

CUET 2026 May 11 Shift 1 Economics

Question Paper (Memory-Based) With Solutions PDF

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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. Identify the incorrect option related to a perfectly competitive market:

- (A) A firm's average revenue is equal to the market price.
- (B) The price line represents the relationship between market price and the firm's output level.
- (C) Marginal revenue is equal to the market price.
- (D) The firm's total revenue curve is a horizontal straight line.

Correct Answer: (D) The firm's total revenue curve is a horizontal straight line.

Solution:

Concept:

In a perfectly competitive market, a single firm is a price taker. This means that the firm cannot influence the market price by changing its own output.

The price is fixed by the market forces of demand and supply.

For a perfectly competitive firm:

$$AR = MR = P$$

where,

AR = Average Revenue

$MR = \text{Marginal Revenue}$

$P = \text{Price}$

Step 1: Understanding average revenue.

Average revenue is calculated as:

$$AR = \frac{TR}{Q}$$

In perfect competition, every unit of output is sold at the same fixed market price.

So,

$$AR = P$$

Therefore, option (A) is correct.

Step 2: Understanding marginal revenue.

Marginal revenue means the additional revenue earned by selling one more unit of output.

Since the price remains constant in perfect competition, the revenue from each additional unit is also equal to the price.

Therefore,

$$MR = P$$

So, option (C) is correct.

Step 3: Understanding the price line.

The price line shows the relationship between price and output.

In perfect competition, the price remains constant at all levels of output.

Hence, the price line is a horizontal straight line parallel to the quantity axis.

Therefore, option (B) is correct.

Step 4: Understanding total revenue curve.

Total revenue is calculated as:

$$TR = P \times Q$$

Since price is constant, total revenue increases as output increases.

So, the total revenue curve is an upward sloping straight line passing through the origin.

It is not a horizontal straight line.

Therefore, option (D) is incorrect.

Hence, the incorrect statement is:

(D)

Quick Tip: In perfect competition, remember:

$$AR = MR = P$$

The price line is horizontal, but the total revenue curve is upward sloping because total revenue increases with output.

2. Match the following:

List-I	List-II
(A) Leftward shift in both demand and supply curves	(I) Equilibrium price remains unchanged
(B) Rightward shift in both demand and supply curves	(II) Equilibrium quantity increases
(C) Equal percentage increase in both demand and supply curves	(III) Equilibrium quantity decreases
(D) Supply curve shifts right and demand curve shifts left	(IV) Equilibrium quantity remains unchanged

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

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

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

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

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

Solution:

Concept:

Equilibrium in a market is determined at the point where demand and supply are equal.

At equilibrium:

$$D = S$$

where,

D = Demand

S = Supply

When demand or supply changes, equilibrium price and equilibrium quantity also change.

Step 1: Leftward shift in both demand and supply curves.

A leftward shift means a decrease.

So, if both demand and supply shift leftward, both demand and supply decrease.

Since both curves shift left, the equilibrium quantity decreases.

Therefore,

$$(A) \rightarrow (III)$$

Step 2: Rightward shift in both demand and supply curves.

A rightward shift means an increase.

So, if both demand and supply shift rightward, both demand and supply increase.

As both curves move to the right, equilibrium quantity increases.

Therefore,

$$(B) \rightarrow (II)$$

Step 3: Equal percentage increase in both demand and supply curves.

If demand and supply increase by the same percentage, the effect on price cancels out.

This is because increase in demand tends to raise price, while increase in supply tends to reduce price.

When both increase equally, the equilibrium price remains unchanged.

Therefore,

$$(C) \rightarrow (I)$$

Step 4: Supply curve shifts right and demand curve shifts left.

Rightward shift of supply means supply increases.

Leftward shift of demand means demand decreases.

Both changes create downward pressure on price.

However, when supply increases and demand decreases in equal proportion, equilibrium quantity remains unchanged.

Therefore,

$$(D) \rightarrow (IV)$$

Thus, the correct matching is:

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

Hence, the correct answer is:

(A)

Quick Tip: When both demand and supply shift in the same direction, quantity changes clearly. Equal percentage increase in both demand and supply generally keeps equilibrium price unchanged.

