

CUET UG (Economics) - 30 May 2025 Shift 1

Question1

Calculate the value of Real GDP for the year 2023

Year	Output (units)	Market Price (in ₹)
2022	150	10
2023	200	20

1. ₹ 4,000
2. ₹ 2,000
3. ₹ 3,000
4. ₹ 1,500

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

correct option is 2 and answer is ₹2,000

Step 1: Identify the base year and the current year

The question asks for the Real GDP for the year 2023. Real GDP is calculated using the prices from a base year. In this problem, we are given data for 2022 and 2023. The base year is the year used for comparison, which is typically the earlier year in such a problem. Therefore, the base year is 2022.

Step 2: Use the formula for Real GDP

The formula for Real GDP is:

Real GDP=Output of Current Year×Market Price of Base Year

Step 3: Substitute the values into the formula

From the table, the output for the current year (2023) is 200 units, and the market price for the base year (2022) is ₹10.

Real GDP 2023=200 units x 10/units=2000

Question2

Arrange the steps involved in preparation of the government budget.

(A) Discussion and approval by the parliament.

(B) Preparation of budget by the Ministry of Finance.

(C) Implementation by the government.

(D) Approval by the Cabinet.

Choose the correct answer from the options given below:

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

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

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

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

Options:

A.

1

B.

2

C.

3

D.

Answer: B

Solution:

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

The correct order of steps involved in the preparation of a government budget is:

Preparation of budget by the Ministry of Finance: The process begins with the Ministry of Finance preparing the budget.

Approval by the Cabinet: The prepared budget is then presented to the Cabinet for its approval.

Discussion and approval by the parliament: After Cabinet approval, the budget is presented to the parliament for discussion and final approval.

Implementation by the government: Once the parliament approves the budget, the government implements it.

Question3

The problem 'For whom to produce' is basically concerned with.....

- 1. Production of goods and services.**
- 2. choosing appropriate technique of production.**
- 3. distribution of output in the society.**
- 4. choosing among the commodities for production.**

Options:

- A. 1
- B. 2
- C. 3
- D. 4

Answer: C

Solution:

3. distribution of output in the society.

The problem of "For whom to produce" addresses the issue of how the goods and services produced in an economy are distributed among its members. It is concerned with who gets to consume the output and how

that output is allocated.

Here is why the other options are incorrect: Production of goods and services: This is a broad concept related to all three central economic problems, but it doesn't specifically define any one of them. The problem of "what to produce" is about which specific goods and services to produce, while "how to produce" is about the method of production.

choosing appropriate technique of production: This is the central economic problem of "How to produce". It involves deciding whether to use labor-intensive methods or capital-intensive methods to produce goods and services.

choosing among the commodities for production: This is the central economic problem of "What to produce". It involves deciding which goods and services to produce from the limited available resources

Question4

Which of the following makes GDP an inappropriate index of welfare?

- (A) Distribution of GDP.**
- (B) Externalities.**
- (C) Non-monetary exchanges.**
- (D) Price Index.**

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

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

GDP is a measure of the total market value of all final goods and services produced within a country in a given period. However, it is considered an inappropriate index of welfare for several reasons:

(A) Distribution of GDP: GDP does not account for how income is distributed among the population. A high GDP could be concentrated in the hands of a few, while the majority of the population remains poor.

(B) Externalities: GDP does not include the positive or negative side effects of economic activity that are not reflected in market prices. For example, pollution from a factory (a negative externality) is not subtracted from GDP, while the cost of cleaning it up is added.

(C) Non-monetary exchanges: GDP does not include goods and services that are not traded in the market, such as household work, volunteer work, or the black market. These activities contribute to welfare but are not captured in GDP.

(D) Price Index: The Price Index is used to measure inflation and is a tool to adjust GDP for changes in price levels (to get real GDP). It is not a factor that makes GDP an inappropriate index of welfare itself.

Question5

Which of the following cost curve has the shape of a rectangular hyperbola?

- 1. Average Cost Curve.**
- 2. Marginal Cost Curve.**
- 3. Average Fixed Cost Curve.**
- 4. Variable Cost Curve.**

Options:

- A. 1
- B. 2
- C. 3
- D. 4

Answer: C

Solution:

3. Average Fixed Cost Curve.

The Average Fixed Cost (AFC) curve is a rectangular hyperbola because the total fixed cost (TFC) is a constant value, and the AFC is calculated by dividing the TFC by the quantity of output (Q). The formula is $AFC = TFC/Q$

. As the quantity of output increases, the AFC decreases, but it never reaches zero. The area under the curve at any point is equal to the total fixed cost, which remains constant, thus giving it the shape of a rectangular hyperbola.

The other options are incorrect for the following reasons:

Average Cost Curve: The Average Cost (AC) curve, also known as the Average Total Cost (ATC) curve, is typically U-shaped in the short run. It is U-shaped because of the law of variable proportions, which states that as output increases, the AC initially falls due to economies of scale and then rises due to diminishing returns.

Marginal Cost Curve: The Marginal Cost (MC) curve is also typically U-shaped. It first decreases and then increases due to the law of variable proportions. The MC curve intersects both the Average Variable Cost (AVC) and Average Total Cost (ATC) curves at their minimum points.

Variable Cost Curve: The Total Variable Cost (TVC) curve starts from the origin and increases as output increases, typically at a decreasing rate initially and then at an increasing rate. The Average Variable Cost (AVC) curve is U-shaped, similar to the AC curve.

Question6

When demand curve shift rightward and supply curve shift leftward what impact this will have on pricing?

- 1. Price decreases.**
- 2. Remain Same.**
- 3. Price increases.**
- 4. May increase may decrease.**

Options:

A.

1

B.

2

C.

3

D.

Answer: C

Solution:

3. Price increases.

A rightward shift of the demand curve indicates an increase in demand, meaning consumers are willing to buy more at every price. A leftward shift of the supply curve indicates a decrease in supply, meaning producers are willing to sell less at every price.

When these two shifts occur simultaneously, the equilibrium price will unambiguously increase. The increase in demand puts upward pressure on the price, and the decrease in supply also puts upward pressure on the price. Since both forces are pushing the price in the same direction, the new equilibrium price will be higher than the original price.

The other options are incorrect because:

Price decreases: This would require either a decrease in demand (leftward shift) or an increase in supply (rightward shift), or both. Since the problem describes the opposite shifts, this option is incorrect.

