CUET 2026 June 7 Shift 2 Economics

Question Paper (Memory-Based) With Solutions

Conducted by National Testing Agency (NTA)

General Instructions

(i) The examination will be conducted in Computer-Based Test (CBT) mode.

(ii) Each question carries +5 marks for correct answer and -1 mark for wrong answer.

(iii) The total number of questions are 50.

(iv) Duration of the exam is 1 hour (60 minutes).

1. If the price of a commodity falls from 10 to 8, and the quantity demanded increases from 100 units to 120 units, the price elasticity of demand is:

(A) 1

(B) 1.5

(C) 0.5

(D) 0.75

Correct Answer: (A) 1

Solution:

Concept:

Price Elasticity of Demand measures the responsiveness of quantity demanded to a change in price.

It indicates how much quantity demanded changes when the price of a commodity changes.

The formula is:

$$E_d = \frac{\%\ \text{Change in Quantity Demanded}}{\%\ \text{Change in Price}}$$

Using the percentage method:

$$E_d = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

where

$$\Delta Q = \text{Change in Quantity}$$

and

$$\Delta P = \text{Change in Price}$$

Step 1: Identify the given information.

Original Price

$$P = 10$$

New Price

$$P_1 = 8$$

Original Quantity

$$Q = 100$$

New Quantity

$$Q_1 = 120$$

Step 2: Calculate the change in quantity demanded.

$$\Delta Q = 120 - 100 = 20$$

Therefore,

$$\frac{\Delta Q}{Q} = \frac{20}{100} = 0.2$$

Step 3: Calculate the change in price.

$$\Delta P = 10 - 8 = 2$$

Thus,

$$\frac{P}{\Delta P} = \frac{10}{2} = 5$$

Step 4: Apply the elasticity formula.

$$E_d = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

$$= \frac{20}{100} \times \frac{10}{2}$$

$$= 0.2 \times 5$$

$$= 1$$

Step 5: Interpret the result.

Since

$$E_d = 1$$

the demand is said to be *unitary elastic*.

A given percentage change in price causes an equal percentage change in quantity demanded.

Therefore,

$$\boxed{E_d = 1}$$

Hence, the correct answer is:

$$\boxed{(A)}$$

Quick Tip: If elasticity is:

$$E_d = 1$$

Demand is unitary elastic.

$$E_d > 1$$

Demand is elastic.

$$E_d < 1$$

Demand is inelastic.

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2. Which of the following is included in the estimation of National Income?

(A) Transfer payments

(B) Sale of second-hand goods

(C) Imputed rent of self-occupied house

(D) Windfall gains like lottery winnings

Correct Answer: (C) Imputed rent of self-occupied house

Solution:

Concept:

National Income measures the money value of all final goods and services produced within an economy during an accounting year.

Only those activities that contribute to current production are included.

While estimating National Income, economists follow specific rules regarding inclusion and exclusion of various items.

Step 1: Understand transfer payments.

Transfer payments include:

- Old age pension
- Scholarships
- Unemployment allowance
- Donations

These payments are received without rendering any productive service.
Hence they are excluded.

Step 2: Understand second-hand goods.

Sale of second-hand goods does not represent current production.
The goods were already counted when originally produced.
Therefore they are excluded.

Step 3: Understand windfall gains.

Lottery winnings and similar gains are not earned through production.
Hence they are excluded from National Income.

Step 4: Understand imputed rent.

Suppose a person owns and occupies his own house.
No actual rent is paid.
However, that house provides housing services.
Economists estimate a notional rent called:

$$\text{Imputed Rent}$$

This value is included in National Income because it represents productive services.

Step 5: Choose the correct answer.

Among all options, only imputed rent contributes to current production.
Therefore,

$$\boxed{\text{Imputed Rent of Self-occupied House}}$$

is included.

Hence,

$$\boxed{(C)}$$

Quick Tip: Included in National Income:

- Imputed rent
- Value of final goods
- Services rendered

Excluded:

- Transfer payments
- Lottery winnings
- Sale of second-hand goods

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3. The "Green Revolution" in India was primarily associated with:

(A) Increased use of chemical fertilizers and high-yielding variety (HYV) seeds

(B) Promotion of cottage industries

(C) Nationalization of commercial banks

(D) Reduction in import tariffs

Correct Answer: (A)

Solution:

Concept:

The Green Revolution refers to the rapid increase in agricultural production achieved through the adoption of modern farming techniques.

It was introduced in India during the mid-1960s to overcome food shortages and increase food grain production.

The movement transformed Indian agriculture and helped the country move towards selfsufficiency in food grains.

