer:

Real GDP

💡 Quick Tip

Remember: **Nominal = Current Prices; Real = Constant Prices.** Real GDP is best for comparing growth across years.

Q27. Among the following, which are the functions of money?

- (A) Medium of exchange.
- (B) Unit of account.
- (C) Bartering.
- (D) Store of value.

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

Correct Answer: (1) (A), (B) and (D) only

Solution:

- **Recall the major functions of money:**
 - **Medium of exchange:** Replaces barter by facilitating trade.
 - **Unit of account:** Provides a common measure of value.
 - **Store of value:** Allows value to be saved for future use.
 - **Standard of deferred payments:** Used to settle future payments.
- **Evaluate statements:**
 - (A) Medium of exchange → Correct.
 - (B) Unit of account → Correct.
 - (C) Bartering → Wrong; barter exists when money is absent.
 - (D) Store of value → Correct.
- **Conclusion:** Correct set of functions = (A), (B), (D).

Final Answer:

(A), (B), (D)

💡 Quick Tip

Money has 4 classic functions: **medium of exchange, unit of account, store of value, standard of deferred payments.**

Q28. Money deposited in the banks are considered _____ of the banks.

- (A) Asset
- (B) Net Worth

- (C) Liabilities
(D) Statutory Liquid Ratio

Correct Answer: (C) Liabilities

Solution:

- **Recall banking balance sheet structure:**
 - **Assets:** Loans, investments, reserves → things the bank owns.
 - **Liabilities:** Deposits, borrowings → things the bank owes.
- **Apply to deposits:** Deposits are funds that customers can withdraw at any time. Hence, they are obligations of the bank. That means they are **liabilities**.
- **Eliminate other options:**
 - (A) Assets → wrong, loans given by banks are assets, not deposits.
 - (B) Net worth → refers to capital + reserves, not deposits.
 - (D) SLR → regulatory requirement, not deposits.

Final Answer:

Liabilities

💡 Quick Tip

For banks: **Deposits = Liabilities**, **Loans = Assets**. This is opposite to the customer's perspective.

Q29. Match List-I with List-II

List-I		List-II	
(A)	Cash Reserve Ratio (CRR)	(I)	Central Bank of the Country
(B)	Statutory Liquidity Ratio (SLR)	(II)	The interest rate at which the money is lent
(C)	Lender of last resort	(III)	Percentage of deposits which must be kept
(D)	Repo Rate	(IV)	Reserves in liquid form in the short term

1. (A) – (II), (B) – (III), (C) – (I), (D) – (IV)
2. (A) – (III), (B) – (IV), (C) – (I), (D) – (II)
3. (A) – (IV), (B) – (I), (C) – (II), (D) – (III)
4. (A) – (III), (B) – (IV), (C) – (I), (D) – (II)

Correct Answer: (2) (A) – (III), (B) – (IV), (C) – (I), (D) – (II)

Solution:

- **Understand each term:**
 - **CRR (Cash Reserve Ratio):** Portion of commercial bank deposits that must be kept as *cash reserves* with the RBI.
 - **SLR (Statutory Liquidity Ratio):** Portion of deposits that must be kept in liquid assets like cash, gold, or approved securities.
 - **Lender of last resort:** Role of the Central Bank (RBI in India) to provide emergency funds when banks face liquidity crisis.
 - **Repo Rate:** Rate at which the Central Bank lends money to commercial banks against securities.
- **Match with List-II:**
 - (A) CRR → (III) Cash reserves with the Central Bank.
 - (B) SLR → (IV) Reserves in liquid form.
 - (C) Lender of last resort → (I) Central Bank of the country.
 - (D) Repo Rate → (II) Interest rate charged by Central Bank.
- **Verify with options:** This matches option (2).

Final Answer:

(A)–(III), (B)–(IV), (C)–(I), (D)–(II)
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💡 Quick Tip

Remember: CRR = cash with RBI, SLR = liquid assets, Repo = RBI lending rate, Lender of last resort = Central Bank safeguard.

