

CUET UG (Economics) - 30 May 2025 Shift 2

Question1

The well-being and wealth of the economy may not resonate only with possession of resources. It should ...

1. Consider for how long the resources are held.
2. Consider how these resources are used in generating a continuous flow of income and wealth.
3. Consider whether the possession of resources is increasing with the passage of time or not.
4. Consider whether the resources fulfill the need for next 10 years or not.

Options:

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

Answer: B

Solution:

Correct option is 2. Consider how these resources are used in generating a continuous flow of income and wealth.

1. **Resources → Means, not end:** Possession alone doesn't ensure welfare.
2. **Efficient Use:** Welfare depends on *how effectively* resources are used.
3. **Continuous Flow:** True economic well-being comes from *sustained income generation*.
4. **Sustainable Development Concept:** Focus on *productive and efficient utilization*.

Why Other Options Are Incorrect:

1. “How long resources are held” → Ownership duration doesn’t ensure productivity or welfare.
 2. “Whether possession is increasing” → More resources $\neq$ more well-being if they’re unused or misused.
 3. “Fulfill need for next 10 years” → Talks about future sufficiency, not *current utilization efficiency*.
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Question2

Consider the following statement

Net Investment = Rs. 5 Cr.

Gross Investment = Rs 7.73 Cr.

Find the value of Depreciation

1. Rs 2.073 Cr
2. Rs 2.73 Cr
3. Rs 12.73 Cr
4. - Rs 2.730 Cr

Options:

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

Answer: B

Solution:

Correct option is **2** and correct answer is **Rs2.73cr**

Depreciation = gross - net

= 7.73-5

= 2.73

Question3

Under this system, official reserve transactions are not equal to zero.

- 1. Fixed Exchange Rate.**
- 2. Flexible Exchange Rate.**
- 3. Managed Floating Exchange Rate.**
- 4. Speculation.**

Options:

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

Answer: C

Solution:

Correct option is **3 Managed floating exchange rate**

In this central bank intervenes to buy or sell foreign exchange to maintain rate and thus official reserve transactions are not equal to zero

Flexible Exchange Rate: No intervention → *official reserve transactions = zero.*

Speculation: Refers to *buying/selling foreign currency for profit*, not a type of exchange rate system.

Question4

Arrange the following components as per the sample of Balance of Payments for India.

- A. Trade Balance.**
- B. Net Invisibles.**

C. Current Account Balance.

D. Errors and Omissions.

Choose the correct answer from the options given below:

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

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

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

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is 1 (A), (B), (C), (D)

1. **Trade Balance** = Exports – Imports of *visible goods*.

2. **Net Invisibles** = Income, services, and transfers (non-visible items).

3. **Current Account Balance** = Trade Balance + Net Invisibles.

4. **Errors and Omissions** = Adjustment item for *statistical discrepancies*

Question5

In modern economies, countries interact through various channels. Which market is not an example of these linkages?

- 1. Output Market.**
- 2. Money Market.**
- 3. Financial Market.**
- 4. Labour Market.**

Options:

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

Answer: B

Solution:

Correct option is 2 money market

The economic trade through various channels which includes output, people, and shares, and bonds, etc

Question6

Consider the following statement related to Aggregate Income

- A. Aggregate revenue received by the firms is paid out to the factors of production it is considered as aggregate income.**
- B. Aggregate Income can be calculated by calculating the aggregate value of goods and services produced by the firms.**
- C. Income is being spent on the goods and services produced by the firms. It takes the form of aggregate expenditure received by firms.**
- D. Aggregate Income can not only be calculated through aggregate expenditure. There are other methods that exist.**

Which of the following combination of statements best explains the concept of Aggregate Income?

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

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

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

Correct option is 3 A,B,C,D

Aggregate Income: Total income earned by all factors of production in an economy.

Three Approaches (National Income Identity):

- **Income Method** → Factor payments (A)
- **Product Method** → Value of output (B)
- **Expenditure Method** → Total spending (C)

Equivalence Concept: Aggregate Income = Aggregate Output = Aggregate Expenditure (D).

Question7

Which statement is not related to the inventory.

- 1. Unsold finished, or semifinished goods which a firm carries to the next year.**
- 2. Inventory may have a higher value at the end of the year.**

3. The change of inventories of a firm during a year = production - Sale

4. It is a flow variable.

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

Correct option is 4 it is flow variable

Inventory is a stock variable it is measured at a point of time

Inventory Definition: Stock of *unsold goods* (finished or semi-finished) held by firms.

Type: Stock variable → measured *at a point of time*, not over a period.

Change in Inventory: {Production – Sales}.

Question8

Match List-I with List-II

List-I	List-II
(A) Buying and selling of bonds	(I) Transaction Motive
(B) Hold money is to carry out expenses	(II) Open Market Operations

List-I	List-II
(C) The number of times a unit of money changes hands during the unit period	(III) Velocity of circulation
(D) Hold money in terms of bonds	(IV) Speculative Motive

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is 1 A-III, B-I, C-III, D-IV

Buying and selling of government bonds by central bank is called open market operations

People hold money to carry out expenses is called transaction motive

The number of times a unit money changes hand during the unit period is called velocity of circulation

Hold money in terms of bonds is called speculative motive

Question9

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

- 1. Production Possibility Frontier.**
- 2. Production Possibility Set.**
- 3. Isoquant Curve.**
- 4. Production Function.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is 2 production possibility set

Production Possibility Set –Includes **all possible combinations** (efficient + inefficient + unattainable due to resources)

Production Possibility Frontier (PPF) –

Shows **only efficient combinations** (maximum output points) from available resources. **Isoquant Curve** –

Shows combinations of **inputs** (not outputs) that produce the **same level of output**. **Production Function** –

Mathematical relation between **inputs and maximum output**.