Step 1: Understand the objectives of the Green Revolution.

The major objectives were:

- Increase agricultural productivity.
- Achieve food security.
- Reduce dependence on food imports.
- Improve farmers' income.

Step 2: Identify the important features.

The Green Revolution was based on:

- HYV seeds
- Chemical fertilizers
- Pesticides
- Irrigation facilities
- Farm mechanization

These inputs significantly increased crop yields.

Step 3: Examine the options.

Option (A):
Directly represents the Green Revolution.
Correct.

Option (B):
Related to rural industrialization.
Incorrect.

Option (C):

Related to banking reforms.

Incorrect.

Option (D):

Related to trade policy.

Incorrect.

Step 4: Conclude the answer.

The Green Revolution was mainly associated with:

$$\boxed{\text{HYV Seeds + Chemical Fertilizers}}$$

Hence,

$$\boxed{(A)}$$

Quick Tip: Key personalities associated with the Green Revolution:

- Dr. Norman Borlaug
- Dr. M. S. Swaminathan

Major crops:

- Wheat
- Rice

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4. In a perfectly competitive market, the firm is a:

(A) Price maker

(B) Price taker

(C) Price discriminator

(D) None of the above

Correct Answer: (B) Price taker

Solution:

Concept:
Perfect Competition is a market structure characterized by a large number of buyers and sellers, homogeneous products, free entry and exit of firms, and perfect knowledge of market conditions.
Since there are a very large number of firms producing identical products, no individual firm can influence the market price.
The market price is determined by the interaction of overall market demand and market supply.
Each individual firm has to accept the prevailing market price and therefore is called a *Price Taker*.

Step 1: Understand the meaning of perfect competition.

Under perfect competition:

- There are many buyers and sellers.
- Products are identical.
- Buyers have complete information.
- Firms can freely enter or leave the industry.

Because of these features, competition among firms is extremely high.

Step 2: Understand why a firm cannot fix price.

Suppose the market price of a commodity is:

$$100$$

If a firm tries to charge:

$$110$$

buyers will immediately purchase from other firms selling the same product at:

$$100$$

As a result, the firm loses all customers.

Thus the firm cannot charge a higher price.

Step 3: Understand why a firm does not charge a lower price.

If the firm charges less than the market price, it suffers unnecessary loss because consumers are already willing to pay the market price.

Therefore, charging a lower price is not beneficial.

Step 4: Determine the role of the firm.

Since the firm neither increases nor decreases the market price, it simply accepts the price determined by market forces.

Hence:

$$\boxed{\text{Firm} = \text{Price Taker}}$$

Therefore,

$$\boxed{\text{Price Taker}}$$

Hence,

$$\boxed{(B)}$$

Quick Tip: Remember:

$$\text{Perfect Competition} \Rightarrow \text{Price Taker}$$

$$\text{Monopoly} \Rightarrow \text{Price Maker}$$

This is one of the most frequently asked concepts in Microeconomics.

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5. Which of the following is a quantitative instrument of credit control by the Central Bank?

(A) Moral suasion

(B) Margin requirements

(C) Open Market Operations (OMO)

(D) Rationing of credit

Correct Answer: (C) Open Market Operations (OMO)

Solution:

Concept:

The Central Bank controls the supply of credit in the economy through various monetary policy instruments.

These instruments are classified into:

- Quantitative Instruments
- Qualitative Instruments

Quantitative instruments affect the total volume of credit in the economy.

Qualitative instruments regulate the direction and use of credit.

Open Market Operations (OMO) is one of the most important quantitative instruments used by the Central Bank.

Step 1: Understand quantitative credit control.

Quantitative methods influence the overall supply of money and credit.

Examples include:

- Bank Rate Policy
- Cash Reserve Ratio (CRR)
- Statutory Liquidity Ratio (SLR)
- Open Market Operations (OMO)

These measures affect the entire banking system.

Step 2: Understand Open Market Operations.

Open Market Operations refer to the purchase and sale of government securities by the Central Bank.

When the Central Bank purchases securities:

$$\text{Money Supply Increases}$$

When it sells securities:

$$\text{Money Supply Decreases}$$

Thus OMO directly controls the volume of credit.

Step 3: Examine Moral Suasion.

Moral suasion refers to requests, persuasion and advice given by the Central Bank to commercial banks.

It does not directly alter the quantity of money.

Hence it is a qualitative method.

Step 4: Examine Margin Requirements and Credit Rationing.

Margin requirements regulate loans against securities.

Credit rationing restricts credit to particular sectors.

Both are selective or qualitative measures.