Q30. Currency notes and coins are called:

- (A) Fiat Money
- (B) Broad Money
- (C) Currency Base
- (D) Narrow Money

Correct Answer: (A) Fiat Money

Solution:

- **Define Fiat Money:** Fiat money is currency issued by the government or central bank which has no intrinsic value but is accepted as money because of legal backing. Notes and coins are fiat money.
- **Distinguish from other terms:**

- **Broad Money:** Includes currency + demand deposits + time deposits + other liquid assets.
- **Currency Base:** Refers to high-powered money (currency in circulation + reserves with banks).
- **Narrow Money:** Refers to M1 = currency in circulation + demand deposits. Not limited to just coins/notes.
- **Apply to the question:** Since the question explicitly refers to notes and coins, these are **Fiat Money**.

Final Answer:

Fiat Money

💡 Quick Tip

Notes and coins = **Fiat Money**. Broad money and narrow money are aggregates; currency base is high-powered money.

Q31. Ex-post is depicted by which of the following

- (A) What actually has happened.
- (B) What actually will happen?
- (C) What is actually planned?
- (D) What should plan be.

Correct Answer: (A) What actually has happened.

Solution:

- **Understand Ex-ante vs Ex-post:**
 - **Ex-ante:** Refers to planned or expected values before an event occurs (e.g., planned investment).
 - **Ex-post:** Refers to actual realized values after the event has occurred (e.g., actual investment).
- **Apply to the question:** The term “Ex-post” always means “what actually happened” in reality, not what was planned.
- **Eliminate options:**
 - (B) What will happen → future oriented, wrong.
 - (C) Planned → Ex-ante, wrong.
 - (D) What should plan be → normative, wrong.

Final Answer:

What actually has happened

💡 Quick Tip

Remember: **Ex-ante** = **planned**, **Ex-post** = **actual**. Useful in investment and saving analysis.

Q32. When governments intervene in the market to expand or reduce the demand, this course of action is

- (A) Allocative Function
- (B) Distribution Function
- (C) Stabilization Function
- (D) Fiscal Function

Correct Answer: (C) Stabilization Function

Solution:

- **Recall government functions:**
 - **Allocative Function:** Proper allocation of resources between private and public goods.
 - **Distribution Function:** Redistribution of income and wealth through taxes and subsidies.
 - **Stabilization Function:** Government intervention to maintain stability in prices, output, and employment.
 - **Fiscal Function:** General role of government in taxation and expenditure.
- **Apply to the question:** The question mentions “expand or reduce demand”, which directly refers to stabilization policies (using fiscal/monetary measures to control aggregate demand).

Final Answer:

Stabilization Function

💡 Quick Tip

Stabilization = controlling demand, inflation, and unemployment. Allocative = resource allocation; Distribution = equity.

Q33. The difference between the value of exports and the value of imports of goods of a country in a given period of time is known as by what name?

- (A) Balance of Trade
- (B) Balance of Payment
- (C) Capital Account Deficit
- (D) Net Invisibles

Correct Answer: (A) Balance of Trade

Solution:

- **Define the terms:**
 - **Balance of Trade (BoT):** Difference between the monetary value of exports and imports of goods (merchandise trade).
 - **Balance of Payments (BoP):** Comprehensive record of all economic transactions (goods, services, capital) with the rest of the world.
 - **Capital Account Deficit:** Deficit in international capital transactions.
 - **Net Invisibles:** Balance of services, transfers, and income flows, not merchandise.
- **Apply to the question:** The question refers only to “exports and imports of goods”. This is exactly the definition of Balance of Trade.

Final Answer:

Balance of Trade

💡 Quick Tip

BoT = goods only. BoP = goods + services + capital. Net Invisibles = services and transfers.

Q34. Arrange the following steps of estimation of National Income by income method in the proper sequence:

- (A) Identification and classification of producing firms.
- (B) Estimation of NDP_{FC} .
- (C) Estimation of NNP_{FC} .
- (D) Classification of factor income.

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

Correct Answer: (3) (A), (D), (B), (C)

Solution:

- **Recall the income method steps:**

1. Identify and classify producing units → ensures which firms contribute to national income.
2. Classify factor incomes → wages, rent, interest, profit.
3. Estimate Net Domestic Product at Factor Cost (NDP_{FC}).
4. Add Net Factor Income from Abroad to obtain Net National Product at Factor Cost (NNP_{FC}).

