Previous Years' Paper

Common University Entrance Test for UG Programmes

CUET-UG - Economics and Business Economics

Entrance Exam, 2025

(After the list of questions, the solution will Start.)

Q.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?

1. How to produce?

2. What to produce?

3. Whom to produced?

4. Where to produced?

Q.2. 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?

1. Production Possibility Frontier

2. Isoquant Curve

3. Production Possibility Set

4. Isocost Line

Q.3. With the shifting demand curve leftward, arrange the following statement in sequential order.

(A) At any given price, demand is less.

(B) Excocuppwill bo thoro

(C) Some producers will decrease the prices of commodity.

(D) At new equilibrium, quantity and price will be less.

Choose the correct answer from the options given below:

1. (B), (A), (C), (D)

2. (A), (C), (B), (D)

3. (B), (A), (D), (C)

4. (D), (B), (C), (A)

Q.4. Match List-I with List-II

List-I	List-I1
(A) Analysis assumes that level of utility can be expressed in numbers.	(1) Cardinal Utility
(B) Change in total utility due to consumption of one additional unit of a commodity	(II) Law of Diminishing Morainal tility
(C) Marginal utility from consuming each additional unit of a commodity declines as its consumption increases.	(III) 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.	(IV) Marginal rate of substitution

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) - (I), (B) - (I), (C) - (IV), (D) - (III)

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

Q.5. Budget Set is ____________

1. Given the prices of the goods and the income of a consumer.

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

3. A set of price available to producer.

4. Set of bundles available to the consumer

Q.6. 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 prefnref cbapge in favor ofa good the demapd curve for such od shifts leftward

Choose the correct answer from the options given below:

1. (A) and (C) only

2. (A), (B) and (C) only

3. (A) and (D) Only

4. (B), (C) and (D) only

Q.7. The relation between the consumer's optimal choice of the quantity of a good and its price is called?

1. Supply function

2. Demand Function

3. Cost Function

4. Output function

Q.8. Match List-I with List-II

List-I	List-II
(A) Relationship between the variable input and output.	(I) Average Product
(B) Output per unit of variable input.	(II) Marginal Product
(C) Change in output per unit of change in the input	(III) Law of variable proportions

(D) The marginal product of a factor input initially rises with its employment level	(IV) Total Product

Choose the correct answer from the options given below:

1. (A) - (IV), (B) - (I), (C) - (II), (D) - (I1I)

2. (A) - (1), (B) - (III), (C) - (II), (D)- (IV)

3. (A) - (1), (B) (II), (C) - (IV), (D) - (III)

4. (A)-(U) (B) -(IV), (0-(1) (D) – (II)

Q.9. In the long run ____________________

1. At least one of the factor varied.

2. All factors of production can be varied.

3. Factor remains fixed.

4. Only one factor can vary.

Q.10. The difference between the revenue and cost is known as ____________

1. Cost of Production

2. Input cost

3. Marginal Cost

4. Profit

Q.11. __________ of an input is defined as the change in output per unit of change in the input when all other inputs are remain constant.

1. Marginal Product.

2. Average Product.

3. Total Product.

4. Returns to Scale.

Q.12. Consider the production function $q = f(x_1, x_2)$ where the firm produces q amout of output x_1 amount of factor 1 and x2 amount of factor 2. The firm decides to increase the employment level of both the factors t (t >1). Identify the equation for decreasing returns to scale from the following:

1. $q = f(x_1, x_2)$

2. $f(tx_1, tx_2) = t.f(x_1, x_2)$

3. $f(tx_1, tx_2) < t.f(x_1, x_2)$.

4. $f(tx_1, tx_2) > t.fx_1, x_2$

Q.13. The change in total cost per unit of change in output is known as by which name

1. Average Cost

2. Variable Cost

3. Fixed Cost

4. Short Run Marginal Cost

Q.14. Shape of Average Fixed Cost Curve is:

1. Constant

2. 'U' Shaped.