Question10

How government intervention through price control policy will have an impact on the market?

- A. The government imposed lower limit on the price that may be charged**
- B. For certain goods and services, a fall in price below a particular level is not desirable**
- C. Thereby leading to an excess supply in the market**
- D. Government needs to buy the surplus at the predetermined price**

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is 2 A,B,C,D

Correct Sequence Explanation

- 1. **(A)** The government imposes a **lower limit on price** → This is called a **Price Floor**.
- 2. **(B)** It is done because a **fall in price below a certain level is not desirable** (to protect producers).
- 3. **(C)** This **higher-than-equilibrium price** → **excess supply** (surplus in the market)

4. (D) Government then **purchases the surplus** at the predetermined price to maintain the floor

Question 11

The study of total output, employment and aggregate price level of an economy.

- 1. Macro Economics.**
- 2. Micro Economics.**
- 3. Positive Economics.**
- 4. Normative Economics.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is 1 macroeconomics

Studies **the economy as a whole** — national income, total production, employment, inflation, growth, etc.

Micro Economics

Studies **individual units** — consumers, firms, and price determination in specific markets.

Positive Economics

Describes **what is** — factual and objective analysis (e.g., “Inflation is 5%”).

Normative Economics

Describes **what ought to be** — value judgments or policy suggestions (e.g., “Inflation should be reduced”)

Question12

Match List-I with List-II

List-I	List-II
(A) Open Economy	(I) Equity and Bonds.
(B) Financial Market	(II) Demand and supply of workforce.
(C) Output Market	(III) Various economic avenues available.
(D) Labor Market	(IV) Visible and Invisible Trade.

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

Correct option is (3) (A) – (III), (B) – (I), (C) – (IV), (D) – (II)

Correct Matching

List-I List-II Explanation

(A) Open Economy -(III) Various economic avenues available An open economy interacts with rest of the world through **trade, capital flow, investment, etc.**

(B) Financial Market- (I) Equity and Bonds It deals with **financial instruments** like shares, debentures, and bonds.

(C) Output Market- (IV) Visible and Invisible Trade It refers to **goods (visible)** and **services (invisible)** trade — part of output exchange.

(D) Labour Market -(II) Demand and supply of workforce Where **labour is hired and wages are determined.**

Question13

From the following which production function exhibits increasing returns to scale?

1. $f(tx, ty) > t.f(x, y).$

2. $f(tx, ty) < t.f(x, y).$

3. $f(tx, ty) = t.f(x, y).$

4. $x \propto y^\beta$

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is (1) $f(tx, ty) > t \cdot f(x, y)$

Returns to scale = how **output changes** when **all inputs** change in same proportion (t).

$f(tx, ty) > t \cdot f(x, y)$ – Output increases **more than proportionately** → **Increasing Returns to Scale**.

$f(tx, ty) < t \cdot f(x, y)$ – Output increases **less than proportionately** → **Decreasing Returns to Scale**.

$f(tx, ty) = t \cdot f(x, y)$ – Output increases **exactly in proportion** → **Constant Returns to Scale**.

$xa y6$ – Not a valid mathematical expression

Question14

From the following find the statements related to GDP and the welfare of the economy

A. The domestic services that women perform at home are considered in the calculation of GDP.

B. Harmful effects caused due to carbon emissions from factory production are not counted as GDP.

C. The rise in GDP may be concentrated in the hands of very few individuals or firms.

D. Higher levels of GDP always ensure higher welfare.

Choose the correct answer from the options given below:

1 (B) and (C) only

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

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

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is **(1) (B) and (C) only**

B) *Harmful effects caused due to carbon emissions... are not counted as GDP*

- GDP includes only **market value of final goods & services**, not **negative externalities** like pollution.
- Shows **GDP $\neq$ perfect measure of welfare**.

(C) *Rise in GDP may be concentrated in a few hands*

- If **income distribution** is unequal, **GDP growth** may not improve **overall welfare**

Incorrect Statements

(A) *Domestic services that women perform at home are considered in GDP*

- **Non-market activities** (like household work) are **not included** in GDP because **no monetary transaction** occurs.

(D) *Higher GDP always ensures higher welfare*

- **Not always true** — because of **inequality, pollution, non-market work exclusion**, etc

Question15

When the Reserve Bank of India was established?

1. 1932

2. 1933

3. 1934

4. 1935

Options:

A. 1

B. 2

C. 3

D. 4

Answer: D

Solution:

Correct option is 4 and correct answer is 1935

RBI Act passed: 1934

RBI established: 1 April 1935

Initially headquartered in Kolkata, later shifted to Mumbai (1937)

Nationalised: 1 January 1949

Question16

Arrange the given statements to show the impact on a firm's supply curve due to its determinants.