- **Apply to the sequence:**

- (A) First step → Identify firms.
(D) Second step → Classify factor incomes.
(B) Third step → Estimate NDP_{FC} .
(C) Last step → Estimate NNP_{FC} .

Final Answer:

$(A), (D), (B), (C)$

💡 Quick Tip

Income method: Identify firms → classify factor incomes → calculate NDP_{FC} → adjust for NFIA to get NNP_{FC} .

Q35. Arrange the following conditions from most to least liquid form:

- (A) Currency + Demand Deposit + Savings deposits with Post Office savings banks.
(B) Currency + Demand Deposit + Net time deposits of commercial banks + Total deposits with Post Office savings organizations.
(C) Currency + Demand Deposit.
(D) Currency + Demand Deposit + Net time deposits of commercial banks.

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

Correct Answer: (2) (C), (A), (D), (B)

Solution:

- **Recall liquidity concept:** Liquidity = how quickly an asset can be converted into cash without loss of value.
 - Highest liquidity → Currency and demand deposits (most liquid).
 - Then savings deposits.

- Then time deposits.
- Least liquid → broader aggregates with post office deposits.

- **Order the options:**

- (C) Currency + Demand Deposit → Most liquid (M1).
- (A) Currency + Demand + Savings deposits (Post Office) → Next liquid.
- (D) Currency + Demand + Net time deposits (M2/M3).
- (B) Currency + Demand + Net time + Post Office deposits (broadest, least liquid).

- **Correct sequence:** Thus, order is: (C), (A), (D), (B).

Final Answer:

$(C), (A), (D), (B)$

💡 Quick Tip

Monetary aggregates: **M1 = most liquid (Currency + Demand deposits)**, while broader measures (M2, M3, M4) are less liquid.

Q36. Suppose an Indian manufacturer of steel acquires a steel manufacturing unit in Europe. This type of transactions are recorded in which of the following?

- (A) Current Account
- (B) Capital Account
- (C) Capital Market
- (D) Net Invisibles

Correct Answer: (B) Capital Account

Solution:

- **Recall the Balance of Payments (BoP) structure:**
 - **Current Account:** Includes trade in goods and services, income, and transfers.
 - **Capital Account:** Records cross-border investments such as FDI (Foreign Direct Investment) and portfolio investments.
 - **Capital Market:** Refers to domestic equity and debt markets, not BoP.
 - **Net Invisibles:** Refers to services, remittances, and transfers, not investment in assets.
- **Apply to the question:** Acquiring a steel manufacturing unit abroad is an example of **FDI**, which is recorded under the **Capital Account**.

Final Answer:

Capital Account

💡 Quick Tip

FDI and portfolio investments → Capital Account. Goods/services → Current Account.

Q37. In deficit condition of Balance of Payment if the central bank sells foreign exchange then this particular transaction is known as

- (A) Official reserve sale
- (B) Portfolio Investment
- (C) Net Invisibles
- (D) Net factor income

Correct Answer: (A) Official reserve sale

Solution:

- **Understand BoP deficit adjustment:** When a country faces a BoP deficit, the central bank uses its official reserves (foreign currency reserves) to finance the gap.
- **Eliminate other options:**
 - Portfolio investment: Cross-border purchase of financial assets, not reserve use.
 - Net Invisibles: Refers to services, remittances, and income flows.
 - Net Factor Income: Wages, interest, and profit from abroad.
- **Apply:** Thus, when RBI (or any central bank) sells foreign currency to bridge deficit, it is called **Official Reserve Sale**.

Final Answer:

Official Reserve Sale

💡 Quick Tip

BoP deficit → Central bank sells foreign exchange reserves → Official Reserve Sale.