Remain Same: For the price to remain the same, the upward pressure from the increase in demand would have to be perfectly offset by a downward pressure, which is not the case here. Both shifts are increasing the price.

May increase may decrease: This option is incorrect because the direction of the price change is certain. The ambiguity of "may increase may decrease" only occurs when the demand and supply curves shift in opposite directions that affect the price in conflicting ways (e.g., demand shifts right and supply shifts right). In this problem, both shifts cause the price to increase, so the outcome is not ambiguous.

Question7

Which of the following system is followed by the Reserve Bank of India for issuing currency?

- 1. Proportionate system.**
- 2. Minimum Reserve System.**
- 3. Simple Deposit System.**
- 4. Fixed fiduciary issue System.**

Options:

- A. 1
- B. 2
- C. 3

D. 4

Answer: B

Solution:

2. Minimum Reserve System.

The Reserve Bank of India (RBI) has been following the Minimum Reserve System (MRS) for issuing currency since 1956. Under this system, the RBI is required to maintain a minimum reserve of gold and foreign currency worth ₹200 crore, of which at least ₹115 crore should be in gold. The RBI can issue an unlimited amount of currency against these reserves

Question8

When consumer consumes a part of change in income, which of the following is true?

1. $MPC > 1$
2. $MPC < 1$
3. $MPC = 0$
4. $0 < MPC < 1$

Options:

- A. 1
- B. 2
- C. 3
- D. 4

Answer: D

Solution:

correct option is 4.and answer is 0

The Marginal Propensity to Consume (MPC) is the proportion of an increase in income that is spent on consumption rather than saved. It is calculated as the change in consumption divided by the change in income.

The problem states that a consumer "consumes a part of the change in income." This means that the consumer spends some, but not all, of the additional income.

If the consumer spent all of the additional income, the MPC would be 1.

If the consumer spent none of the additional income, the MPC would be 0.

Since the consumer spends only a part of the additional income, the MPC must be greater than 0 but less than 1.

Therefore, the correct statement is 0

Question9

Match List-I with List-II

Change in Demand or Supply	Effect on equilibrium price / equilibrium quantity
(A) Increase in demand > Increase in supply	(I) equilibrium price will rise but no change in equilibrium quantity.
(B) Increase in supply when demand is perfectly inelastic	(II) No change in equilibrium price.
(C) Same proportion of increase in demand and supply	(III) equilibrium price will fall but no change in equilibrium quantity.
(D) Increase in demand when supply is perfectly inelastic	(IV) equilibrium price and quantity will rise.

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

Answer: A

Solution:

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

(A) Increase in demand > Increase in supply: When the increase in demand is greater than the increase in supply, the equilibrium price and quantity will both rise. This corresponds to (IV).

(B) Increase in supply when demand is perfectly inelastic: When demand is perfectly inelastic, the quantity demanded does not change regardless of the price. An increase in supply will cause the equilibrium price to fall, but the equilibrium quantity will remain unchanged. This corresponds to (I).

(C) Same proportion of increase in demand and supply: When both demand and supply increase by the same proportion, the new equilibrium quantity will be higher, but the equilibrium price will remain unchanged. This corresponds to (II).

(D) Increase in demand when supply is perfectly inelastic: When supply is perfectly inelastic, the quantity supplied does not change regardless of the price. An increase in demand will cause the equilibrium price to rise, but the equilibrium quantity will remain unchanged. This corresponds to (III)

Question10

Match List-I with List-II

List-I	List-II
(A) Control Price	(I) Set below the equilibrium price
(B) Floor Price	(II) Fixed by the government for the labourers
(C) Minimum Wage Legislation	(III) Set above the equilibrium price
(D) Market Equilibrium	(IV) when demand and supply curve intersect.

Choose the correct answer from the options given below:

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

Options:

A.

B.

2

C.

3

D.

4

Answer: B

Solution:

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

A Control Price is a price cap, which is set by the government below the equilibrium price to protect consumers. Therefore, (A) matches with (I).

A Floor Price is a minimum price set by the government above the equilibrium price to protect producers. Therefore, (B) matches with (III).

Minimum Wage Legislation is a specific type of floor price, fixed by the government for laborers to ensure they receive a minimum income. Therefore, (C) matches with (II).

Market Equilibrium is the state where the quantity demanded equals the quantity supplied, which occurs at the intersection of the demand and supply curves. Therefore, (D) matches with (IV).

Question11

In an Economy, total savings are rs. 2000 crores and the ratio of average propensity to save and average propensity to consume is 2:7. Calculate the level of income in the economy?

- 1. 2000 crores.**
- 2. 7000 crores.**
- 3. 9000 crores.**
- 4. 14,000 crores.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

correct option is 3 and answer is 9000 crores.

Step 1: Understand the relationship between APS and APC

The sum of the average propensity to save (APS) and the average propensity to consume (APC) is always equal to 1. $APS + APC = 1$

Step 2: Use the given ratio to find the values of APS and APC

The ratio of APS to APC is given as 2:7. This means that if we let x be a common multiplier, we can write

$$APS = 2x$$

$$APC = 7x$$

Substituting these into the equation from Step 1:

$$2x + 7x = 1$$

$$9x = 1$$

$$x = 1/9$$

Therefore, the values of APS and APC are:

$$APS = 2 \times 1/9 = 2/9$$

$$APC = 7 \times 1/9 = 7/9$$

Step 3: Calculate the level of income

The formula for Average Propensity to Save (APS) is:

$$APS = \text{Total Savings} / \text{Total Income}$$

We are given that total savings are Rs. 2000 crores and we have calculated APS to be 2/9

We can rearrange the formula to solve for Total Income:

$$\text{Total Income} = \text{Total Savings} / APS$$

Total Income=2000/2/9

Total Income=2000×9/2

Total Income=1000×9

Total Income=9000

The level of income in the economy is Rs. 9000 crores.

Question12

Quantitative instruments of monetary policy focus on:

- (A) Quantity of money across selected sectors of the economy.**
- (B) Overall supply of money in the economy.**
- (C) Credit creation capacity of commercial banks.**
- (D) Inflationary and deflationary gaps in the economy.**

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

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

Quantitative instruments of monetary policy are tools used by a central bank to control the overall supply of money and credit in an economy. These instruments include open market operations, bank rate policy, and the cash reserve ratio. Their primary focus is to influence the following:

Overall supply of money in the economy: By using these tools, the central bank can expand or contract the money supply.