A. Organisational innovation allows the firm to use fewer units of inputs.

B. Any factor that affects a firm's marginal cost curve is a determinant of its supply curve.

C. At any given market price, the firm now supplies more units of output.

D. The marginal cost will shift downward.

Choose the correct answer from the options given below:

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

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

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

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

Correct option is 3.(B), (A), (C), (D)

Correct Logical Sequence

1. **(B)** → Any factor affecting a firm's **marginal cost curve** is a **determinant of its supply curve**.
(Identifies what determines supply.)
 2. **(A)** → **Organisational innovation** lets the firm use **fewer inputs**, reducing costs
 3. **(C)** → As a result, **at the same market price**, the firm now **supplies more output**
 4. **(D)** → Hence, the **marginal cost curve shifts downward** (cost per unit falls)
-

Question17

Demonetization refers to :

- 1. Restricting money supply in the economy by the government.**
- 2. Restricting new currency and coin printing by the government.**
- 3. Declaring any existing hard currency or coins as no longer a legal tender for some time.**
- 4. Declaring all or few existing hard currency or coins as no longer a legal tender forever.**

Options:

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

Answer: D

Solution:

Correct option is (4) **Declaring all or few existing hard currency or coins as no longer a legal tender forever.**

Demonetisation = withdrawal of **legal tender status** of a currency note or coin.

The currency **ceases to be valid for transactions.**

Usually followed by **replacement with new currency.**

Done to curb **black money, fake currency, and corruption.**

Question18

Match List-I with List-II

List-I	List-II
(A) Production function	(I) $x_1^\alpha x_2^\beta$
(B) Constant return to scale	(II) $\alpha + \beta = 1$
(C) Increasing return to scale	(III) $\alpha + \beta < 1$
(D) Decreasing return to scale	(IV) $\alpha + \beta > 1$

Choose the correct answer from the options given below:

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

Options:

- A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is 2 (A)-(I), (B)-(II), (C)-(IV), (D)-(I)

List-I	Meaning	Match
(A) Production function	($f(x_1, x_2) = x_1^a x_2^b$)	(I)
(B) Constant return to scale	($a + b = 1$)	(II)
(C) Increasing return to scale	($a + b > 1$)	(IV)
(D) Decreasing return to scale	($a + b < 1$)	(I)

Question19

The point of minimum average cost at which the supply curve cuts the long run average cost curve is called?

- 1. Super Normal Profit.**
- 2. Opportunity cost.**
- 3. Break Even Point.**
- 4. Shut Down Point.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

Correct option is 3 break even point

Break-even point (BEP):

- The output level at which **Total Revenue (TR) = Total Cost (TC)**.
- At this point, **firm earns normal profit, i.e., no loss, no supernormal profit.**
- On a **cost curve diagram**, it is where the **supply curve cuts the Long Run Average Cost (LRAC) curve at its minimum point.**

Supernormal profit: Extra profit above normal profit. Not related to the minimum point of LRAC.

Opportunity cost: The cost of the next best alternative. Irrelevant here.

Shut down point: Point where **price = minimum Average Variable Cost (AVC)**. If price falls below this, the firm stops production.

Question20

A firm wishes to maximize its profit, find the correct conditions from the following, that must be held by the firm at qo at which its profit is maximum.

- A. The price must be less than the average variable cost**
- B. The price must be greater than the average variable cost**
- C. Marginal cost must be non-decreasing**
- D. The price, p, must equal MC**

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:

Correct option is 4 B,C,D

B) $\text{Price} > \text{AVC}$ - Necessary to produce and earn profit in short run.

(C) MC non-decreasing - Ensures maximum, not minimum profit.

(D) $\text{Price} = \text{MC}$ -Standard profit-maximization condition.

A) $\text{Price} < \text{AVC}$

Firm shuts down if $\text{P} < \text{AVC}$; cannot maximize profit here.

Question21

Match List-I with List-II

List-I	List-II
(A) Substitution effect stronger than the income effect	(I) Inferior goods
(B) Income effect stronger than the substitution effect	(II) Complementary goods
(C) Demands and income move opposite direction	(III) Normal goods
(D) Goods consumed together	(IV) Giffen goods

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is **Option 2: (A)-(III), (B)-(IV), (C)-(I), (D)-(II)**

(A) Substitution effect stronger than income effect Normal goods (III)

(B) Income effect stronger than substitution effect Giffen goods (IV)

(C) Demand and income move opposite Inferior goods (I)

(D) Goods consumed together Complementary goods (II)

Question22

If all the people in 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 situation is known as.

1. Deficient Saving.
2. Paradox of Thrift.
3. Excess Demand.
4. Excess Investment.

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is 2 paradox of thrift

Paradox of Thrift (Keynesian concept):

- If everyone tries to save more, total savings may not increase.
- Reason: Higher saving → lower consumption → lower income → lower output → total savings **may fall or remain unchanged**

Deficient Saving Refers to **savings < investment**

Excess Demand Refers to **demand > supply**, unrelated to savings behavior.

Excess Investment Refers to **investment > saving**, not described here.

Question23

Gifts, remittances and grants in current account are the components of ?

1. Transfer Payments.

2. Net Factor Income.

3. Trade in Goods.

4. Net Non-factor Income.

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is 1 transfer payments

Gifts, remittances, and grants are **one-sided transactions** — money is sent without any good or service in return.

Hence, they are called **Current Transfers** or **Transfer Payments**.

2. Net Factor Income Income from factors of production abroad (wages, rent, interest, profit).

3. Trade in Goods Includes exports/imports of goods, not transfers.

4. Net Non-Factor Income Outdated/incorrect label here; transfers are separate.

Question 24

The Fiscal Responsibility and Budget Management Act 2003 mandates the central government to lay before both houses of parliament. Which of the three statements along with the Annual Financial Statement?