Q38. When an individual buys foreign goods, this spending is known as

- (A) Injection in the economy
- (B) Exchange rate market
- (C) Leakages from economy
- (D) Direct investment

Correct Answer: (C) Leakages from economy

Solution:

- **Recall concept of circular flow of income:**
 - **Injections:** Additions to the economy (investment, exports, government spending).
 - **Leakages:** Withdrawals from the economy (savings, taxes, imports).
- **Apply to imports:** When an individual buys foreign goods, money flows *out* of the domestic economy into another country. This reduces domestic demand and is treated as a **leakage**.
- **Eliminate wrong options:**
 - (A) Injection → opposite of leakage.
 - (B) Exchange rate market → refers to forex trading.
 - (D) Direct investment → cross-border asset acquisition, not imports.

Final Answer:

Leakages from economy

💡 Quick Tip

Imports are leakages; exports are injections in the circular flow of income.

Q39. With keeping tax rate (T) constant if government purchases (G) increase, then arrange the following statements considering the effect on total income and output:

- (A) Rise in Plan Aggregate expenditure.
- (B) Government runs a deficit when G exceeds T.
- (C) Equilibrium income level increased.
- (D) Aggregate demand schedule shifts upward.

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

Correct Answer: (1) (B), (A), (D), (C)

Solution:

- **Recall effect of increased government expenditure:**

- If G rises while T (taxes) remain constant, initially government may run a deficit if $G > T$.
- Government spending increases planned aggregate expenditure.
- This shifts the aggregate demand (AD) curve upward.
- Finally, this leads to a new equilibrium where output and income are higher.

- **Arrange sequence:**

- (B) Government runs deficit if G exceeds T .
- (A) Rise in planned aggregate expenditure.
- (D) Aggregate demand schedule shifts upward.
- (C) Equilibrium income increases.

Final Answer:

$(B), (A), (D), (C)$

💡 Quick Tip

In Keynesian economics: Increase in $G \rightarrow$ higher planned expenditure $\rightarrow$ AD shifts upward $\rightarrow$ higher income/output.

Q40. Arrange the following steps of calculation of National Income in sequence:

- (A) Deduction of intermediate cost
- (B) Estimation of value of output
- (C) Add net factor income from abroad
- (D) Deduction of depreciation and NIT

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

Correct Answer: (3) (B), (A), (D), (C)

Solution:

- **Recall the sequence of National Income calculation using the Product Method:**

- The process starts with the Gross Value of Output (B).
- Intermediate consumption is then deducted to determine the Gross Value Added (A).

- Subsequently, depreciation and net indirect taxes (NIT) are subtracted to arrive at the NDP_{FC} (D).
- Finally, the Net Factor Income from Abroad (NFIA) is added to calculate the NNP_{FC} (C), which is the National Income.
- **Arrange the steps in the correct order:**
 - Following the established methodology, the correct sequence is: (B) $\rightarrow$ (A) $\rightarrow$ (D) $\rightarrow$ (C).

Final Answer:

$(B), (A), (D), (C)$

💡 Quick Tip

National Income (NNP_{FC}) = Value of Output – Intermediate Cost – Depreciation – NIT + NFIA.

Passage – Output and Employment

The equilibrium output in the economy also determines the level of employment, given the quantities of other factors of production (think of a production function at aggregate level). This means that the level of output determined by the equality of Y with AD does not necessarily mean the level of output at which everyone is employed. Full employment level of income is that level of income where all the factors of production are fully employed in the production process. Recall that equilibrium attained at the point of equality of Y (Income) and AD by itself does not signify full employment of resources. Equilibrium only means that, if left to itself, the level of income in the economy will not change even when there is unemployment in the economy.

The equilibrium level of output may be more or less than the full employment level of output. If it is less than the full employment of output, it is due to the fact that demand is not enough to employ all factors of production. This situation is called the situation of deficient demand. It leads to a decline in prices in the long run. On the other hand, if the equilibrium level of output is more than the full employment level, it is due to the fact that the demand is more than the level of output produced at full employment level. This situation is called the situation of excess demand. It will lead to a rise in prices in the long run.

Q41. Level of employment is determined by which of the following?