Credit creation capacity of commercial banks: The central bank can influence the ability of commercial banks to create credit by adjusting reserve requirements or other policies.

Inflationary and deflationary gaps in the economy: By managing the money supply and credit, the central bank aims to stabilize the economy and address situations of excessive inflation or deflation.

Option (A) is incorrect because quantitative instruments affect the overall money supply, not specifically the quantity of money across selected sectors.

Question13

Downward movement along the demand curve is caused by.....

- 1. Fall in price of the given commodity.**
- 2. rise in the price of Substitute goods.**
- 3. Rise in price of the given commodity.**
- 4. fall in the price of Substitute goods.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

1. Fall in price of the given commodity.

A downward movement along the demand curve represents an increase in the quantity demanded of a good due to a decrease in its own price. This is also known as an "extension of demand."

Why other options are incorrect as Rise in the price of Substitute goods: A rise in the price of a substitute good (e.g., the price of tea increases) causes the demand for the original good (e.g., coffee) to increase, as consumers switch to the cheaper alternative. This leads to a rightward shift of the entire demand curve, not a movement along the curve. . Rise in price of the given commodity: A rise in the price of the given commodity causes a decrease in the quantity demanded. This is represented by an upward movement along the demand curve, not a downward one. . Fall in the price of Substitute goods: A fall in the price of a substitute good (e.g., the price of tea decreases) causes the demand for the original good (e.g., coffee) to decrease, as consumers switch to the now cheaper alternative. This leads to a leftward shift of the entire demand curve, not a movement along the curve.

Question14

At the equilibrium point when $C = 100 + 0.5Y$ and $I = 200$ saving will be.

1. 600
2. 400
3. 200
4. 100

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

correct option is 3 and answer is 200.

Step 1: Find the equilibrium level of income (Y)

At the equilibrium point, aggregate demand (Y) is equal to aggregate supply. In this case, aggregate demand is the sum of consumption (C) and investment (I).

Therefore, the equilibrium condition is: $Y=C+I$

Substitute the given equations for C and I into the equilibrium condition:

$$Y=(100+0.5Y)+200$$

Now, solve for Y:

$$Y=300+0.5Y$$

$$Y-0.5Y=300$$

$$0.5Y=300$$

$$Y=300/0.5$$

$$Y=600$$

Step 2: Calculate the saving (S)

Saving (S) is the part of income (Y) that is not consumed (C). The formula for saving is: $S=Y-C$

Substitute the value of Y found in Step 1 and the given equation for C:

$$S=600-(100+0.5(600))$$

$$S=600-(100+300)$$

$$S=600-400$$

$$S=200$$

Alternatively, at equilibrium, saving (S) is equal to investment (I).

$$S=I$$

$$I=200, \text{ then } S=200.$$

Question15

Arrange the stages of price determination in a perfect competition market:

(A) Estimate the market demand and supply.

(B) Firms adjust production to maximize profit.

(C) Equilibrium price is established.

(D) Short-run profit attracts new firms.

Choose the correct answer from the options given below:

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

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

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

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

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

The stages of price determination in a perfectly competitive market are as follows:

(A) Estimate the market demand and supply: The first step is to analyze the overall market, which is determined by the intersection of market demand and supply curves.

(C) Equilibrium price is established: The market demand and supply determine the equilibrium price at which the quantity demanded equals the quantity supplied. Individual firms in a perfectly competitive market are "price takers" and must accept this price.

(B) Firms adjust production to maximize profit: Given the market price, individual firms will adjust their production levels to maximize their profits. They will produce at the quantity where their marginal cost equals the market price.

(D) Short-run profit attracts new firms: If firms are making a profit in the short run, this will attract new firms to enter the market. This entry of new firms will increase the market supply, which will eventually drive the market price down until profits are zero in the long run.

Question16

Which of the following transaction is not included in national income?

- 1. Brokerage for facilitating sale of old car.**
- 2. Interest paid by production units to households.**
- 3. Payment of GST by firms to the government.**
- 4. Interest paid by banks on deposits by individuals.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

3. Payment of GST by firms to the government.

The payment of Goods and Services Tax (GST) by firms to the government is not included in the calculation of national income. National income is the sum of all factor incomes (rent, wages, interest, and profit) generated in an economy. GST is a type of indirect tax, which is a transfer payment from firms to the government and does not represent a payment for a factor of production. All other options represent a form of income that is included in national income:

Brokerage for the sale of an old car is a payment for a service rendered and is part of national income.

Interest paid by production units to households is a factor payment for capital and is included in national income.

Interest paid by banks on deposits by individuals is also a factor payment for capital and is included in national income.

Question17

At zero level of output, if the total cost(TC) is 20. What will be the value of the Average Fixed cost (AFC) at the 6th level of output?

- 1. 2.86**
- 2. 20**
- 3. 3.33**
- 4. 120**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

correct option is 3 and answer is 3.33.

Step 1: Identify the fixed cost (FC)

Fixed costs are costs that do not change with the level of output. The problem states that at zero level of output, the total cost (TC) is 20. At zero output, total cost is equal to total fixed cost.

$$FC = TC \text{ at } Q=0$$

$$FC = 20$$

Step 2: Recall the formula for Average Fixed Cost (AFC)

Average Fixed Cost (AFC) is calculated by dividing the total fixed cost (FC) by the quantity of output (Q).

$$AFC=FC/Q$$

Step 3: Calculate AFC at the 6th level of output

Using the fixed cost from Step 1 and the given output level, we can calculate the AFC.

$$AFC=20/6$$

$$AFC\approx 3.33$$

Question18

Match List-I with List-II

List-I	List-II
(A) GDP at constant price	(I) known as Nominal GDP
(B) GDP at current price	(II) Increases only when there is increase in the quantum of output in the economy.
(C) Welfare of the people	(III) known as earned income
(D) Factor Income	(IV) Measured in terms of the availability of goods and services

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

Answer: D

Solution:

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

(A) GDP at constant price is also known as Real GDP. It increases only when there is an increase in the quantum of output in the economy, as it removes the effect of price changes.

(B) GDP at current price is also known as Nominal GDP. It measures the value of goods and services at current market prices.

(C) Welfare of the people is measured in terms of the availability of goods and services, as well as factors like health, education, and social security.