- 1. Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Management and The Macroeconomic Framework Statement.**
- 2. Medium Term Fiscal Policy Statement, Quarterly Macroeconomic policy and Microeconomic Accounting standard.**
- 3. Fiscal Policy Review Report, Fiscal Policy Recommended Report, Field Survey on Macroeconomic Benchmarks.**
- 4. Annual Stock Performance Data, Field surveys on unemployment Report, Citizen feedback on economy data.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is **1. Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement, and The Macroeconomic Framework Statement**

According to the **Fiscal Responsibility and Budget Management (FRBM) Act, 2003**, the **Central Government** must present **three policy statements** along with the **Annual Financial Statement (Budget)** before Parliament.

Quarterly and Microeconomic reports-Not mentioned in FRBM.

Review Reports and Field Surveys - Not part of official fiscal documents.

Stock performance or citizen feedback data -Not related to fiscal responsibility statements.

Question25

The $q(1 + e_p) < 0$, and hence, AE (expenditure) has the opposite sign as A_p (price), if

1. $e_p > -1$
2. $e_p < -1$
3. $e_p = -1$
4. $e_p = 0$

Options:

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

Answer: B

Solution:

Correct option is **2** and answer is $e_p < -1$

$e_p < -1 \rightarrow$ **Elastic demand**

$\rightarrow$ % change in quantity demanded $>$ % change in price.

$\rightarrow$ Price and expenditure move **opposite**.

($e_p > -1$) Inelastic demand Price & expenditure move same direction

($e_p = -1$) Unitary elastic AE unchanged

($e_p = 0$) Perfectly inelastic AE moves same direction as price

Question 26

Which of the following is the best example of Public provision and Public Production respectively?

1. Opening up of 11 Central University in next 5 years worth of 20,000 cr from annual budget 2024-25, BSNL.
2. Airtel, BSNL.
3. AIMS, Coal India Limited.

**4. 5 lacs brick homes to people from "Below Poverty Line" strata,
Loan of up to 10 lac to women entrepreneurs.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is 1: Opening up of 11 Central Universities ... , BSNL

Public Provision →

- When the **government provides** goods or services **free of cost or at subsidized rates** to people.
- Example: Government schools, hospitals, housing for poor.
- The **production** may be done by private or public sector, but **funding and provision** are by the **government**.

Public Production →

- When **goods and services are produced directly by the government** through **public sector enterprises**.
- Example: BSNL, Coal India, Indian Railways, ONGC.

Question 27

By what value equilibrium output and aggregate demand will change, when the value of parameter c changes from 0.8 to 0.5 at a given $\tilde{A} = 50$?

1. 250

2. 100

3. 150

4. 300

Options:

A. 1

B. 2

C. 3

D. 4

Answer: C

Solution:

Correct option is **3** and correct answer is **150**

$$Y = \bar{A}/(1-c)$$

When $c = 0.8$

$$Y_1 = 250$$

When $c = 0.5$

$$Y_2 = 100$$

$$\text{Change in } Y = 250 - 100$$

$$= 150$$

Question 28

Arrange the following in ascending order in respect of evolution of money.

A. Coin exchanges.

B. Barter exchanges.

C. E-money.

D. Paper currency.

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

Correct option is 3: (B), (A), (D), (C)

Barter system → goods exchanged for goods (no money).

Metallic money / Coin exchange → use of metal coins as medium of exchange.

Paper money → currency notes issued by authority (e.g., RBI).

E-money / Digital money → electronic form of money (credit cards, UPI, etc.).

Question29

Consider the following data:

Nominal GDP : 1900

Real GDP : 1300

What is the GDP deflator in the above conditions ?

1. 1.405

2. 1.046

3. 1.45

4. 1.46

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

Correct option is **4** and correct answer is **1.46**

$\text{GDP deflator} = (\text{nominal GDP} / \text{real GDP}) \times 100$

$= (1900/1300) \times 100$

$= 1.46$

Question30

Which of the following best explains the constitutional aspect of Goods and Services Tax implementation in India?

1. 104th Constitutional Ammendment and Introduction of Article 26A.
2. 101 Constitutional Amendment and Introduction of Article 246A.
3. 101st Constitutional Amendment and Introduction of Article 26A.
4. 104th Constitutional Ammendment and Introduction of Article 24A .

Options:

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

Answer: B

Solution:

option is 2 — 101st Constitutional Amendment and Introduction of Article 246A

The **Constitution (101st Amendment) Act, 2016** introduced **Article 246A**, which gives **power to both Parliament and State Legislatures** to make laws on GST.

It also introduced:

- **Article 279A** → GST Council
- Amended **Seventh Schedule** to reorganize taxation powers.

Question31

If the government changes transfer payments (TR), autonomous spending (A) will change by ?

1. ΔTR
2. $c\Delta TR$
3. $\Delta Y/\Delta TR$
4. $(1 - c)\Delta TR$

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is 2 — $c \Delta TR$

Transfer Payments (TR) affect **disposable income** of households:

$$Y_d = Y - T + TR$$

When **TR increases**, **autonomous consumption** increases by $MPC \times \text{change in TR}$ because people consume a portion (c) of their additional income.

Change in autonomous expenditure:

$$\Delta A^* = c \Delta TR$$

Question 32

Net borrowing at home included which of the following?