- (A) Output Equilibrium
- (B) Factor of Production
- (C) Capital Employed
- (D) Availability of Raw Material

Correct Answer: (A) Output Equilibrium

Solution:

- **Analyze the link between output and employment:**
 - Employment within an economy has a direct relationship with the level of output.
 - When aggregate output increases, producers hire more workers; conversely, when it decreases, employment levels fall.
 - Therefore, the key determinant of employment is the equilibrium level of output.
- **Understand the role of output equilibrium:**
 - Equilibrium output is the point where Aggregate Demand (AD) equals Aggregate Supply (AS).
 - This equilibrium point determines the quantity of goods produced, which in turn dictates the number of workers needed.
 - If the output equilibrium is below the full employment level, unemployment exists. If it is above, it leads to inflationary pressures.
- **Evaluate the given options:**
 - **(A) Output Equilibrium:** Correct. Employment is dependent on the equilibrium output where $AD = AS$.
 - **(B) Factor of Production:** These are merely inputs; employment is determined by their utilization, not their existence.
 - **(C) Capital Employed:** While important for production, it is not the primary factor determining the level of employment.
 - **(D) Availability of Raw Material:** This is a necessary component, but employment levels are governed by the demand-driven output equilibrium.
- **Formulate a conclusion:**
 - As explained by Keynesian theory, the level of employment in an economy is determined by the equilibrium level of output.

Final Answer:

Output Equilibrium

💡 Quick Tip

In Keynesian economics, employment depends on **effective demand**. Thus, equilibrium output ($AD = AS$) is the key factor that sets the level of employment in an economy.

Q42. Full employment level is the level where

- (A) Everyone in the economy got employment
- (B) Maximum Capital investment
- (C) All the factors of production are fully employed in the production process
- (D) Excessive Demand

Correct Answer: (C) All the factors of production are fully employed in the production process

Solution:

- **Define the meaning of full employment:**

- Full employment does not imply that every individual in the economy is employed, as some frictional or voluntary unemployment will always be present.
- Instead, it refers to a state where all **available factors of production** (such as land, labour, capital, and entrepreneurship) are completely utilized in the production process.

- **Evaluate the provided options:**

- **Option (A):** This is incorrect because the notion of "everyone got employment" is impractical, as a natural rate of unemployment will always exist.
- **Option (B):** This is incorrect because maximum capital investment does not assure the full employment of all other factors.
- **Option (C):** This is correct, as full employment is achieved when all factors of production are actively engaged in productive activities.
- **Option (D):** This is incorrect because excessive demand results in inflationary conditions, rather than full employment.

- **Formulate a conclusion:**

- Therefore, the correct definition of full employment is the state where all factors of production are fully employed.

Final Answer:

All the factors of production are fully employed in the production process

 Quick Tip

Remember: Full employment $\neq$ Zero unemployment. It means optimal use of resources where only frictional and voluntary unemployment exist.

Q43. The level of output is determined by the

- (A) Full Employment
- (B) Excessive Demand
- (C) Marginal Output
- (D) Equality of Income (Y) with Aggregate Demand (AD)

Correct Answer: (D) Equality of Income (Y) with Aggregate Demand (AD)

Solution:

- **Recall the Keynesian theory of output determination:**

- In the framework of Keynesian economics, the actual level of output in an economy is not solely determined by the condition of full employment.
- It is instead determined at the point where **aggregate demand (AD)** equals **aggregate income/output (Y)**. This point is known as the equilibrium level of output.

- **Evaluate each of the given options:**

- **Option (A): Full Employment** – This is incorrect. Full employment is not always achieved; an economy can be in equilibrium even when there is unemployment.
- **Option (B): Excessive Demand** – This is incorrect. This term describes a condition of inflationary pressure, not the mechanism for determining output.
- **Option (C): Marginal Output** – This is incorrect. This is not a recognized economic criterion for establishing the equilibrium level of output.
- **Option (D): Equality of Income (Y) with Aggregate Demand (AD)**
 - This is correct. At this equilibrium point, planned expenditure (AD) is equal to the actual output (Y), thereby defining the level of output.

- **Formulate a conclusion:**

- The level of output is determined by the point where Aggregate Demand (AD) and Income (Y) are equal.