(D) Factor Income is the income earned by factors of production (land, labor, capital, and entrepreneurship), which includes rent, wages, interest, and profit. This is also known as earned income.

Question19

What will be the value of Marginal utility of the 4th unit

Units consumed	Total Utility derived (utils)
1	10
2	8
3	5
4	2

1 . 8 utils

2. -3 utils

3. 3 utils

4. 25 utils

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

correct option is 2 and answer is. - 3 utils.

Step 1: Understand the formula for Marginal Utility

Marginal utility (MU) is the additional satisfaction or utility a consumer gains from consuming one more unit of a good or service. The formula for marginal utility is:

$$MU_n = TU_n - TU_{n-1}$$

Where:

MU_n is the marginal utility of the nth unit.

TU_n is the total utility of the nth unit.

TU_{n-1} is the total utility of the unit just before the nth unit (n-1).

Step 2: Identify the total utility values from the table

From the table, we can identify the total utility for the 4th unit and the 3rd unit:

Total Utility of the 4th unit (TU_4) = 2 utils

Total Utility of the 3rd unit (TU_3) = 5 utils

Step 3: Calculate the marginal utility of the 4th unit

Using the formula from Step 1, we can calculate the marginal utility of the 4th unit (

MU_4):

$$MU_4 = TU_4 - TU_3$$

$$MU_4 = 2 - 5 = -3$$

Question20

Which of the following includes replacement investment?

- 1. Gross Investment.**
- 2. Interest on capital.**
- 3. Net Investment.**
- 4. Investment Expenditure.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

1. Gross Investment.

Gross investment is the total investment made by a country or company in a given period. It includes both new investments (net investment) and the investment required to replace depreciated capital (replacement investment).

Why the other options are incorrect as Interest on capital: This refers to the cost of borrowing money or the return on an investment. It is a financial concept, not a type of investment itself.

Net Investment: This is the total investment minus depreciation. Therefore, it only accounts for new additions to the capital stock and does not include the replacement of worn-out capital. The formula is: Net Investment = Gross Investment - Depreciation.

Investment Expenditure: This is a broad term that refers to the total spending on capital goods. While it is related to investment, "Gross Investment" is the specific economic term that explicitly includes replacement investment.

Question21

Electronic transfer of money in terms of credit/ debit entries of the account-holders in the banks is called,

1. e-marketing.
2. e-business.
3. e-fund.
4. e-banking.

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

4. e-banking.

E-banking, or electronic banking, is the process of conducting banking transactions and services through electronic means, such as the internet, mobile devices, and other digital platforms. This includes the electronic transfer of money, which involves credit and debit entries to the accounts of bank customers.

Question22

Instead of outright sale of securities, the Central Bank may sell securities through an agreement which has a specification about the date and price at which it will be repurchased. This type of agreement is called..... The rate at which money is withdrawn in this manner is called.....

1. open market operations, bank rate.
2. open market operations, repo rate.

3. repurchase agreement, repo rate.

4. reverse repurchase agreement, reverse repo rate.

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

4. reverse repurchase agreement, reverse repo rate.

A reverse repurchase agreement, or reverse repo, is an agreement where the central bank sells government securities to a commercial bank with a promise to buy them back at a specified future date and price. The rate at which the central bank withdraws money from the banking system in this manner is known as the reverse repo rate. This is a tool used by the central bank to manage liquidity in the market.

Question23

The rate at which consumer is willing to substitute one good for another is represented by.....

1. Marginal rate of transformation.

2. Slope of indifference curve.

3. Price Ratio.

4. optimum choice of the consumer.

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

2. Slope of indifference curve.

The slope of the indifference curve represents the Marginal Rate of Substitution (MRS), which is the rate at which a consumer is willing to trade one good for another while maintaining the same level of utility.

Here is why the other options are incorrect:

Marginal rate of transformation: This term is used in production theory, not consumer theory. It refers to the rate at which one good must be sacrificed to produce a single extra unit of another good, which is represented by the slope of the Production Possibilities Frontier (PPF).

Price Ratio: The price ratio, or the slope of the budget line, represents the rate at which the market allows a consumer to trade one good for another based on their prices, not the rate at which the consumer is willing to make the trade.

Optimum choice of the consumer: The optimum choice of the consumer is the specific point where the consumer's budget line is tangent to the highest possible indifference curve. This point represents the consumer's most preferred, affordable combination of goods, but it is not the rate of substitution itself. The optimum choice is where the Marginal Rate of Substitution (the slope of the indifference curve) equals the price ratio (the slope of the budget line).

Question24

Match List-I with List-II

List-I	List-II
(A) Capital consumption	(I) Value added
(B) Part of raw material which gets used up	(II) Intermediate consumption
(C) A stock variable	(III) Depreciation
(D) A flow variable	(IV) Inventory

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

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

(A) Capital consumption is the same as depreciation, which is the decrease in the value of an asset over time due to wear and tear, obsolescence, or other factors. Therefore, (A) matches with (III).

(B) Part of raw material which gets used up in the production process is known as intermediate consumption. Therefore, (B) matches with (II).

(C) A stock variable is a quantity measured at a specific point in time. Inventory is a stock variable as it represents the goods on hand at a particular moment. Therefore, (C) matches with (IV).

(D) A flow variable is a quantity measured over a period of time. Value added is a flow variable as it is calculated over a specific time period. Therefore, (D) matches with (I)

Question25

Arrange the steps to calculate Net National Product at market Price by Income Method.

(A) Identify and add factor Income (Rent, wages, interest and profit).

(B) Add Net factor income from abroad.

(C) Add Net Indirect Taxex.

(D) Add mixed income of self-employed.

Choose the correct answer from the options given below:

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

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

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

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

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

To calculate Net National Product at Market Price (NNPmp) using the income method, you start with the domestic income, which is the sum of factor income and mixed income. Then, you adjust for net factor income from abroad to get Net National Product at Factor Cost (NNPfc). Finally, you add Net Indirect Taxes to convert NNPfc to NNPmp.

The correct order of steps is:

Identify and add factor Income (Rent, wages, interest and profit).

Add mixed income to the self-employed.

Add Net factor income from abroad.

Add Net Indirect Taxes.

Therefore, the correct sequence is (A), (D), (B), (C).