- 1. directly borrowed from the public through debt instruments.**
- 2. Borrowing from Federal body of banking system.**
- 3. Gross fiscal deficit.**
- 4. Borrowing from abroad through debt instruments.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is 1 — Directly borrowed from the public through debt instruments

Net Borrowing at Home (also called *Domestic Borrowing*) means: The amount the **government borrows within the country** to finance its deficit.

It includes:

- **Borrowing from the public** through sale of **government securities / bonds / treasury bills**.
 - **Borrowing from domestic financial institutions** like banks, LIC, etc.
-

Question33

The ratio of the total increment in equilibrium value of final goods output to the initial increment in autonomous expenditure is called

- 1. Autonomous investment.**
- 2. Investment multiplier.**
- 3. Ex-ante investment.**
- 4. GDP multiplier.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is 2 - investment multiplier The **ratio of total change in output to initial change in autonomous expenditure** is called the **Investment Multiplier (k)**.

1. Autonomous investment Refers to investment not induced by income, not the multiplier.
 2. Ex-ante investment -Planned investment, not multiplier.
 - 3 GDP multiplier Sometimes used interchangeably in textbooks, but NCERT uses **Investment Multiplier**.
-

Question34

Which statement is not true for Adam Smith?

- 1. Professor at University of Glasgow**
- 2. 'The Economic Consequences of the Peace' written in 1919.**
- 3. 'An Enquiry into the Nature and Cause of the Wealth of Nations' Published in 1776**
- 4. Founder of political economy**

Options:

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

Answer: B

Solution:

Correct option is 2 — The Economic Consequences of the Peace written in 1919

This book was written by John Maynard Keynes

Question35

Match List-I with List-II

List-I	List-II
(A) Demand and supply curve shift leftward	(I) Quantity may increase, decrease or remain unchanged and price decreases
(B) Demand and supply curve shift rightward	(II) Quantity may increase, decrease or remain unchanged and price increases
(C) Demand curve shifts leftward and supply curve rightward leftward	(III) Quantity decreases and price may increase, decrease or remain unchanged
(D) Demand curve shifts rightward and supply curve	(IV) Quantity increases and prices may increase, decrease or remain unchanged

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is 2 — (A)-(III), (B)-(IV), (C)-(I), (D)-(II)

(A) D & S shift left Q ↓, P may vary (III) Quantity decreases and price may ↑/↓

(B) D & S shift right Q ↑, P may vary (IV) Quantity increases and price may ↑/↓

(C) D left, S right P ↓, Q ambiguous (I) Quantity may increase, decrease or remain unchanged and price decreases

(D) D right, S left P ↑, Q ambiguous (II) Quantity may increase, decrease or remain unchanged and price increases

Question36

Arrange the following statement in the context of elasticity along a linear demand curve (left to right).

(A) $e_p = 1$

(B) $e_p > 1$

(C) $e_p = 0$

(D) $e_p < 1$

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

Options:

A. 1

B. 2

C. 3

D. 4

Answer: C

Solution:

Correct option is 3 — (B), (A), (D), (C)

Left end: $ep > 1 \rightarrow (B)$

Midpoint: $ep = 1 \rightarrow (A)$

Lower portion: $ep < 1 \rightarrow (D)$

Extreme right: $ep = 0 \rightarrow (C)$

Question37

Which statement is not true for M3 as a measure of money supply.

1. M3 is known as Aggregate Monetary Resources.

2. M3 is the most commonly used measure of money supply.

3. $M3 = M4$ - Total deposits with Post Office savings organizations (excluding National Savings Certificates).

4. $M3 = M1$ + Saving deposits with a post office savings bank.

Options:

A. 1

B. 2

C. 3

D. 4

Answer: D

Solution:

Correct option is 4 — $M3 = M1 + \text{Saving deposits with a post office savings bank}$

M3 does not include post office savings deposits; that is M2 or M4

- **M1** = Currency with public + Demand deposits + Other deposits
 - **M2** = M1 + Savings deposits with Post Office savings organizations (excluding NSC)
 - **M3 (Broad Money)** = **M1 + Time deposits with banks** (also called **Aggregate Monetary Resources**)
 - **M4** = M3 + Total deposits with Post Office savings organizations (excluding NSC)
-

Question38

What are the features of an Indifference Curve?

- A. Indifference curve slopes upwards from left to right.**
- B. Higher indifference curve gives greater level of utility.**
- C. Indifference curve slopes downwards from left to right**
- D. Two indifference curves never intersect each other**

Choose the correct answer from the options given below:

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

Options:

A.

1

B.

2

C.

3

D.

Answer: D

Solution:

Correct option is 4 — **(B), (C) and (D) only**

Downward sloping → If you consume more of one good, you must consume less of the other to maintain the same utility

Higher IC → **Higher utility** → IC farther from origin represents greater satisfaction

Two ICs never intersect → Otherwise, it violates the assumption of **consistency of preferences**

IC does NOT slope upwards → Upward slope would imply more of both goods gives same utility, which is impossible under standard assumptions

Question39

Choose the correct statements from the options given below in terms of the shapes of the short run cost curves.

- A. Average fixed cost curve is a rectangular hyperbola.**
- B. Total fixed cost is horizontal straight line.**
- C. Average variable cost is upward sloping.**
- D. Marginal cost is U shaped.**

Choose the correct answer from the options given below:

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

Solution:

Correct option is 2 A,B and D only

Total Fixed Cost (TFC) → Horizontal straight line (does not change with output)

Average Fixed Cost (AFC) → Rectangular hyperbola (falls continuously as output rises)

Average Variable Cost (AVC) → U-shaped in theory, but **initially falling due to increasing returns, then rising due to diminishing returns**

It is **not always upward sloping**

Marginal Cost (MC) → U-shaped (falls initially, rises after diminishing returns set in)

Question40

A functional relation between the two variables expressed $y = 50 - x$, will have slope.