3. Rectangular Hyperbola

4. Reverse Hyperbola

Q.15. Marginal cost curve intersects average cost curve at ____________

1. At maximum point of average cost curve.

2. At minimum point from of average cost curve.

3. Do not intersect.

4. Intersect at mid point at rising average cost curve.

Q.16. The point on the supply curve at which a firm earns only normal profit is called ________

1. Break-even point.

2. Average Profit.

3. Long Run Average Cost

4. Fixed Cost.

Q.17. 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 ≤ Marginal Cost

(D) Price ≥ Average variable cost

Choose the correct answer from the options given below:

1. (B), (C) and (D) only

2. (A), (B) and (C) only

3. (A), (B), (C) and (D)

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

Q.18. How does technological progress affect the firms' supply curve?

1. Shift to the right.

2. Shift to the left.

3. Remain at same place.

4. Shift in vertical shape.

Q.19. Suppose an individual buy 30 bananas when its price is Rs. 10 per banana. When the price increases to Rs. 14 per banana, she reduces her demand to 24 bananas. In this case,what will be the price elasticity of demand?

1. 0.3

2. 0.2

3. 0.5

4. 0.4

Q.20. Which of the following is an example of floor price?

1. Minimum Support Price for Foodgrain

2. Price printed on any article.

3. Price taken by Seller

4. Price asked by buyer to buy.

Q.21. Who is the author of "The General Theory of Employment, Interest and Money"?

1. Adam Smith.

2. David Recardo.

3. J.S. Mill.

4. John Maynard Keynes

Q.22. 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..........

1. Multiplier Mechanism.

2. Paradox of Thrift.

3. Deficient Demand.

4. Investment.

Q.23. To measure consumer price index (CPI) which of the following years are taken into consideration?

(A) Current Year.

(B) Preceeding Year.

(C) Base Year.

(D) Succeeding Year.

Choose the correct answer from the options given below:

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

2. (A) and (C) only

3. (A), (B) and (C) only

4. (B) (C) and (D) only

Q.24. The index of prices of a given basket of commodities which are bought by the representative consumer is known as:

1. Consumer Price Index

2. Wholesale Price Index.

3. Capital Good Index.

4. Inflation.

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

List-1	**List-II**
(A) Gross Domestic Product at Market Price	(I) NDPMP - 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) GNPMp - Net Product Taxes - Net Production Taxes

Choose the correct answer from the options given below:

1. (A) - (1), (B) - (II), (C) - (III), (D) - (IV)

2. (A) - (III), (B) - (1), (C) - (II), (D) - (IV)

3. (A) - (1), (B) - (II), (C) - (IV), (D) - (I1I)

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

Q.26. When goods and services are evaluated at constant prices, the measured value is known as …………

1. Nominal GDP.

2. Inventory.

3. Inflation.

4. Real GDP.

Q.27. Among the following, which are the functions of money?

(A) Medium of exchange.

(B) Unit of account.

(C) Bartering

(D) Store of value

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

Q.28. Money deposited in the banks are considered ______________ of the banks.

1. Asset.

2. Net Worth.

3. Liabilities.

4. Statuary Liquid Ratio.

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

List-1	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 lent by Central Donl
(C) Lender of last resort.	(III) Percentage of deposits which must kept as cash reserves with the Central bank.
(D) Repo Rate	(IV) Reserves in liquid form in the short term

Choose the correct answer from the options given below:

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

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

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

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

Q.30. Currency notes and coins are called:

1. Fiat Money

2. Broad Money

3. Currency Base

4. Narrow Money.

Q.31. Ex-post is depicted by which of the following ………….

1. What actually has happened.

2. What actually will happen?

3. What is actually planned?

4. What should plan be.

Q.32. When governments intervene in the market to expand or reduce the demand, this course of action is….

1. Allocative Function

2 Distribution Fuction

3. Stabilization Function

4. Fiscal Function.

Q.33. 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?

1. Balance of Trade

2. Balance of Payment

3. Capital Account Deficit

4. Net Invisibles.

Q.34. 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.

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. (A), (B), (D), (C)

Q.35. 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.

Choose the correct answer from the options given below:

1. (A), (B), (C), (D)

2. (C), (A), (D), (B)

3. (B), (A), (D), (C)

4. (C), (B), (D),,(A)

Q.36. Suppose an Indian manufacturer of steel acquires a steel manufacturing unit in Europe. This type of transactions are recorded in which of the following.

1. Current Account.

2. Capital Account

3. Capital Market

4. Net Invisibles.

Q.37. In deficit condition of Balance of Payment if the central bank sells foreign exchange then this particular transaction is known as.......