Question26

Match List-I with List-II

List-I	List-II
(A) Secondary Deposits	(I) Initial deposits with commercial banks
(B) Primary Deposits	(II) The ratio of money held by the public in currency to that held at deposits in commercial banks.
(C) Currency Deposit ratio	(III) No intrinsic value
(D) Fiat money	(IV) Demand deposits which come back to Commercial bank through lending process.

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

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

Secondary Deposits are demand deposits that are created when commercial banks lend money. When a bank grants a loan, it credits the borrower's account, which increases the total deposits in the banking system. This process is often referred to as the "lending process". Therefore, (A) matches with (IV).

Primary Deposits are the initial deposits made by the public with commercial banks, such as cash or checks. These are the fundamental deposits upon which the banking system operates. Therefore, (B) matches with (I).

Currency Deposit ratio is the ratio of money held by the public in currency to that held as deposits in commercial banks. It reflects the public's preference for holding cash versus depositing it in banks. Therefore, (C) matches with (II).

Fiat money is a type of currency that is not backed by a physical commodity like gold or silver. Its value is derived from government decree, and it has no intrinsic value. Therefore, (D) matches with (III).

Question27

Arrange the following steps involved in the process of credit creation by Commercial Banks.

- (A) The commercial bank lends the excess reserves to the borrowers.**
- (B) The borrowers deposit the loaned money in the bank.**
- (C) The bank keeps a portion of the lent deposit money as reserve.**
- (D) The initial deposit is made in the commercial bank.**

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

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

The correct order of the steps involved in the process of credit creation by commercial banks is as follows:

D. The initial deposit is made in the commercial bank. This is the starting point, as a bank needs an initial deposit to begin the process of lending and credit creation.

C. The bank keeps a portion of the lent deposit money as reserve. The bank is required to hold a certain percentage of the deposit as a reserve, known as the reserve ratio.

B. The borrowers deposit the loaned money in the bank. The money lent by the bank is typically deposited back into the banking system by the borrowers.

A. The commercial bank lends the excess reserves to the borrowers.

The bank lends out the remaining portion of the deposit that is not held as a reserve.

This is the "excess reserve" that is available for credit creation.

This cycle of lending, depositing, and holding reserves is what allows commercial banks to create credit and expand the money supply.

Question28

Identify the flow variable from the following:

- 1. Annual Expenditure of a school.**
- 2. Distance between Punjab and Haryana.**
- 3. Bank balance of Mr. Mukesh as on 31st March 2023.**
- 4. Investment of Mr. Mohit as on 31st December 2023.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

1. Annual Expenditure of a school.

A flow variable is a quantity measured over a specific period of time. A stock variable, on the other hand, is a quantity measured at a specific point in time.

1. Annual Expenditure of a school: This is measured over a period of one year (annually), making it a flow variable.

2. Distance between Punjab and Haryana: This is a fixed value at any point in time, making it a stock variable.

3. Bank balance of Mr. Mukesh as on 31st March 2023: This is measured at a specific point in time (a particular date), making it a stock variable.

4. Investment of Mr. Mohit as on 31st December 2023: This is also measured at a specific point in time, making it a stock variable.

Question29

**Level of planned output coincides with planned expenditure when:
(AD = Aggregate Demand. AS= Aggregate Suplly)**

1. AD-AS

2. AD>AS

3. AD < AS

4. Income is Zero

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

1. $AD=AS$

The level of planned output coincides with planned expenditure when aggregate demand (AD) is equal to aggregate supply (AS). Aggregate demand represents the total planned expenditure in an economy, while aggregate supply represents the total planned output. When these two are equal, the economy is in equilibrium, meaning that the amount of goods and services produced is exactly what people and businesses plan to buy.

Question30

Which of the following are features of a perfect competitive market?

(A) Free entry and exit of firms.

(B) Huge selling cost.

(C) perfectly elastic demand curve.

(D) perfect market knowledge among buyers.

Choose the correct answer from the options given below:

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

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

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

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

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

A perfectly competitive market has several key features. These include:

Free entry and exit of firms: There are no barriers to entry or exit, allowing firms to easily join or leave the market.

Perfect market knowledge among buyers and sellers: All participants have complete information about prices, products, and market conditions.

Perfectly elastic demand curve: Individual firms are price takers, meaning they cannot influence the market price. The demand curve for a single firm is horizontal, indicating that they can sell any quantity at the prevailing market price.

Large number of buyers and sellers: No single buyer or seller can influence the market price.

Homogeneous products: The goods offered by all firms are identical.

Zero selling cost: Firms do not incur any advertising or selling costs because the products are homogeneous and there is perfect knowledge.

Therefore, "Huge selling cost" is not a feature of a perfectly competitive market. The correct features are (A), (C), and (D).

Question31

"Economics is the science of wealth". This statement was given by:-

1. Adam Smith.

2. Marshall.

3. Robbins.

4. Samuelson.

Options:

A. 1

B. 2

C. 3

D. 4

Answer: A

Solution:

1. Adam Smith

Adam Smith, often called the "father of economics," defined economics as "the science of wealth". This definition is also known as the classical definition of economics.

Question32

In an economy, the aggregate demand function is given by $AD = 80 + 0.75Y$ What will be the value of investment multiplier?

1. 0.25

2. 2

3. 0

4. 4

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

correct option is 4 and answer is 4

Step 1: Identify the components of the aggregate demand function

The aggregate demand (AD) function is given by: $AD=80+0.75Y$

In this equation, the marginal propensity to consume (MPC) is the coefficient of Y.

$$MPC=0.75$$

Step 2: Calculate the investment multiplier

The investment multiplier (k) is calculated using the formula:

$$k=1/1-MPC$$

Substitute the value of MPC into the formula:

$$k=1/1-0.75$$

$$k=1/0.25=4$$

Question33

Revenue deficit in the government budget can be managed through:-

- (A) Borrowings from RBI.**
- (B) Disinvestment.**
- (C) Increasing Subsidy.**
- (D) Borrowings from the general public.**

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

Answer: B

Solution:

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

The revenue deficit is the excess of the government's revenue expenditure over its revenue receipts. To manage this deficit, the government needs to find ways to finance this gap.

(A) Borrowings from RBI: The government can borrow from the Reserve Bank of India (RBI) to cover its deficit.

(B) Disinvestment: The government can sell its assets or shares in public sector undertakings (PSUs) to generate revenue. This is a form of capital receipt that can be used to finance the revenue deficit.