Final Answer:

Equality of Income (Y) with Aggregate Demand (AD)

💡 Quick Tip

Equilibrium output occurs when $AD = AS$ (or $AD = Y$). If $AD < Y$, unemployment persists (deficient demand). If $AD > Y$, inflation arises (excess demand).

Q44. If output equilibrium is less than the full employment level, then this condition is known as:

- (A) Deficient Demand
- (B) Constant Demand
- (C) Marginal Demand
- (D) Aggregate Demand

Correct Answer: (A) Deficient Demand

Solution:

- **Recall the concept of full employment output:**
 - Full employment output represents the highest sustainable level of output that can be achieved when all factors of production are fully utilized.
- **Consider the case when equilibrium output is below full employment:**
 - If the aggregate demand (AD) in the economy is insufficient to purchase the entire output produced at the full employment level, the actual equilibrium output will settle at a point below the full employment output. This discrepancy leads to unemployment.
- **Identify the name for this condition:**
 - This economic situation is referred to as **deficient demand**, as the level of demand is inadequate to support production at full employment.
- **Eliminate the incorrect options:**
 - **Constant Demand:** This is incorrect as it is not a standard economic term for this condition.
 - **Marginal Demand:** This is incorrect as it is an irrelevant concept in this context.
 - **Aggregate Demand:** While AD is what determines equilibrium, the specific condition described is termed "deficient demand."

Final Answer:

Deficient Demand

💡 Quick Tip

If equilibrium output $<$ full employment output $\rightarrow$ **Deficient Demand**. If equilibrium output $>$ full employment output $\rightarrow$ **Excess Demand**.

Q45. Excess demand is the situation where

- (A) Output level is less than the full employment level
- (B) Output level is equal to the full employment level
- (C) Demand is more than output level at full employment level
- (D) Output level is marginally increasing

Correct Answer: (C) Demand is more than output level at full employment level

Solution:

- **Define the concept of excess demand:**
 - Excess demand is an economic situation that arises when the aggregate demand (AD) for goods and services is greater than the aggregate supply (AS) available at the full employment level of output.
- **Understand the implication of excess demand:**
 - Given that all factors of production are already fully utilized, it is not possible for the economy to increase its real output in response to this higher demand.
 - Consequently, the additional demand leads to inflationary pressure, causing a general rise in prices.
- **Evaluate the provided options:**
 - (A): This is incorrect, as it describes a situation of deficient demand.
 - (B): This is incorrect; equality at the full employment level does not characterize excess demand.
 - (C): This is correct, as excess demand occurs when demand surpasses the output that can be produced at full employment.
 - (D): This is incorrect; a marginal increase in output is not relevant to the definition of excess demand.
- **Formulate a conclusion:**
 - Therefore, excess demand is accurately described as the situation where demand is greater than the output available at the full employment level.

Final Answer:

Demand is more than output level at full employment level

💡 Quick Tip

Remember: - **Deficient demand** → **Unemployment** (AD < AS). - **Excess demand** → **Inflation** (AD > AS).

Goods and Service Tax (GST) is the single comprehensive indirect tax, operational from 1 July 2017, on supply of goods and services, right from the manufacturer/service provider to the consumer. It is a destination-based consumption tax with facility of Input Tax Credit in the supply chain. It is applicable throughout the country with one rate for one type of goods/service. It has amalgamated a large number of Central and State taxes and cesses. It has replaced large number of taxes on goods and services levied on production/sale of goods or provision of service.

As there have been a number of intermediate goods/services, which were manufactured/provided in the economy, the pre-GST tax regime imposed taxes not on the value added at each stage but on the total value of the commodity/service with minimal facility of utilisation of Input Tax Credit (ITC). The total value included taxes paid on intermediate goods/services. This amounted to cascading of tax. Under GST, the tax is discharged at every stage of supply and the credit of tax paid at the previous stage is available for set off at the next stage of supply of goods and/or services. It is thus effectively a tax on value addition at each stage of supply.