Therefore they are not quantitative instruments.

Step 5: Choose the correct answer.

Among the given options, only Open Market Operations directly influence total credit in the economy.

Hence:

$$\boxed{\text{Open Market Operations (OMO)}}$$

Therefore,

$$\boxed{(C)}$$

Quick Tip: Quantitative Instruments:

- CRR
- SLR
- Bank Rate
- Repo Rate
- Open Market Operations

Qualitative Instruments:

- Moral Suasion
- Margin Requirements
- Credit Rationing

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6. Which of the following is a capital receipt in the government budget?

(A) Tax revenue

(B) Interest received on loans

(C) Disinvestment

(D) Dividends from public sector undertakings

Correct Answer: (C) Disinvestment

Solution:

Concept:

Government receipts are broadly classified into:

- Revenue Receipts
- Capital Receipts

Revenue Receipts neither create liabilities nor reduce assets of the government.

Capital Receipts either create liabilities or reduce assets of the government.

Disinvestment represents the sale of government ownership in public sector enterprises and therefore reduces government assets.

Hence it is treated as a capital receipt.

Step 1: Understand Revenue Receipts.

Revenue receipts are regular receipts of the government.
Examples include:

- Tax revenue
- Interest receipts
- Dividends
- Fees and fines

These do not affect government assets significantly.

Step 2: Understand Capital Receipts.

Capital receipts include:

- Borrowings
- Recovery of loans
- Disinvestment

These receipts either increase liabilities or decrease assets.

Step 3: Understand disinvestment.

Disinvestment means selling shares of public sector enterprises.
Suppose the government sells part of its ownership in a public enterprise.
The government receives money.
However, its ownership stake decreases.
Therefore:

$$\text{Government Assets Decrease}$$

Hence it is a capital receipt.

Step 5: Choose the correct answer.

Since disinvestment reduces government assets and generates funds:

$$\boxed{\text{Disinvestment}}$$

is classified as a capital receipt.

Therefore,

$$\boxed{(C)}$$

Quick Tip: Revenue Receipts:

- Taxes
- Interest
- Dividends
- Fees

Capital Receipts:

- Borrowings
- Recovery of Loans
- Disinvestment

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7. The Economic Reforms of 1991 in India are often referred to as:

(A) L-P-G Policy (Liberalization, Privatization, Globalization)

(B) G-A-T-T Agreement

(C) Green Revolution Phase II

(D) Mixed Economy Model

Correct Answer: (A) L-P-G Policy (Liberalization, Privatization, Globalization)

Solution:

Concept:
The economic reforms introduced in India in 1991 marked a major turning point in the country's economic history. These reforms were introduced to overcome the severe balance of payments crisis and to accelerate economic growth.
The reforms were based on three major pillars:

- Liberalization
- Privatization
- Globalization

Together these reforms are popularly known as the LPG Reforms or LPG Policy.

Step 1: Understand the economic situation before 1991.

Before 1991, the Indian economy was characterized by extensive government controls, industrial licensing, import restrictions and limited participation of the private sector.
The country faced:

- High fiscal deficit
- Low foreign exchange reserves
- Slow industrial growth
- Rising external debt

These challenges made economic reforms necessary.

Step 2: Study the three components of LPG policy.

Liberalization:
Liberalization refers to removal of unnecessary government restrictions on economic activities.
Examples include:

- Abolition of industrial licensing in many industries

- Reduction in government regulations
- Greater freedom for businesses

Privatization:
Privatization means increasing the role of private enterprises and reducing the dominance of the public sector.
Examples include:

- Disinvestment in public sector enterprises
- Encouragement to private investment
- Greater competition among firms

Globalization:
Globalization refers to integrating the Indian economy with the world economy.
Examples include:

- Encouraging foreign investment
- Expansion of international trade
- Reduction in import barriers

Step 3: Identify the commonly used name of the 1991 reforms.

Since the reforms were based on Liberalization, Privatization and Globalization, they are collectively known as:

$$\boxed{\text{LPG Policy}}$$

Hence the correct answer is

$$\boxed{\text{Option (A)}}$$

Quick Tip: Remember the abbreviation:

$$L = \text{Liberalization}$$

$$P = \text{Privatization}$$

$$G = \text{Globalization}$$

The 1991 Economic Reforms are therefore known as the LPG Reforms.

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8. The Law of Variable Proportions is applicable only in the:

(A) Long run

(B) Short run

(C) Very long run

(D) Both short and long run

Correct Answer: (B) Short run

Solution:

Concept:

The Law of Variable Proportions explains how output changes when one factor of production is varied while other factors remain fixed.