(D) Borrowings from the general public: The government can issue bonds or other securities to the public to raise funds. This is another way to finance the deficit.

(C) Increasing Subsidy would increase the government's revenue expenditure, thereby worsening the revenue deficit, not managing it. Therefore, this option is incorrect.

Question34

Identify which of the following is an example of non-debt capital receipts.

- 1. Recovery of loans.**
- 2. Financial aid from MNC for victims in a flood affected area.**
- 3. Borrowings from IMF.**
- 4. Dividend paid by State Bank of India to the Government.**

Options:

- A. 1
- B. 2
- C. 3
- D. 4

Answer: A

Solution:

- 1 . Recovery of loans.

Non-debt capital receipts are government receipts that do not create any liability or reduce any assets. They are a part of the capital budget.

Recovery of loans: When the government recovers a loan it has given out, it is considered a non-debt capital receipt because it is a receipt of money that does not create a future liability.

Financial aid from MNC: This would be a revenue receipt, as it is a grant and does not create a liability or reduce an asset.

Borrowings from IMF: This is a debt capital receipt because it creates a liability for the government to repay the loan in the future.

Dividend paid by State Bank of India to the Government: This is a revenue receipt, as it is a regular income for the government.

Question35

When Marginal productivity starts decreasing but remains positive, Total Productivity is.....

- 1. Decreasing.**
- 2. Increases at constant rate.**
- 3. Increases at Increasing rate.**
- 4. Increases at diminishing rate.**

Options:

- A. 1
- B. 2
- C. 3
- D. 4

Answer: D

Solution:

4. Increases at diminishing rate.

Marginal productivity is the change in total productivity resulting from a one-unit increase in a variable input. Total productivity is the total output produced. When marginal productivity is positive, total productivity is increasing. However, when marginal productivity starts to decrease (but remains positive), it means that each additional unit of input is adding less to the total output than the previous unit. This causes the total productivity to increase, but at a slower and slower rate, which is known as an increasing rate at a diminishing rate. Here's why the other options are incorrect:

Decreasing: This is incorrect because total productivity only decreases when marginal productivity becomes negative. The problem states that marginal productivity remains positive.

Increases at constant rate: This would only be true if marginal productivity were constant, not decreasing. If marginal productivity were constant, the total productivity curve would be a straight line with a positive slope.

Increases at an increasing rate: This occurs when marginal productivity is increasing. The problem specifically states that marginal productivity is decreasing.

Question36

Expenditure on the purchase of capital goods refers to.....

- 1. Inventory investment.**
- 2. Fixed investment.**
- 3. Gross investment.**
- 4. Gross Domestic capital formation.**

Options:

- A. 1
- B. 2
- C. 3
- D. 4

Answer: B

Solution:

2. Fixed Investment

Fixed investment refers to the expenditure on the purchase of new capital goods, such as machinery, equipment, and buildings, that are used in the production process. This is distinct from inventory investment, which is the change in the value of inventories. Gross investment includes both fixed investment and inventory investment.

Question37

A perfectly elastic aggregate supply curve implies that:

(A) There is fuller utilization of resources in the economy.

(B) There is unemployment of resources in the economy.

(C) There is excess capacity in the economy.

(D) Aggregate demand is less in the economy.

Choose the correct answer from the options given below:

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

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

3. (A) and (D) only

4. (A) and (C) only

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

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

A perfectly elastic aggregate supply curve is a horizontal line, which means that the economy can produce any amount of output at a constant price level. This situation typically occurs during a recession or depression when there is a significant amount of unused capacity and resources.

(B) There is unemployment of resources in the economy: A perfectly elastic aggregate supply curve indicates that the economy is operating well below its full potential. This means that there are unemployed resources, including labor and capital, that can be used to increase production without putting upward pressure on prices.

(C) There is excess capacity in the economy: Excess capacity refers to the situation where firms are able to produce more output than they are currently producing. With a perfectly elastic aggregate supply curve, firms can increase production without facing higher costs, which is a characteristic of an economy with excess capacity.

(D) Aggregate demand is less in the economy: The reason for the unemployment and excess capacity is that the aggregate demand for goods and services is not high enough to utilize all the available resources. An

increase in aggregate demand in this range will lead to an increase in output (real GDP) but not an increase in the price level.

Question38

Arrange the following steps in the correct sequence to explain the working of Multiplier.

- (A) Increase in income and consumption.**
- (B) Increase in investment.**
- (C) Rise in aggregate demand in each round**
- (D) Generation of additional income.**

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

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

The working of the multiplier effect can be explained in the following sequence:

Increase in investment (B): The process begins with an initial increase in investment.

Rise in aggregate demand in each round (C): This initial investment leads to a rise in aggregate demand.

Generation of additional income (D): The increase in aggregate demand stimulates production, which in turn generates additional income for the factors of production.

Increase in income and consumption (A): The recipients of this additional income will spend a portion of it, leading to an increase in consumption. This new spending becomes income for others, and the cycle continues, with each round of spending being smaller than the previous one.

Question39

When utility is measured in quantitative terms, it is..... of consumer equilibrium.

- 1. Ordinal Approach.**
- 2. Cardinal Approach.**
- 3. Indifference Curve approach.**
- 4. Law of Diminishing marginal utility.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

2. Cardinal Approach.

The Cardinal Approach to consumer equilibrium is based on the assumption that utility can be measured in quantitative, numerical terms, such as "utils". The blank in the question should be filled with "Cardinal Approach" because it is the only option that directly relates to the quantitative measurement of utility.

The other options are incorrect for the following reasons:

Ordinal Approach: The ordinal approach assumes that utility cannot be measured in numbers. Instead, it suggests that a consumer can only rank their preferences for different goods or combinations of goods (e.g., good A is preferred to good B).

Indifference Curve approach: The indifference curve approach is a graphical representation of the ordinal approach. It shows various combinations of two goods that give a consumer the same level of satisfaction, or utility. It is not a method for quantitatively measuring utility.

Law of Diminishing marginal utility: This law is a key principle within the cardinal utility theory. It states that as a consumer consumes more units of a good, the additional utility (marginal utility) derived from each successive unit decreases. While related to utility, it is a law or a concept, not the name of the approach itself

Question40

What will be elasticity of demand of a commodity when its price rises by 20% and quantity demanded falls from 125 units to 75 units?