- 1. Downward**
- 2. Upward**
- 3. Vertical**
- 4. Horizontal**

Options:

A. 1

B. 2

C. 3

D. 4

Answer: A

Solution:

Correct option is **1 — Downward**

$y=a-bx \rightarrow$ downward slope if

$b>0$

$y=a+bx \rightarrow$ upward slope

Slope = change in Y / change in X

$y=50-x$

$\Delta Y/\Delta X=-1 \rightarrow$ Negative slope

Question41

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

Long Run Costs

In the long run, all inputs are variable. There are no fixed costs. The total cost and the total variable cost therefore, coincide in the long run. Long run marginal cost is the change in total cost per unit of change in output.

Increasing returns to scale implies that if we increase all the inputs by a certain proportion, output increases by more than that proportion. Decreasing returns to scale implies that if we want to increase the output by a certain proportion, inputs need to be increased by more than that proportion. Constant returns to scale implies a proportional increase in inputs resulting in a proportional increase in output. So the average cost remains constant as

long as CRS operates. The RAC curve is a 'U'-shaped curve. Its downward sloping part corresponds to IRS and upward rising part corresponds to DRS. At the minimum point of the LRAC curve, CRS is observed. For the first unit of output, both LRMC and LRAC are the same. Then, as output increases, LRAC initially falls, and then, after a certain point, it rises. As long as average cost is falling, marginal cost must be less than the average cost. When the average cost is rising, marginal cost must be greater than the average cost. RMC cuts the LRAC curve from below at the minimum point of the LRAC.

In the long run when the average cost is rising, marginal cost must be.

- 1. Equal to average cost.**
- 2. Less than the average cost.**
- 3. Greater than the average cost.**
- 4. Falling.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: C

Solution:

Correct option is 3 — **Greater than the average cost**

MC pulls AC → AC rises if $MC > AC$, AC falls if $MC < AC$

AC minimum point → $MC = AC$

Question42

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

Long Run Costs

In the long run, all inputs are variable. There are no fixed costs. The total cost and the total variable cost therefore, coincide in the long run. Long run marginal cost is the change in total cost per unit of change in output.

Increasing returns to scale implies that if we increase all the inputs by a certain proportion, output increases by more than that proportion. Decreasing returns to scale implies that if we want to increase the output by a certain proportion, inputs need to be increased by more than that proportion. Constant returns to scale implies a proportional increase in inputs resulting in a proportional increase in output. So the average cost remains constant as

long as CRS operates. The RAC curve is a 'U'-shaped curve. Its downward sloping part corresponds to IRS and upward rising part corresponds to DRS. At the minimum point of the LRAC curve, CRS is observed. For the first unit of output, both LRMC and LRAC are the same. Then, as output increases, LRAC initially falls, and then, after a certain point, it rises. As long as average cost is falling, marginal cost must be less than the average cost. When the average cost is rising, marginal cost must be greater than the average cost. RMC cuts the LRAC curve from below at the minimum point of the LRAC.

As long as decreasing returns to scale operates, as the firm increases output, the average cost must

- 1. Rising**
- 2. Falling**
- 3. Constant**
- 4. Equal to output**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is 1. Rising

Since output grows less than inputs, **cost per unit (Average Cost, AC) rises.**

Falling → Wrong. This happens under **increasing returns to scale**, not decreasing.

Constant → Wrong. Constant AC occurs under **constant returns to scale**

Equal to output → Wrong. AC is **cost per unit**, not equal to output.

Question43

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

Long Run Costs

In the long run, all inputs are variable. There are no fixed costs. The total cost and the total variable cost therefore, coincide in the long run. Long run marginal cost is the change in total cost per unit of change in output.

Increasing returns to scale implies that if we increase all the inputs by a certain proportion, output increases by more than that proportion. Decreasing returns to scale implies that if we want to increase the output by a certain proportion, inputs need to be increased by more than that proportion. Constant returns to scale implies a proportional increase in inputs resulting in a proportional increase in output. So the average cost remains constant as

long as CRS operates. The RAC curve is a 'U'-shaped curve. Its downward sloping part corresponds to IRS and upward rising part corresponds to DRS. At the minimum point of the LRAC curve, CRS is observed. For the first unit of output, both LRMC and LRAC are the same. Then, as output increases, LRAC initially falls, and then, after a certain point, it rises. As long as average cost is falling, marginal cost must be less than the average cost. When the average cost is rising, marginal cost must be greater than the average cost. RMC cuts the LRAC curve from below at the minimum point of the LRAC.

The equation of long-run marginal cost.

1. TC/q
2. $(TC \text{ at } q, \text{ units}) - (TC \text{ at } q, - 1 \text{ units})$
3. TVC/q
4. TFC/q

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is 2. $(TC \text{ at } q \text{ units}) - (TC \text{ at } q - 1 \text{ units})$

Long-run MC also follows the same principle, but in the long run all costs are **variable**.

$TC/q \rightarrow$ This is **Average Total Cost (ATC)**, not marginal.

$TVC/q \rightarrow$ This is **Average Variable Cost (AVC)**, not marginal.