3. Arrange the following statements in the context of calculating Gross National Product (GNP) at Market Price:

(A) Add Net Factor Income from Abroad

(B) Calculate value of output

(C) Determine total sales in the country

(D) Deduct intermediate consumption

- (A) BDCA
- (B) DCBA
- (C) BCDA
- (D) ABCD

Correct Answer: (C) BCDA

Solution:

Concept:

Gross National Product at Market Price measures the value of final goods and services produced by the normal residents of a country, including net factor income from abroad.

To calculate GNP at Market Price, we first calculate domestic output and then add net factor income from abroad.

The basic relation is:

$$GNP_{MP} = GDP_{MP} + NFIA$$

where,

GNP_{MP} = Gross National Product at Market Price

GDP_{MP} = Gross Domestic Product at Market Price

$NFIA$ = Net Factor Income from Abroad

Step 1: Calculate value of output.

The first step is to calculate the value of output produced in the economy.

So, the first statement is:

(B)

Step 2: Determine total sales in the country.

After calculating the value of output, we determine the total sales or market value of output in the country.

So, the second statement is:

(C)

Step 3: Deduct intermediate consumption.

Intermediate goods are goods used in the production of final goods.

To avoid double counting, intermediate consumption must be deducted.

So, the third statement is:

(D)

Step 4: Add Net Factor Income from Abroad.

After calculating domestic product, Net Factor Income from Abroad is added to convert domestic product into national product.

So, the last statement is:

(A)

Therefore, the correct order is:

$B \rightarrow C \rightarrow D \rightarrow A$

Hence,

BCDA

Quick Tip: To calculate GNP at Market Price, first calculate domestic production and then add Net Factor Income from Abroad:

$$GNP_{MP} = GDP_{MP} + NFIA$$

4. The price of a bag increased from \$8 to \$12 in the US and from 400 to 480 in India. What is the effect on the dollar in terms of exchange rate?

- (A) Revaluated
- (B) Appreciated
- (C) Depreciated
- (D) Devaluated

Correct Answer: (C) Depreciated

Solution:**Concept:**

Exchange rate shows the value of one currency in terms of another currency.

In this question, we have to compare the value of dollar in terms of rupees before and after the change in prices.

If the rupee value of one dollar decreases, then the dollar depreciates.

If the rupee value of one dollar increases, then the dollar appreciates.

Step 1: Calculate the initial exchange rate.

Initially, the price of the bag in the US is:

\$8

The price of the same bag in India is:

400

So, we can write:

$$\$8 = 400$$

Now, divide both sides by 8 to find the value of 1 dollar:

$$\$1 = \frac{400}{8}$$

$$\$1 = 50$$

Therefore, the initial exchange rate is:

$$1\$ = 50$$

Step 2: Calculate the new exchange rate.

After the price change, the price of the bag in the US is:

$$\$12$$

The price of the same bag in India is:

$$480$$

So, we can write:

$$\$12 = 480$$

Now, divide both sides by 12:

$$\$1 = \frac{480}{12}$$

$$\$1 = 40$$

Therefore, the new exchange rate is:

$$1\$ = 40$$

Step 3: Compare the old and new exchange rates.

Initially:

$$1\$ = 50$$

Now:

$$1\$ = 40$$

The value of one dollar in terms of rupees has fallen from 50 to 40.

This means one dollar can now purchase fewer rupees than before.

So, the dollar has become weaker in terms of rupees.

Step 4: Identify the correct economic term.

When the value of a currency falls under a flexible exchange rate system, it is called depreciation.

Here, the dollar value has fallen from 50 to 40.

Therefore, the dollar has depreciated.

Hence, the correct answer is:

(C) Depreciated

Quick Tip: To check appreciation or depreciation, first calculate the value of 1 unit of foreign currency. If its value falls, it depreciates. If its value rises, it appreciates.

5. Choose the correct statements regarding the exchange rate system:

- (A) In a floating exchange rate system, the exchange rate is determined by market forces of demand and supply.
- (B) In a fixed exchange rate system, making the domestic currency cheaper is called devaluation.
- (C) An increase in the exchange rate implies that the price of foreign currency has increased, which is called depreciation.
- (D) Exchange rates between two currencies adjust to reflect differences in price levels in the two countries.