1. $e_D = 1$
2. $e_D = 1.25$
3. $e_D = 2$
4. $e_D = 1.75$

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

3. $eD=2$

Step 1: Calculate the percentage change in quantity demanded.

The percentage change in quantity demanded is calculated as:

Percentage Change in Quantity Demanded = $\frac{\text{New Quantity} - \text{Original Quantity}}{\text{Original Quantity}} \times 100$

Given that the quantity demanded falls from 125 units to 75 units:

Percentage Change in Quantity Demanded = $\frac{75 - 125}{125} \times 100$

= $\frac{-50}{125} \times 100$

= -0.4×100

= -40%

Step 2: Calculate the price elasticity of demand.

The formula for price elasticity of demand (eD) is:

$eD = \frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$

The price rises by 20%, so the percentage change in price is 20%.

$eD = \frac{-40\%}{20\%} = -2$

The elasticity of demand is typically expressed as an absolute value. = 2

Question 41

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

Macroeconomic Variables

Akriti Manufacturing Company produces flower vases. The cost of production for 100 vase includes rent of rs 10,000, salary for permanent staff of rs 10,000, cost of Labour rs 12,000 and Raw material of rs 18,000. Due to increased demand of vases the company plans to increase

production to 200 vases. The variable cost per vase remains rs 300 and the fixed cost does not change.

Calculate total cost of production for producing 100 vases ?

1. 50,000

2. 60,000

3. 25,000

4. 40,000

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

correct option is 1 and answer is . ₹50,000

We are asked to calculate the total cost of production for 100 vases.

Given:

Rent = ₹10,000 (fixed)

Salary for permanent staff = ₹10,000 (fixed)

Labour = ₹12,000 (variable)

Raw material = ₹18,000 (variable)

Step 1: Identify Fixed and Variable Costs

Fixed costs (FC) = Rent + Salary = 10,000 + 10,000 = ₹20,000

Variable costs (VC) = Labour + Raw material = 12,000 + 18,000 = ₹30,000

Step 2: Total Cost Formula

Total Cost (TC)=Fixed Cost (FC)+Variable Cost

$$TC=20,000+30,000=50,000$$

Question42

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

Macroeconomic Variables

Akriti Manufacturing Company produces flower vases. The cost of production for 100 vase includes rent of rs 10,000, salary for permanent staff of rs 10,000, cost of Labour rs 12,000 and Raw material of rs 18,000. Due to increased demand of vases the company plans to increase production to 200 vases. The variable cost per vase remains rs 300 and the fixed cost does not change.

What will be the average variable cost (AVC) for producing 200 vases?

- 1. 150**
- 2. 300**
- 3. 250**
- 4. 600**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

correct option is 2 and answer is 300

Step 1: Identify variable and fixed costs

From the passage:

Fixed costs (do not change with production):

Rent = ₹10,000

Salary for permanent staff = ₹10,000

Total fixed cost (FC) = ₹20,000

Variable costs (change with production):

Labour = ₹12,000 (for 100 vases)

Raw material = ₹18,000 (for 100 vases)

Total variable cost for 100 vases = ₹12,000 + ₹18,000 = ₹30,000

Variable cost per vase = ₹300 (given)

Step 2: Calculate total variable cost for 200 vases

Total Variable Cost (TVC) = Variable cost per vase × Number of vases
 $TVC = 300 \times 200 = 60,000$

Step 3: Calculate Average Variable Cost (AVC)

$AVC = \text{Total Variable Cost} / \text{Quantity of output}$

$AVC = 60,000 / 200 = 300$

Question43

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

Macroeconomic Variables

Akriti Manufacturing Company produces flower vases. The cost of production for 100 vase includes rent of rs 10,000, salary for permanent staff of rs 10,000, cost of

Labour rs 12,000 and Raw material of rs 18,000. Due to increased demand of vases the company plans to increase production to 200 vases. The variable cost per vase remains rs 300 and the fixed cost does not change.

What is the total variable cost for producing 200 vases?

- 1. 300**
- 2. 30,000**
- 3. 60,000**
- 4. 18,000**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

correct option is 3 and answer is 60,000

Step 1: Identify variable costs

From the passage:

Cost of labour = Rs 12,000

Raw material = Rs 18,000

Variable cost for 100 vases = 12,000 + 18,000 = Rs 30,000

Variable cost per vase = $30,000 \div 100 = \text{Rs } 300$ per vase

Step 2: Calculate total variable cost for 200 vases

Total variable cost = Variable cost per vase × Number of vases

= 300 × 200

= Rs 60,000

Question44

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

Macroeconomic Variables

Akriti Manufacturing Company produces flower vases. The cost of production for 100 vase includes rent of rs 10,000, salary for permanent staff of rs 10,000, cost of Labour rs 12,000 and Raw material of rs 18,000. Due to increased demand of vases the company plans to increase production to 200 vases. The variable cost per vase remains rs 300 and the fixed cost does not change.

What is the fixed cost for producing 200 vases?

- 1. 40000**
- 2. 20,000**
- 3. 10,000**
- 4. 50,000**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

correct option is 2 and answer is 20,000

Step 1: Identify fixed and variable costs

Fixed costs: Costs that do not change with production. Here:

Rent = ₹10,000

Salary = ₹10,000

Total fixed cost = 10,000 + 10,000 = ₹20,000

Variable costs: Costs that change with production. Here:

Labour = ₹12,000 (for 100 vases → ₹120 per vase)

Raw material = ₹18,000 (for 100 vases → ₹180 per vase)

Total variable cost per vase = ₹120 + ₹180 = ₹300 (matches given)

Step 2: Fixed cost for 200 vases

Fixed costs do not change with output, so fixed cost remains ₹20,000.

Question45

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

Macroeconomic Variables

Akriti Manufacturing Company produces flower vases. The cost of production for 100 vase includes rent of rs 10,000, salary for permanent staff of rs 10,000, cost of Labour rs 12,000 and Raw material of rs 18,000. Due to

increased demand of vases the company plans to increase production to 200 vases. The variable cost per vase remains rs 300 and the fixed cost does not change.

If the production is increased to 300 vases, what will happen to Fixed cost per unit?