$TFC/q \rightarrow$ This is **Average Fixed Cost (AFC)**, irrelevant for MC.

Question44

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

Long Run Costs

In the long run, all inputs are variable. There are no fixed costs. The total cost and the total variable cost therefore, coincide in the long run. Long run marginal cost is the change in total cost per unit of change in output.

Increasing returns to scale implies that if we increase all the inputs by a certain proportion, output increases by more than that proportion. Decreasing returns to scale implies that if we want to increase the output by a certain proportion, inputs need to be increased by more than that proportion. Constant returns to scale implies a proportional increase in inputs resulting in a proportional increase in output. So the average cost remains constant as long as CRS operates. The RAC curve is a 'U'-shaped

curve. Its downward sloping part corresponds to IRS and upward rising part corresponds to DRS. At the minimum point of the LRAC curve, CRS is observed. For the first unit of output, both LRMC and LRAC are the same.

Then, as output increases, LRAC initially falls, and then, after a certain point, it rises. As long as average cost is falling, marginal cost must be less than the average cost.

When the average cost is rising, marginal cost must be greater than the average cost. RMC cuts the LRAC curve from below at the minimum point of the LRAC.

The shape of the long-run average cost curve and long-run marginal cost curve.

- 1. Only LRAC is U shaped.**
- 2. LRAC is U shaped and LRMC upward sloping.**
- 3. Rectangular hyperbole.**
- 4. U shaped.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

Correct option is 4 U-shaped.

Explanation:

- Both the **Long-Run Average Cost (LRAC)** and the **Long-Run Marginal Cost (LRMC)** curves are U-shaped.

Long-Run Average Cost (LRAC): U-shaped due to:

- **Increasing returns to scale (IRS):** AC falls
 - **Decreasing returns to scale (DRS):** AC rises
-

Question45

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

Long Run Costs

In the long run, all inputs are variable. There are no fixed costs. The total cost and the total variable cost therefore, coincide in the long run. Long run marginal cost is the change in total cost per unit of change in output.

Increasing returns to scale implies that if we increase all the inputs by a certain proportion, output increases by more than that proportion. Decreasing returns to scale implies that if we want to increase the output by a certain proportion, inputs need to be increased by more than that proportion. Constant returns to scale implies a proportional increase in inputs resulting in a proportional increase in output. So the average cost remains constant as

long as CRS operates. The RAC curve is a 'U'-shaped curve. Its downward sloping part corresponds to IRS and upward rising part corresponds to DRS. At the minimum point of the LRAC curve, CRS is observed. For the first unit of output, both LRMC and LRAC are the same. Then, as output increases, LRAC initially falls, and then, after a certain point, it rises. As long as average cost is falling, marginal cost must be less than the average cost. When the average cost is rising, marginal cost must be greater than the average cost. RMC cuts the LRAC curve from below at the minimum point of the LRAC.

The optimum output will be when the relationship between LRMC and LRAC.

1. LRAC cut LRMC from above at the minimum point LRAC.
2. LRAC cut LRMC from below at the minimum point LRAC.
3. LRMC cut LRAC from above at the minimum point LRAC.
4. LRMC cut LRAC from below at the minimum point of LRAC.

Options:

A.

1

B.

2

C.

3

D.

4

Answer: D

Solution:

Correct option is 4. LRMC cut LRAC from below at the minimum point of LRAC

LRMC cuts LRAC at its minimum point.

When $MC < AC \rightarrow AC$ falls; $MC > AC \rightarrow AC$ rises.

LRAC cut LRMC from above $\rightarrow$ Wrong. LRAC is an average, it **doesn't cut MC**.

LRAC cut LRMC from below $\rightarrow$ Wrong. Same reason; LRMC cuts LRAC

LRMC cut LRAC from above $\rightarrow$ Wrong. MC **always cuts AC from below** at minimum.

Question46

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

Determination of Income and Employment

When, at a particular price level, aggregate demand for final goods equals aggregate supply of final goods, the final goods or product market reaches its equilibrium.

Aggregate demand for final goods consists of ex ante consumption, ex ante investment, government spending etc. The rate of increase in ex ante consumption due to a unit increment in income is called marginal propensity to consume. For simplicity we assume a constant final goods price and constant rate of interest over short run to

determine the level of aggregate demand for final goods in the economy. We also assume that the aggregate supply is perfectly elastic at this price. Under such circumstances, aggregate output is determined solely by the level of aggregate demand. This is known as effective demand principle. An increase in autonomous spending causes aggregate output of final goods to increase by a larger amount through the multiplier process. Full employment level of income is that level of income where all the factors of production are fully employed in the production process. The equilibrium attained at the point of equality of Y 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.

What is the equilibrium output when autonomous investment increases from 10 to 20 at a given $C = 40 + 0.8Y$?

1. 250
2. 300
3. 350
4. 400

Options:

A.

1

B.

2

C.

3

D.

4

Answer: B

Solution:

Correct option is **2** and correct answer is **300**

$$Y = C + I$$

Step 2: Substitute C and I

$$Y = 40 + 0.8Y + 20$$

$$Y = 60 + 0.8Y$$

Step 3: Solve for Y

$$Y - 0.8Y = 60$$

$$0.2Y = 60$$

$$Y = 60 / 0.2 = 300$$

Question47

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

Determination of Income and Employment

When, at a particular price level, aggregate demand for final goods equals aggregate supply of final goods, the final

goods or product market reaches its equilibrium.