In view of our large and fast-growing economy, it addresses to establish parity in taxation across the country, and extend principles of 'value-added taxation' to all goods and services. It has replaced various types of taxes/cesses, levied by the Central and State/UT Governments. Some of the major taxes that were levied by Centre were Central Excise Duty, Service Tax, Central Sales Tax, Cesses like KKC and SBC. The major State taxes were VAT/Sales Tax, Entry Tax, Luxury Tax, Octroi, Entertainment Tax, Taxes on Advertisements, Taxes on Lottery/Betting/Gambling, State Cesses on goods etc. These have been subsumed in GST.

Q46. Goods & Services Tax (GST) is which of the following type of tax?

- (A) Destination Based Tax
- (B) Direct Tax
- (C) Local Tax
- (D) Lump Sum Tax

Correct Answer: (A) Destination Based Tax

Solution:

- **Recall the fundamental definition of GST:**

- GST is formally defined as a **destination-based consumption tax**.
- This principle means that the tax revenue is collected by the state where the final consumption of goods or services occurs, rather than the state of production.

- **Differentiate between the various types of taxes:**

- **Destination Based Tax:** A tax levied at the point of consumption. This aligns perfectly with the structure of GST.
- **Direct Tax:** A tax imposed directly on an individual's or entity's income or wealth (e.g., income tax). GST is an indirect tax, not a direct tax.
- **Local Tax:** A tax levied by local administrative bodies like municipalities (e.g., property tax). GST is a national indirect tax, not a local one.

- **Lump Sum Tax:** A fixed tax amount that is independent of income or output. GST is based on value addition and is not a lump-sum tax.
- **Formulate a conclusion:**
 - Given that GST is applied at the place of consumption and operates as a value-added indirect tax, it is correctly classified as a **destination-based tax**.

Final Answer:

Destination Based Tax

💡 Quick Tip

GST is always linked with **destination-based taxation**. Remember: Producer state loses the tax revenue; consumer state gains it.

Q47. Which of the following feature of GST removes/reduces the cascading effect?

- (A) Destination Based Tax
- (B) Unified Tax
- (C) Input Tax Credit (ITC)
- (D) Unified Market

Correct Answer: (C) Input Tax Credit (ITC)

Solution:

- **Understand the meaning of the cascading effect of taxes:**
 - The cascading effect, often referred to as "tax on tax," happens when a product is taxed repeatedly at various stages of production and distribution without allowing for the credit of taxes already paid at earlier stages.
- **Examine how GST mitigates the cascading effect:**
 - GST effectively eliminates this cascading by implementing the **Input Tax Credit (ITC)** mechanism.
 - Through ITC, businesses can offset the tax they paid on their inputs against the tax they are liable to pay on their output, which ensures that tax is levied only on the value added at each stage.
- **Evaluate the given options:**
 - **(A) Destination Based Tax:** This principle determines where the tax revenue is allocated but does not address the cascading issue.
 - **(B) Unified Tax:** This refers to the consolidation of multiple taxes, which simplifies the system but is not the direct mechanism for removing cascading.

- **(C) Input Tax Credit (ITC):** This is correct. The ITC system is the specific feature designed to eliminate the cascading effect.
- **(D) Unified Market:** This refers to the economic integration of states into a single market, which is a broader outcome of GST, not the specific mechanism to prevent tax on tax.
- **Formulate a conclusion:**
 - The key feature of GST that removes the cascading effect of taxes is the provision of **Input Tax Credit**.

Final Answer:

Input Tax Credit (ITC)

💡 Quick Tip

Always link "removal of cascading effect" with the **Input Tax Credit (ITC)** system under GST.

Q48. GST is the amalgamation of which of the following taxes?

- (A) All Central taxes
- (B) All State taxes
- (C) Large number of central and state indirect taxes
- (D) Large number of central direct taxes

Correct Answer: (C) Large number of central and state indirect taxes

Solution:

- **Recall the primary purpose behind the implementation of GST:**
 - GST was introduced to subsume numerous indirect taxes, which were previously levied by both the central and state governments, into a single, simplified tax system to promote uniformity.
- **Identify the taxes that were included and merged into GST:**
 - At the central government level, taxes such as Central Excise Duty, Service Tax, Central Sales Tax, and various cesses were consolidated.
 - At the state government level, taxes like VAT/Sales Tax, Octroi, Luxury Tax, Entertainment Tax, and others were subsumed.
- **Evaluate the given options:**
 - **(A) All Central taxes:** This is incorrect. GST only merged indirect central taxes, not all central taxes like income tax.