It is one of the most important laws of production studied in microeconomics.

Step 1: Understand the meaning of the law.

Suppose a farmer owns a fixed amount of land.

If additional units of labour are employed on the same land, total output will change.

Initially output increases rapidly, then increases at a decreasing rate, and eventually may decline.

This phenomenon is explained by the Law of Variable Proportions.

Step 2: Identify the condition required for the law.

The law operates only when:

- At least one factor is fixed.
- At least one factor is variable.
- Technology remains unchanged.

Examples:

- Land fixed, labour variable.
- Building fixed, workers variable.
- Machinery fixed, raw material variable.

Step 3: Relate this condition to time period.

In the short run:

- Some factors remain fixed.
- Some factors can be varied.

Therefore the law can operate.

In the long run:

- All factors are variable.
- No factor remains fixed.

Hence the Law of Variable Proportions does not apply in the long run.

Step 4: State the conclusion.

Since the law requires fixed and variable factors simultaneously, it applies only in the short run.

Therefore,

$$\boxed{\text{Short Run}}$$

Hence the correct answer is

$$\boxed{\text{Option (B)}}$$

Quick Tip: Law of Variable Proportions:

$$\text{Short Run} \Rightarrow \text{Applicable}$$

$$\text{Long Run} \Rightarrow \text{Not Applicable}$$

Reason: In the short run some factors remain fixed.

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9. An import of goods is recorded in the Balance of Payments account as:

(A) A credit entry

(B) A debit entry

(C) A transfer payment

(D) None of the above

Correct Answer: (B) A debit entry

Solution:

Concept:

Balance of Payments (BOP) is a systematic record of all economic transactions between residents of a country and the rest of the world during a given period.

Every transaction is recorded either as:

- Credit item
- Debit item

Step 1: Understand credit entries in BOP.

Credit entries represent inflow of foreign exchange into the country.
Examples:

- Exports of goods
- Exports of services
- Foreign investment received
- Foreign loans received

These transactions bring foreign currency into the country.

Step 2: Understand debit entries in BOP.

Debit entries represent outflow of foreign exchange from the country.
Examples:

- Imports of goods
- Imports of services
- Foreign investment abroad
- Repayment of foreign loans

These transactions involve payment to foreign countries.

Step 3: Apply the concept to imports.

When India imports goods from another country:

- Goods enter India.
- Payment goes out of India.
- Foreign exchange leaves the country.

Therefore imports are recorded as debit items.

Step 4: Write the final conclusion.

Since imports involve outflow of foreign exchange,

$$\boxed{\text{Imports are recorded as Debit Entries}}$$

Hence the correct answer is

$$\boxed{\text{Option (B)}}$$

Quick Tip: Easy rule for BOP:

$$\text{Exports} \Rightarrow \text{Credit}$$

$$\text{Imports} \Rightarrow \text{Debit}$$

Foreign exchange inflow = Credit.

Foreign exchange outflow = Debit.

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10. Which of the following is a major challenge currently faced by the Indian economy?

(A) High rate of population growth

(B) Poverty and unemployment

(C) Excessive dependence on foreign aid

(D) All of the above

Correct Answer: (D) All of the above

Solution:

Concept:

Despite significant economic progress, the Indian economy continues to face several developmental challenges.

Economic growth alone is not sufficient unless it is accompanied by improvements in employment, living standards and social welfare.

Step 1: Study the problem of population growth.

India has one of the largest populations in the world.
Rapid population growth creates pressure on:

- Natural resources
- Education facilities
- Healthcare services
- Employment opportunities
- Housing and infrastructure

Therefore population growth remains a significant challenge.

Step 2: Understand poverty and unemployment.

Although poverty has declined over time, a considerable section of the population still faces economic hardship.
Major concerns include:

- Lack of adequate income
- Underemployment
- Seasonal unemployment
- Educated unemployment

These issues affect economic and social development.

Step 3: Examine dependence on foreign resources.

Developing economies often require:

- Foreign capital
- Foreign technology
- International assistance

Excessive dependence on external sources may create economic vulnerabilities.

Therefore reducing dependence and strengthening self-reliance remains an important objective.

Step 4: Draw the final conclusion.

All the factors listed in the question represent important economic challenges.

Therefore,

$$\boxed{\text{All of the above}}$$

Hence the correct answer is

$$\boxed{\text{Option (D)}}$$

Quick Tip: Major challenges of the Indian economy include:

- Population growth
- Poverty
- Unemployment
- Regional imbalance
- Human capital development

Always remember that economic development involves solving multiple challenges simultaneously.