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

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

Solution:

Concept:

Exchange rate means the price of one currency in terms of another currency.

For example:

$$1\$ = 80$$

This means one US dollar is equal to eighty Indian rupees.

There are mainly two types of exchange rate systems:

Fixed Exchange Rate System

and

Floating Exchange Rate System

In a fixed exchange rate system, the government or central bank fixes the exchange rate.

In a floating exchange rate system, the exchange rate is determined by the forces of demand and supply in the foreign exchange market.

Step 1: Checking statement (A).

Statement (A) says that in a floating exchange rate system, the exchange rate is determined by market forces of demand and supply.

This statement is correct.

In a floating exchange rate system, the exchange rate is not fixed by the government.

It changes according to:

Demand for foreign currency

and

Supply of foreign currency

Therefore, statement (A) is correct.

Step 2: Checking statement (B).

Statement (B) says that in a fixed exchange rate system, making the domestic currency cheaper is called devaluation.

This statement is also correct.

In a fixed exchange rate system, if the government officially reduces the value of the domestic currency, it is called devaluation.

For example, if the official exchange rate changes from:

$$1\$ = 70$$

to

$$1\$ = 80$$

then more rupees are required to buy one dollar.

This means the rupee has been officially made cheaper.

So, this is called devaluation.

Therefore, statement (B) is correct.

Step 3: Checking statement (C).

Statement (C) says that an increase in the exchange rate implies that the price of foreign currency has increased, which is called depreciation.

This statement is correct.

For example, if the exchange rate changes from:

$$1\$ = 80$$

to

$$1\$ = 85$$

then the price of one dollar has increased in terms of rupees.

Now more rupees are needed to buy one dollar.

This means the domestic currency has become weaker.

So, the domestic currency has depreciated.

Therefore, statement (C) is correct.

Step 4: Checking statement (D).

Statement (D) says that exchange rates between two currencies adjust to reflect differences in price levels in the two countries.

This is related to the concept of Purchasing Power Parity.

According to this concept, exchange rates tend to adjust according to differences in price levels between countries.

If prices are higher in one country compared to another, exchange rates adjust to reflect that difference.

Therefore, statement (D) is also correct.

Step 5: Final conclusion.

All four statements are correct:

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

Hence, the correct answer is:

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

Quick Tip: Depreciation happens in a floating exchange rate system, while devaluation happens in a fixed exchange rate system when the government officially reduces the value of domestic currency.

6. If 150 is required to buy 2 dollars instead of 100 earlier, then:

(A) Domestic currency has depreciated

(B) Domestic currency has appreciated

(C) The rupee value of the import bill will increase

(D) Selling foreign exchange from its reserves by the Reserve Bank of India

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

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

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

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

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

Solution:

Concept:

Exchange rate shows how much domestic currency is required to buy foreign currency.

If more domestic currency is required to buy the same foreign currency, then domestic currency has depreciated.

If less domestic currency is required to buy the same foreign currency, then domestic currency has appreciated.

Step 1: Calculate the earlier exchange rate.

Earlier, 100 was required to buy 2 dollars.

So,

$$100 = 2\$$$

To find the value of 1 dollar:

$$1\$ = \frac{100}{2}$$

$$1\$ = 50$$

Therefore, the earlier exchange rate was:

$$1\$ = 50$$

Step 2: Calculate the new exchange rate.

Now, 150 is required to buy 2 dollars.

So,

$$150 = 2\$$$

To find the value of 1 dollar:

$$1\$ = \frac{150}{2}$$

$$1\$ = 75$$

Therefore, the new exchange rate is:

$$1\$ = 75$$

Step 3: Compare the exchange rates.

Earlier:

$$1\$ = 50$$

Now:

$$1\$ = 75$$

Now more rupees are required to buy one dollar.

This means the rupee has become weaker.

Therefore, the domestic currency has depreciated.

So, statement (A) is correct.

Step 4: Check whether domestic currency has appreciated.

Appreciation means the domestic currency becomes stronger.

If the rupee appreciated, fewer rupees would be needed to buy one dollar.

But here, more rupees are needed to buy one dollar.