Aggregate demand for final goods consists of ex ante consumption, ex ante investment, government spending etc. The rate of increase in ex ante consumption due to a unit increment in income is called marginal propensity to consume. For simplicity we assume a constant final goods price and constant rate of interest over short run to determine the level of aggregate demand for final goods in the economy. We also assume that the aggregate supply is perfectly elastic at this price. Under such circumstances, aggregate output is determined solely by the level of aggregate demand. This is known as effective demand principle. An increase in autonomous spending causes aggregate output of final goods to increase by a larger amount through the multiplier process. Full employment level of income is that level of income where all the factors of production are fully employed in the production process. The equilibrium attained at the point of equality of Y 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 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 as.....

- 1. Excess demand.**
- 2. Deficient demand.**
- 3. Excess output.**
- 4. Deficient output.**

Options:

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

Answer: A

Solution:

Correct option is 1. Excess demand

Excess demand = Aggregate Demand > Full Employment Output → causes **inflationary gap**

Deficient demand → Occurs when

Ye recessionary gap

Excess output → Not standard economic term; misleading

Deficient output → Means actual output < full employment → opposite situation

Question48

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

Determination of Income and Employment

When, at a particular price level, aggregate demand for final goods equals aggregate supply of final goods, the final goods or product market reaches its equilibrium.

Aggregate demand for final goods consists of ex ante consumption, ex ante investment, government spending etc. The rate of increase in ex ante consumption due to a unit increment in income is called marginal propensity to consume. For simplicity we assume a constant final goods price and constant rate of interest over short run to determine the level of aggregate demand for final goods in the economy. We also assume that the aggregate supply is perfectly elastic at this price. Under such circumstances, aggregate output is determined solely by the level of aggregate demand. This is known as effective demand principle. An increase in autonomous spending causes aggregate output of final goods to increase by a larger amount through the multiplier process. Full employment level of income is that level of income where all the factors of production are fully employed in the production process. The equilibrium attained at the point of equality of Y 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.

A change in autonomous spending causes aggregate output of final goods to change by a large or small amount due to?

- 1. Change in Consumption.**
- 2. Change in Investment.**
- 3. Constant Price and Interest rate.**
- 4. Multiplier Mechanism.**

Options:

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

Answer: D

Solution:

Correct option is 4. Multiplier Mechanism

Multiplier effect: A change in autonomous spending → induces multiple rounds of consumption → **aggregate output changes by a larger amount.**

Change in Consumption → Only part of the mechanism, **not the full explanation**

Change in Investment → Investment is autonomous spending, but the **large change** is due to multiplier

Constant Price and Interest rate → Assumption for simplicity, **does not cause the change**

Question49

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

Determination of Income and Employment

When, at a particular price level, aggregate demand for final goods equals aggregate supply of final goods, the final goods or product market reaches its equilibrium.

Aggregate demand for final goods consists of ex ante consumption, ex ante investment, government spending etc. The rate of increase in ex ante consumption due to a unit increment in income is called marginal propensity to consume. For simplicity we assume a constant final goods price and constant rate of interest over short run to determine the level of aggregate demand for final goods in the economy. We also assume that the aggregate supply is perfectly elastic at this price. Under such circumstances, aggregate output is determined solely by the level of aggregate demand. This is known as effective demand principle. An increase in autonomous spending causes aggregate output of final goods to increase by a larger amount through the multiplier process. Full employment level of income is that level of income where all the factors of production are fully employed in the production process. The equilibrium attained at the point of equality of Y 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.

Which parameter does not determine the income and employment in the economy.

- 1. Fixed price level.**
- 2. Aggregate supply.**
- 3. Fixed autonomous spending.**
- 4. Aggregate demand.**

Options:

A.

1

B.

2

C.

3

D.

4

Answer: A

Solution:

Correct option is 1. Fixed price level

Explanation

Income and employment in the economy (especially in Keynesian theory) are determined by:

- Aggregate Demand (AD)
- Aggregate Supply (AS)
- Autonomous spending (C_0 , I_0 , G , X — these shift AD)

These directly influence output and employment.

Question50

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

Determination of Income and Employment

When, at a particular price level, aggregate demand for final goods equals aggregate supply of final goods, the final goods or product market reaches its equilibrium.

Aggregate demand for final goods consists of ex ante consumption, ex ante investment, government spending etc. The rate of increase in ex ante consumption due to a unit increment in income is called marginal propensity to consume. For simplicity we assume a constant final goods price and constant rate of interest over short run to determine the level of aggregate demand for final goods in the economy. We also assume that the aggregate supply is perfectly elastic at this price. Under such circumstances, aggregate output is determined solely by the level of aggregate demand. This is known as effective demand principle. An increase in autonomous spending causes aggregate output of final goods to increase by a larger amount through the multiplier process. Full employment level of income is that level of income where all the factors of production are fully employed in the production process. The equilibrium attained at the point of equality of Y 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.

When the aggregate output is determined solely by the level of aggregate demand. Then what it called?

- 1. Effective investment.**
- 2. Effective consumption.**
- 3. Effective demand.**
- 4. Effective supply.**

Options:

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

Answer: C

Solution:

Correct option is 3 - effective demand

Effective demand = AD determines output and employment

Effective investment → Refers to investment that actually leads to production, **part of AD**, not the whole concept.

Effective consumption → Only the consumption part of AD, not total output determinant

Effective supply → Not used in Keynesian short-run theory; **supply does not determine output here**