1. Official reserve sale.

2. Portfolio Investment.

3. Net Invisibles.

4. Net factor income.

Q.38. When an individual buys foreign goods, this spending is known as

1. Injection in the economy.

2. Exchange rate market.

3. Leakages from economy.

4. Direct investment.

Q.39. With keeping tax rate (T) constant if government purchases(G) increase, then arrange the following statement 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.

Choose the correct answer from the options given below:

1. (B), (A), (D), (C)

2. (A), (C), (B), (D)

3. (A), (B), (D), (C)

4. (C), (B), (D), (A)

Q.40. 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

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. (C), (D), (A), (B)

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.

Q.41. Level of employment is determined by which of the following?

1. Output Eqilibrium.

2. Factor of Production

3. Capital Employed.

4. Availability of Raw Material.

Q.42. Full employment level is the level where

1. Everyone in the economy got employment

2. Maximum Capital investment.

3. all the factors of production are fully employed in the production process.

4. Excessive Demand.

Q.43. The level of output is determined by the ....

1. Full Employment.

2. Excessive Demand.

3. Marginal Output.

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

Q.44. If output equilibrium is less than the full employment level, then this condition is known as:

1. Deficient Demand.

2. Constant Demand.

3. Marginal Demand.

4. Aggregate Demand.

Q.45. Excess demand is the situation where ......

1. Output level is less than the full employment level.

2. Output level is equal to the full employment level.

3. Demand is more than output level at full employment level.

4. Output level is marginally increasing.

GST: One Nation, One Tax, One Market

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 were manufactured/provided in the economy, the pre GST tax regime imposed taxes not on the value added at each stage but 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.

Q.46. Goods & Services Tax (GST) is which of the following type of tax?

1. Destination Based Tax.

2. Direct Tax.

3. Local Tax

4. Lump Sum Tax.

Q.47. Which of the following feature of GST removes/reduces the cascading effect?

1. Destination Based Tax

2. Unified Tax

3. Input Tax Credit(ITC)

4. Unified Market.

Q.48. GST is the amalgamation of which of the following taxes?

1. All Central taxes

2. All State Taxes

3. Large number of central and state indirect taxes

4. Large number of central direct taxes.

Q.49. From the following which product has been kept out from the GST ambit?

1. Gold

2. Silver

3. Luxury Consumables.

4. Tobacco.

Q.50. Why GST is considered as unified tax system?

1. Because it is combination of multiple taxes.

2. Because now country have only GST as indirect tax.

3. Because it brought uniformity in tax rate across the country.

4. Because it is a simple tax.

Solution

Q.1.

Answer: 2. What to produce?

The question is about **deciding which goods and services to produce**—education and health vs. military services. This relates to the **allocation of scarce resources among competing needs**, which is the **"What to produce?"** problem in economics.

Q.2.

Answer: 3. Production Possibility Set

The **Production Possibility Set (PPS)** represents **all feasible combinations of goods and services** that an economy can produce with available resources and technology. The **Production Possibility Frontier (PPF)** is the **boundary of this set**, showing the maximum possible output combinations. Since the question asks for the **collection of all possible combinations**, the correct term is **Production Possibility Set**.

Q.3.

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

1. **(A) At any given price, demand is less** – The demand curve shifts left.
2. **(B) Excess supply will be there** – Because supply exceeds the reduced demand.
3. **(C) Some producers will decrease the prices of commodity** – To clear the excess supply.
4. **(D) At new equilibrium, quantity and price will be less** – Market stabilizes at a lower price and quantity.

Correct Answer: None of the given options exactly match the logical sequence, but the **closest correct sequence is:**

Q.4.

Answer: 2. (A) - (I), (B) - (III), (C) - (II), (D) - (IV)

- **(A) Analysis assumes that level of utility can be expressed in numbers → (I)** Cardinal Utility ✅

- **(B) Change in total utility due to consumption of one additional unit of a commodity → (III)** Marginal Utility ✅
- **(C) Marginal utility from consuming each additional unit of a commodity declines as its consumption increases → (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 → (IV)** Marginal rate of substitution ✅

Q.5.

Answer: 2. Any bundle as long as it costs less than or equal to the income

A **budget set** represents all the **combinations of goods and services a consumer can afford** given their income and the prices of goods. It includes any bundle **whose total cost is less than or equal to the consumer's income**.