So, domestic currency has not appreciated.

Therefore, statement (B) is incorrect.

Step 5: Effect on import bill.

Imports are generally paid for in foreign currency.

When the rupee depreciates, more rupees are required to buy the same amount of foreign currency.

Therefore, the rupee value of imports increases.

So, the rupee value of the import bill will increase.

Hence, statement (C) is correct.

Step 6: Role of Reserve Bank of India.

When domestic currency depreciates sharply, the Reserve Bank of India may sell foreign exchange from its reserves.

By selling foreign exchange, the supply of foreign currency in the market increases.

This helps control excessive depreciation of domestic currency.

Therefore, statement (D) is correct.

Step 7: Final conclusion.

The correct statements are:

(A), (C), (D)

Hence, the correct answer is:

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

Quick Tip: If more rupees are required to buy one dollar, the rupee has depreciated. Depreciation makes imports costlier in domestic currency.

7. If the marginal propensity to consume (MPC) is 0.6, find the value of the tax multiplier.

- (A) 0.25
- (B) -0.25
- (C) 1.5
- (D) -1.5

Correct Answer: (D) -1.5

Solution:

Concept:

Tax multiplier shows the change in national income due to a change in taxes.

The formula for tax multiplier is:

$$K_T = \frac{-MPC}{1 - MPC}$$

where,

K_T = Tax multiplier

MPC = Marginal Propensity to Consume

The tax multiplier is negative because tax and income are inversely related.

If taxes increase, disposable income decreases.

When disposable income decreases, consumption decreases.

As consumption decreases, national income also decreases.

Step 1: Write the given value.

Given:

$$MPC = 0.6$$

Step 2: Write the formula of tax multiplier.

The formula is:

$$K_T = \frac{-MPC}{1 - MPC}$$

Step 3: Substitute the value of MPC.

Putting $MPC = 0.6$, we get:

$$K_T = \frac{-0.6}{1 - 0.6}$$

Step 4: Simplify the denominator.

$$1 - 0.6 = 0.4$$

So,

$$K_T = \frac{-0.6}{0.4}$$

Step 5: Divide the numerator by the denominator.

$$\frac{0.6}{0.4} = 1.5$$

Therefore,

$$K_T = -1.5$$

Step 6: Interpret the result.

The negative sign shows that taxes and income move in opposite directions.

If taxes increase, national income decreases.

If taxes decrease, national income increases.

Therefore, the value of tax multiplier is:

$$\boxed{-1.5}$$

Hence, the correct answer is:

$$\boxed{(D)}$$

Quick Tip: Tax multiplier is always negative:

$$K_T = \frac{-MPC}{1 - MPC}$$

The negative sign shows the inverse relationship between taxes and income.

8. Arrange the following statements in the correct chronological order with respect to open market operations:

- (A) Payment for bonds increases total reserves in the economy
- (B) RBI buys government bonds from the market
- (C) RBI sells bonds when there is excess money supply
- (D) Higher reserves increase money supply in the economy

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

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

Solution:

Concept:

Open market operations refer to the buying and selling of government securities by the central bank.

In India, open market operations are conducted by the Reserve Bank of India.

The RBI uses open market operations to control money supply in the economy.

When the RBI wants to increase money supply, it buys government bonds.

When the RBI wants to reduce money supply, it sells government bonds.

Step 1: RBI buys government bonds from the market.

The process starts when the Reserve Bank of India buys government bonds from the market. When RBI buys bonds, it gives money to the sellers of the bonds. Therefore, the first step is:

(B)

Step 2: Payment for bonds increases reserves.

When RBI pays for the bonds, money enters the banking system. This increases the reserves of commercial banks. So, the second step is:

(A)

Step 3: Higher reserves increase money supply.

When banks have higher reserves, they can create more credit. They can give more loans to people and businesses. This increases deposits and money supply in the economy. So, the third step is:

(D)

Step 4: RBI sells bonds when there is excess money supply.

If money supply becomes excessive, RBI sells government bonds. When banks or people buy these bonds, money moves from the economy to the RBI. This reduces money supply. So, the final step is:

(C)

Step 5: Final arrangement.