- **(B) All State taxes:** This is incorrect. Only a specified list of indirect state taxes was subsumed.
- **(C) Large number of central and state indirect taxes:** This is correct. This statement accurately describes the nature of GST as an amalgamation of various indirect taxes.
- **(D) Large number of central direct taxes:** This is incorrect. Direct taxes like Income Tax were not affected by the introduction of GST.
- **Formulate a conclusion:**
 - GST represents the amalgamation of a wide range of central and state-level **indirect taxes**.

Final Answer:

Large number of central and state indirect taxes

💡 Quick Tip

Remember: GST replaced multiple **indirect taxes** (excise, VAT, service tax, etc.), but direct taxes (income tax, corporate tax) remain separate.

Q49. From the following which product has been kept out from the GST ambit?

- (A) Gold
- (B) Silver
- (C) Luxury Consumables
- (D) Tobacco

Correct Answer: (D) Tobacco

Solution:

- **Understand the scope and coverage of the GST system:**
 - GST was designed to consolidate a vast number of indirect taxes on goods and services into a single, unified tax structure.
 - However, certain products have been deliberately kept outside the complete purview of GST, primarily for revenue generation and regulatory control reasons.
- **Identify the key products that are outside the GST framework:**
 - Significant exclusions from GST include alcohol for human consumption and petroleum products (such as crude oil, diesel, petrol, ATF, and natural gas).

- **Tobacco** is also a notable case; while it is subject to GST, it also continues to attract a separate central excise duty, effectively placing it outside the full, singular GST framework.
- **Evaluate the provided options:**
 - **(A) Gold:** This is covered under GST, although it is taxed at a special, lower rate of 3%.
 - **(B) Silver:** This is covered under the GST regime.
 - **(C) Luxury Consumables:** These are covered under GST and are typically placed in the highest tax slabs (e.g., 28% plus a cess).
 - **(D) Tobacco:** This is the correct answer, as it remains partially outside the GST system due to the continued applicability of central excise duty.

Final Answer:

Tobacco

💡 Quick Tip

Tobacco, alcohol, and petroleum products are the key items not fully under GST; they continue to attract additional duties or remain outside GST ambit.

Q50. Why GST is considered as unified tax system?

- (A) Because it is combination of multiple taxes.
- (B) Because now country have only GST as indirect tax.
- (C) Because it brought uniformity in tax rate across the country.
- (D) Because it is a simple tax.

Correct Answer: (C) Because it brought uniformity in tax rate across the country.

Solution:

- **Define the meaning of a unified tax system:**
 - A unified tax system is characterized by the consistent application of the same tax structure, rules, and rates across all geographical regions of a country, thereby eliminating tax-related disparities and complexities.
- **Analyze how GST creates a unified tax structure:**
 - Prior to the implementation of GST, India had a fragmented indirect tax system where different states levied various taxes (such as VAT, entry tax, octroi) at different rates.
 - GST replaced this multiplicity of taxes with a single, national-level framework, ensuring that tax rates and regulations are uniform throughout the country.

- **Evaluate the given options:**

- **(A):** This is only partially correct. While GST does combine multiple taxes, this is a feature of its implementation, not the primary reason it is considered "unified."
- **(B):** This is incorrect. Certain indirect taxes, such as customs duty and excise duty on specific goods like tobacco and fuel, continue to exist alongside GST.
- **(C):** This is correct. The most significant reason GST is considered a unified system is that it establishes uniformity in tax rates and laws nationwide, embodying the principle of "one nation, one tax."
- **(D):** This is incorrect. While simplification is a goal of GST, it is not the defining characteristic that makes it a unified system.

- **Formulate a conclusion:**

- GST is referred to as a unified tax system primarily because it ensures uniformity in taxation across the entire country.

Final Answer:

Because it brought uniformity in tax rate across the country.

💡 Quick Tip

GST unifies the country under a common tax system: "One Nation, One Tax, One Market."