Q.6.

Answer: 1. (A) and (C) only ✅

- **(A) Correct** ✅ – Goods consumed together are **complementary goods**.
- **(B) Incorrect** ❌ – Market demand curve is derived by **horizontal summation**, not vertical.
- **(C) Correct** ✅ – **Price elasticity of demand** measures responsiveness of demand to price changes.
- **(D) Incorrect** ❌ – If consumer preference **increases**, the demand curve shifts **rightward**, not leftward.

Q.7.

Answer: 2. Demand Function

The relationship between the **quantity of a good a consumer chooses to buy** and its **price** is described by the **demand function**. It shows how much of a good is demanded at different price levels.

Q.8.

Answer: 1. (A) - (IV), (B) - (I), (C) - (II), (D) - (III)

- **(A) Relationship between the variable input and output → (IV)** Total Product ✅
- **(B) Output per unit of variable input → (I)** Average Product ✅
- **(C) Change in output per unit of change in the input → (II)** Marginal Product ✅
- **(D) The marginal product of a factor input initially rises with its employment level → (III)** Law of Variable Proportions ✅

Q.9.

Answer: 2. All factors of production can be varied

- In microeconomics, the long run is a period in which all factors of production are variable.
- In contrast, in the short run, at least one factor is fixed.

Q.10.

Answer: 4. Profit

- **Profit** is defined as the **difference between total revenue and total cost.**
- Formula: **Profit = Total Revenue – Total Cost**

Q.11.

Answer: 1. Marginal Product

- **Marginal Product (MP)** of an input measures the **additional output produced** by using **one more unit of that input**, keeping all other inputs constant.
- Formula: **MP = ΔOutput / ΔInput**

Q.12.

Answer: 3. $f(tx_1,tx_2)<t\cdot f(x_1,x_2)$

Returns to scale describe how output changes when all inputs are increased proportionally:

1. **Constant returns to scale:** $f(tx_1,tx_2)=t\cdot f(x_1,x_2)$ f(x_1, x_2)$f(tx_1,tx_2)=t\cdot f(x_1,x_2)$
2. **Increasing returns to scale:** $f(tx_1,tx_2)>t\cdot f(x_1,x_2)$ f(x_1, x_2)$f(tx_1,tx_2)>t\cdot f(x_1,x_2)$
3. **Decreasing returns to scale:** $f(tx_1,tx_2)<t\cdot f(x_1,x_2)$ f(x_1, x_2)$f(tx_1,tx_2)<t\cdot f(x_1,x_2)$ ✅ – Output increases **less than proportionally**.

Q.13.

Answer: 4. Short Run Marginal Cost

The change in total cost per unit of change in output refers to **Marginal Cost (MC)**. In the **short run**, this is specifically called **Short Run Marginal Cost**, as it measures the additional cost incurred for producing **one more unit of output** while at least one factor remains fixed.

Q.14.

Answer: 3. Rectangular Hyperbola

The **Average Fixed Cost (AFC)** is calculated as **AFC = Total Fixed Cost / Output**.

- Since **total fixed cost remains constant**, as output increases, **AFC continuously decreases**.
- This produces a **rectangular hyperbola** shape.

Q.15.

Answer: 2. At minimum point of average cost curve

The **Marginal Cost (MC) curve** always intersects the **Average Cost (AC) curve)** at the **minimum point of the AC curve**.

- When MC $<$ AC, AC falls.
- When MC $>$ AC, AC rises.
- Therefore, **MC = AC at AC's minimum point**.

Q.16.

Answer: 1. Break-even point

The point on the supply curve where a firm earns **only normal profit** (zero economic profit) is called the **Break-even point**.

- At this point, **total revenue = total cost**, and the firm covers all costs, including opportunity costs.

Q.17.

Answer: (A), (B) and (D)

For a firm to maximize profit in the short run:

- **(A) Price = Short Run Marginal Cost (MC)** ✅ – Profit is maximized when the additional revenue from selling one more unit equals the additional cost.
- **(B) Short Run MC curve is non-decreasing** ✅ – Ensures the condition of maximum profit is at a rising portion of the MC curve.
- **(C) Price ≤ MC** ❌ **–** This would **reduce profit,** not maximize it.
- **(D) Price ≥ Average Variable Cost (AVC)** ✅ **–** To avoid losses, the firm must cover **variable costs.**

Q.18.