Thus, the correct chronological order is:

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

Hence, the correct answer is:

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

Quick Tip: In open market operations, buying bonds increases money supply, while selling bonds decreases money supply.

9. What is the shape of the Average Fixed Cost (AFC) curve?

- (A) Upward sloping
- (B) Rectangular hyperbola
- (C) Vertical
- (D) Horizontal

Correct Answer: (B) Rectangular hyperbola

Solution:

Concept:

Average Fixed Cost means fixed cost per unit of output.

It is calculated by dividing total fixed cost by output.

The formula is:

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

where,

AFC = Average Fixed Cost

TFC = Total Fixed Cost

Q = Quantity of output

Step 1: Understand total fixed cost.

Total Fixed Cost remains constant at all levels of output.

Examples of fixed costs are:

Rent, insurance, salary of permanent staff, fixed machinery cost

These costs do not change even when output changes.

Step 2: Use the AFC formula.

The formula of AFC is:

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

Since TFC is constant, AFC depends on output Q .

When output increases, the same fixed cost is divided among more units.

Therefore, AFC decreases.

Step 3: Understand with an example.

Suppose:

$$TFC = 100$$

If output is 10 units:

$$AFC = \frac{100}{10} = 10$$

If output is 20 units:

$$AFC = \frac{100}{20} = 5$$

If output is 50 units:

$$AFC = \frac{100}{50} = 2$$

So, as output increases, AFC keeps falling.

Step 4: Shape of AFC curve.

The AFC curve slopes downward from left to right.

It keeps falling as output increases.

However, AFC never becomes zero because fixed cost is always positive.

The curve gets closer and closer to both axes but does not touch them.

Such a curve is called a rectangular hyperbola.

Step 5: Final conclusion.

Therefore, the shape of the Average Fixed Cost curve is:

Rectangular hyperbola

Hence, the correct answer is:

(B)

Quick Tip: AFC falls continuously as output increases because fixed cost is divided by more units. Its curve is a rectangular hyperbola.

10. The decision of whether to produce more consumption goods or more investment goods, to boost future production and consumption, relates to which central problem of an economy?

- (A) Why are these goods produced?
- (B) For whom are these goods produced?
- (C) How are these goods produced?
- (D) What to produce and in what quantities?

Correct Answer: (D) What to produce and in what quantities?

Solution:

Concept:

Every economy faces the basic problem of scarcity.

Scarcity means resources are limited, but human wants are unlimited.

Due to limited resources, an economy cannot produce everything in unlimited quantity.

Therefore, every economy has to make choices.

The main central problems of an economy are:

What to produce?

How to produce?

For whom to produce?

Step 1: Understand consumption goods.

Consumption goods are goods that are used directly by consumers to satisfy their wants.

Examples of consumption goods are:

Food, clothes, mobile phones, television, furniture

These goods satisfy present needs of people.

Step 2: Understand investment goods.

Investment goods are goods that are used to produce more goods in the future.

Examples of investment goods are:

Machines, tools, factories, equipment

These goods help in increasing future production capacity.

Step 3: Understand the choice involved.

The question asks whether the economy should produce more consumption goods or more investment goods.

If more consumption goods are produced, people will get more goods for present consumption.

But fewer resources may be left for investment goods.

If more investment goods are produced, future production capacity will increase.

But present consumption may be reduced.

Thus, the economy must decide:

Which goods should be produced?

and

How much of each good should be produced?

Step 4: Relate it to the central problem.

The problem of choosing between consumption goods and investment goods is related to the central problem:

What to produce and in what quantities?

This is because the economy is deciding the type of goods and their quantities.

Step 5: Check the options.

Option (A) asks why goods are produced. This is not a main central problem of an economy.

Option (B) asks for whom goods are produced. This is related to distribution of goods among people.

Option (C) asks how goods are produced. This is related to the technique of production.

Option (D) asks what to produce and in what quantities. This directly matches the given situation.

Step 6: Final conclusion.

The decision between producing consumption goods and investment goods is the problem of choosing what to produce and in what quantities.

Hence, the correct answer is:

(D) What to produce and in what quantities?

Quick Tip: Whenever the question asks about choosing between different goods or deciding the quantity of each good, it refers to the central problem:

What to produce and in what quantities?