- 1. There will be parallel increase in fixed cost and variable cost.**
- 2. Fixed cost will also increase.**
- 3. Fixed cost will not change.**
- 4. Fixed cost will decrease.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

4. Fixed cost will decrease.

Step 1: Understand fixed cost per unit formula

Fixed cost per unit=Total Fixed Cost/Number of units

Step 2: Calculate fixed cost per unit for 300 vases

Fixed cost per unit= $20,000/300=66.67$ Rs per vase

Step 3: Compare with fixed cost per unit for 100 vases

Fixed cost per unit for 100 vases= $20,000/100=200$ Rs per vase

Observation: Fixed cost per unit decreases as production increases because the same total fixed cost is spread over more units.

Question46

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

Balance of Payment

Balance of Payment is defined as the statement of accounts of a country's inflows and outflows of foreign exchange during a specified period of time. It consists of two main accounts, i.e. Current Account and Capital Account. A deficit or surplus in the current account is determined by the country's exports and imports, whereas the capital account records transactions involving non-financial and financial assets.

India's BOP typically reflects its trade deficit, services surplus and capital inflows. To finance the deficit in its overall BOP, few transactions take place in its official reserves of foreign exchange.

What is the role of official reserve account?

- 1. Records trade in goods.**
- 2. Reflects errors in data.**
- 3. Stabilize the currency and manage BOP imbalance.**
- 4. Attracts foreign investment.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

3. Stabilize the currency and manage BOP imbalance.

The official reserve account, also known as the foreign exchange reserves, is a component of a country's balance of payments (BOP). Its primary role is to help stabilize a country's currency and manage imbalances in the BOP. When a country has a deficit in its BOP, meaning it is spending more on imports and other international transactions than it is earning from exports, the central bank can use its official reserves to cover the deficit. This helps to prevent a sharp depreciation of the country's currency. Conversely, if there is a surplus, the central bank can accumulate reserves. The other options are incorrect because:

Recording trade in goods is done in the current account.

Reflecting errors in data is the role of the "net errors and omissions" account.

Attracting foreign investment is a goal of economic policy, not the direct role of the official reserve account itself.

Question47

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

Balance of Payment

Balance of Payment is defined as the statement of accounts of a country's inflows and outflows of foreign exchange during a specified period of time. It consists of two main accounts, i.e. Current Account and Capital Account. A deficit or surplus in the current account is determined by the country's exports and imports, whereas the capital account records transactions involving non-financial and financial assets.

India's BOP typically reflects its trade deficit, services surplus and capital inflows. To finance the deficit in its overall BOP, few transactions take place in its official reserves of foreign exchange.

What could persistent current account deficit lead to?

- 1. Currency appreciation.**
- 2. Increased reserves.**
- 3. Dependence on foreign borrowings.**
- 4. Trade surplus.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

3. Dependence on foreign borrowings.

A persistent current account deficit means a country is importing more goods, services, and capital than it is exporting. To finance this deficit, the country must attract foreign capital, which often leads to an increase in foreign borrowings.

Currency appreciation: A current account deficit typically leads to currency depreciation, not appreciation, as the demand for the country's currency decreases.

Increased reserves: A persistent deficit would likely lead to a decrease in a country's foreign exchange reserves as it uses them to pay for imports.

Trade surplus: A trade surplus is the opposite of a trade deficit and would contribute to a current account surplus, not a deficit.

Question48

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

Balance of Payment

Balance of Payment is defined as the statement of accounts of a country's inflows and outflows of foreign exchange during a specified period of time. It consists of two main accounts, i.e. Current Account and Capital Account. A deficit or surplus in the current account is determined by the country's exports and imports, whereas the capital account records transactions involving non-financial and financial assets.

India's BOP typically reflects its trade deficit, services surplus and capital inflows. To finance the deficit in its

overall BOP, few transactions take place in its official reserves of foreign exchange.

What does the BOP record?

- 1. Transactions within a country.**
- 2. Transactions between two countries.**
- 3. Economic transactions between residents of a country and rest of the world.**
- 4. Transfers in goods only.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

3. Economic transactions between residents of a country and the rest of the world.

The Balance of Payments (BOP) is a systematic record of all economic transactions between the residents of a country and the residents of foreign countries during a specific period. It includes all transactions that involve the transfer of goods, services, and financial assets.

Question49

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

Balance of Payment

Balance of Payment is defined as the statement of accounts of a country's inflows and outflows of foreign exchange during a specified period of time. It consists of two main accounts, i.e. Current Account and Capital Account. A deficit or surplus in the current account is determined by the country's exports and imports, whereas the capital account records transactions involving non-financial and financial assets.

India's BOP typically reflects its trade deficit, services surplus and capital inflows. To finance the deficit in its overall BOP, few transactions take place in its official reserves of foreign exchange.

What does capital account of BOP record?

- 1. Imports and exports of goods.**
- 2. Transaction of capital and financial assets.**
- 3. Income from investment.**
- 4. Unilateral transfers.**

Options:

A.

1

B.

2

C.

3

D.

Answer: B

Solution:

2. Transaction of capital and financial assets.

The capital account of the Balance of Payments (BOP) records transactions that cause a change in the ownership of a country's assets and liabilities. This includes the transfer of capital assets, such as foreign direct investments (FDI), portfolio investments, and other investments.

Question50

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

Balance of Payment

Balance of Payment is defined as the statement of accounts of a country's inflows and outflows of foreign exchange during a specified period of time. It consists of two main accounts, i.e. Current Account and Capital Account. A deficit or surplus in the current account is determined by the country's exports and imports, whereas the capital account records transactions involving non-financial and financial assets.

India's BOP typically reflects its trade deficit, services surplus and capital inflows. To finance the deficit in its overall BOP, few transactions take place in its official reserves of foreign exchange.

How can a country reduce the BOP deficit?

1. Promoting exports and attracting investment.
2. Increasing imports.
3. Stopping trade with other countries.
4. Increasing domestic borrowings.

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

1. Promoting exports and attracting investment.

A balance of payments (BOP) deficit occurs when a country's payments to other countries exceed its receipts from other countries. To reduce a BOP deficit, a country needs to increase its foreign exchange earnings and decrease its foreign exchange spending.

Promoting exports increases the country's earnings from other countries, which helps to reduce the deficit.

Attracting investment from foreign sources brings foreign currency into the country, also helping to reduce the deficit.

Increasing imports would worsen the deficit, as it involves more payments to other countries.

Stopping trade with other countries is not a viable option for a modern economy and would have severe negative consequences.

Increasing domestic borrowings does not directly impact the balance of payments with other countries.