Answer: 1. Shift to the right

Technological progress makes production more efficient, **reducing costs** for the same level of output.

- This allows the firm to **supply more at each price**, causing the **supply curve to shift to the right**.

Q.19.

Answer: 3. 0.5

Price elasticity of demand (PED) formula:

$$\text{PED} = \frac{\%\ \text{change in quantity demanded}}{\%\ \text{change in price}}$$

1. **Initial quantity (Q_1)** = 30, **New quantity (Q_2)** = 24

   $\%\ \text{change in Q} = \frac{Q_2 - Q_1}{Q_1} \times 100 = \frac{24-30}{30} \times 100 = -20\%$

2. **Initial price (P_1)** = 10, **New price (P_2)** = 14

   $\%\ \text{change in P} = \frac{P_2 - P_1}{P_1} \times 100 = \frac{14-10}{10} \times 100 = 40\%$

3. **PED** = $|-20/40| = 0.5$

Q.20.

Answer: 1. Minimum Support Price for Foodgrain

A **floor price** is the **minimum price set by the government** to protect producers from selling at too low a price.

- **Minimum Support Price (MSP) for foodgrains** is a classic example.

Q.21.

Answer: 4. John Maynard Keynes

"The General Theory of Employment, Interest and Money" was authored by **John Maynard Keynes** in 1936.

- It is a foundational work of **Keynesian economics.**

Q.22.

Answer: 2. Paradox of Thrift

The scenario describes the Paradox of Thrift:

- **When everyone tries to save more, overall consumption falls, reducing income and output.**
- **As a result, total savings may not increase in the economy.**

Q.23.

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

The **Consumer Price Index (CPI)** measures the change in the **price level of a fixed basket of goods and services** over time.

- To calculate CPI, we compare the **cost of the basket in the Current Year (A)** with the **cost of the same basket in the Base Year (C)**.
- Other years like the Preceding Year or Succeeding Year are **not used directly** in the CPI calculation.

Q.24.

Answer: 1. Consumer Price Index

The **Consumer Price Index (CPI)** measures the **average change in prices** of a **fixed basket of goods and services** purchased by a **representative consumer**.

- It reflects the **cost of living** and is widely used to calculate inflation for households.

Q.25.

Answer: 2. (A) - (III), (B) - (I), (C) - (II), (D) - (IV)

Matching the concepts with their definitions:

- **(A) Gross Domestic Product at Market Price (GDPMP)** = Total expenditure approach = **C + I + G + (X – M)** → **(III)**
- **(B) Net Domestic Product at Factor Cost (NDPFC)** = GDP at MP – depreciation – net product taxes → **(I)**
- **(C) GVA at factor cost** = GVA at basic prices – net production taxes → **(II)**
- **(D) Gross National Product at Factor Cost (GNPFC)** = GNMP – net product taxes – net production taxes → **(IV)**

Q.26.

Answer: 4. Real GDP

- **Real GDP** measures the value of goods and services **at constant prices**, i.e., it **adjusts for inflation**.
- **Nominal GDP** is measured at current prices without adjusting for inflation.

Q.27.

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

The **functions of money** are:

- **Medium of exchange (A):** Money is used to buy and sell goods and services.
- **Unit of account (B):** Money provides a common measure of value for pricing goods and services.
- **Store of value (D):** Money can be saved and used in the future.

Bartering (C) is **not a function of money**, it is an exchange system **without money**.

Q.28.

Answer: 3. Liabilities

- Money **deposited by customers** in banks is **owed back to them**, so for the bank, it is a **liability**.
- **Assets** of the bank are loans given out or investments made.

Q.29.

Answer: 4. (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

- **Cash Reserve Ratio (CRR) (A):** Percentage of deposits banks must keep as **cash reserves with the Central Bank → III**
- **Statutory Liquidity Ratio (SLR) (B):** Banks must maintain **reserves in liquid form** like gold, approved govt. securities → **IV**
- **Lender of last resort (C):** Role of **Central Bank → I**

- **Repo Rate (D): Interest rate** at which banks borrow from Central Bank → **II**

Q.30.

Answer: 1. Fiat Money

- **Currency notes and coins** issued by the government are **legal tender** and not backed by a commodity like gold.
- This type of money is called **Fiat Money**.

Q.31.

Answer: 1. What actually has happened

Ex-post refers to **after the event**, i.e., it shows **what actually happened** as opposed to planned or expected outcomes.

Q.32.

Answer: 3. Stabilization Function

- When the government **intervenes to influence demand or supply** to stabilize the economy, it is performing a **stabilization function.**
- This includes measures like subsidies, taxation, or public spending to control inflation, recession, or unemployment.

Q.33.

Answer: 1. Balance of Trade

- The **difference between exports and imports of goods** is called the **Balance of Trade (BoT)**.
- If exports > imports → trade surplus; if imports > exports → trade deficit.

Q.34.

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

In the **Income Method of National Income estimation**, the correct order is:

1. **(A)** Identify and classify producing firms.

2. **(D)** Classify different types of factor incomes (wages, rent, interest, profit).
3. **(B)** Estimate **Net Domestic Product at Factor Cost (NDPFC)**.
4. **(C)** Add Net Factor Income from Abroad to get **NNPFC (National Income)**.

Q.35.

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

The order of **liquidity (most to least)** among the measures of money supply is:

- **M1 (C)** → *Currency + Demand Deposits* → Most liquid.
- **M2 (A)** → *M1 + Savings deposits with Post Office* → Slightly less liquid.
- **M3 (D)** → *M1 + Net time deposits of commercial banks* → Less liquid.
- **M4 (B)** → *M3 + Total deposits with Post Office savings organizations* → Least liquid.

Q.36.

Answer: 2. Capital Account

When an **Indian company acquires assets abroad** (like a steel plant in Europe), it is an **investment abroad** — a **capital flow**.
Such transactions are recorded in the **Capital Account** of the **Balance of Payments (BoP)** because they involve changes in ownership of assets between countries.

Q.37.

Answer: 1. Official reserve sale

When the **Balance of Payments (BoP)** is in deficit, the **central bank sells foreign exchange (foreign reserves)** to stabilize the currency and cover the deficit.
This transaction is recorded as an **"Official Reserve Sale"** under the **official reserve transactions** of the BoP.

Q.38.

Answer: 3. Leakages from economy

When an individual buys **foreign goods (imports)**, money flows **out of the domestic economy** to another country.
This reduces the **circular flow of income** within the home country and is therefore called a **leakage from the economy**.

Q.39.

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

When government spending (G) increases while tax rate (T) remains constant

- (A) Planned aggregate expenditure rises.
- (B) Government may run a deficit if G > T.
- (D) Aggregate demand shifts upward.
- (C) As a result, equilibrium income increases.

Q.40.

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

The correct order to calculate **National Income** is:

1. **(B)** Estimate the total **value of output**.
2. **(A)** Deduct **intermediate cost** to find value added.
3. **(D)** Deduct **depreciation and Net Indirect Taxes (NIT)** to get NDPFC.
4. **(C)** Add **Net Factor Income from Abroad (NFIA)** to get **National Income (NNPFC)**.

Q.41.

Answer: 1. Output Equilibrium

The level of employment is determined by the **equilibrium level of output**, given the quantities of other factors of production.

Q.42.

Answer: 3. all the factors of production are fully employed in the production process

Q.43.

Answer: 4. Equality of Income (Y) with Aggregate Demand (AD)

The equilibrium level of output is determined at the point where **income (Y) equals aggregate demand (AD)**.

Q.44.

Answer: 1. Deficient Demand

When equilibrium output is **less than full employment output**, it indicates **deficient demand**, causing underutilization of resources.

Q.45. 3. Demand is more than output level at full employment level

Answer: Excess demand arises when demand exceeds the output possible at full employment, leading to upward pressure on prices.

Q.46.

Answer: 1. Destination Based Tax

Q.47.

Answer: 3. Input Tax Credit(ITC)

Q.48.

Answer: 3. Large number of central and state indirect taxes

Q.49.

Answer: 4. Tobacco

Certain items like **tobacco and petroleum products** are **kept out of GST** and taxed separately.

Q.50.

Answer: 3. Because it brought uniformity in tax rate across the country

GST is called a **unified tax system** because it provides **one tax structure and uniform rates across India**, replacing multiple indirect taxes.