CUET 2026 May 12 Shift 1 Economics

Question Paper (Memory-Based) With Solutions PDF

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. Consider the following steps taken by the Reserve Bank of India with respect to money supply and arrange them in the correct sequence:

A. Increase in lending rates by commercial banks

B. Contraction in credit

C. Increase in bank rate by the Reserve Bank of India

D. Increase in cost of borrowings for commercial banks

(A) A, B, C, D

(B) A, C, B, D

(C) C, D, A, B

(D) C, B, D, A

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

Solution:

Concept:

Bank rate is the rate at which the Reserve Bank of India lends money to commercial banks.

When the RBI increases the bank rate, borrowing from the RBI becomes costlier for commercial banks.

As a result, commercial banks increase their lending rates, which reduces demand for loans and causes contraction in credit.

Step 1: First action is taken by RBI.

The process begins when the Reserve Bank of India increases the bank rate.

So, the first step is:

$$C = \text{Increase in bank rate by the Reserve Bank of India}$$

Step 2: Effect on commercial banks.

When the bank rate increases, borrowing from the RBI becomes expensive for commercial banks.

So, the second step is:

$$D = \text{Increase in cost of borrowings for commercial banks}$$

Step 3: Commercial banks increase lending rates.

Since borrowing cost increases for commercial banks, they pass this cost to borrowers by increasing lending rates.

So, the third step is:

$$A = \text{Increase in lending rates by commercial banks}$$

Step 4: Final effect on credit.

Higher lending rates make loans costlier.

Therefore, people and firms borrow less, leading to contraction in credit.

So, the fourth step is:

$$B = \text{Contraction in credit}$$

Step 5: Final sequence.

The correct sequence is:

$$C \to D \to A \to B$$

Hence:

$$\boxed{\text{(C) C, D, A, B}}$$

Quick Tip: When RBI increases bank rate:

Bank rate rises → Bank borrowing cost rises → Lending rates rise → Credit contracts

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2. Arrange the following statements in the correct chronological sequence regarding the impact of government intervention in the form of price control in the market:

A. There will be excess demand for sugar at that price

B. Government imposes an upper limit on the price of sugar

C. Sugar is distributed to everyone through a system of rationing

D. This may lead to a shortage of sugar in the market

(A) A, B, C, D

(B) A, C, B, D

(C) B, A, D, C

(D) C, B, D, A

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

Solution:

Concept:

Price control means the government fixes the price of a good.
When the government imposes a maximum price below the equilibrium price, it is called price ceiling.

This usually creates excess demand and shortage.

Step 1: Government first fixes the upper price limit.

The process begins when the government imposes an upper limit on the price of sugar.
So, the first step is:

$$B = \text{Government imposes an upper limit on the price of sugar}$$

Step 2: Excess demand is created.

When the price is fixed below equilibrium price, consumers demand more sugar.
But producers supply less sugar at the lower price.
So, the second step is:

$$A = \text{There will be excess demand for sugar at that price}$$

Step 3: Shortage appears in the market.

Because demand is greater than supply, shortage occurs.
So, the third step is:

$$D = \text{This may lead to a shortage of sugar in the market}$$

Step 4: Rationing is introduced.

To manage shortage, the government may distribute sugar through rationing.
So, the fourth step is:

$$C = \text{Sugar is distributed to everyone through a system of rationing}$$

Step 5: Final sequence.

The correct sequence is:

$$B \to A \to D \to C$$

Hence:

$$\boxed{\text{(C) B, A, D, C}}$$

Quick Tip: Price ceiling below equilibrium causes:

$$\text{Excess demand} \to \text{Shortage} \to \text{Rationing}$$

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3. It may be incorrect to treat GDP as an index of a country's welfare for the following reasons:

A. Externalities

B. Distribution of GDP is not uniform

C. Monetary exchanges

D. Non-monetary exchanges

(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: (A) A, B and D only

Solution:

Concept:

GDP measures the market value of final goods and services produced within the domestic territory of a country.
However, GDP is not always a perfect measure of welfare because many welfare-related aspects are not properly reflected in GDP.

Step 1: Check externalities.

Externalities are positive or negative effects of production or consumption on others.

For example, pollution reduces welfare but may not be deducted properly from GDP.

So:

$$A = \text{Correct}$$

Step 2: Check distribution of GDP.

GDP may increase, but income may be concentrated in the hands of a few people.

If distribution is unequal, welfare may not improve for everyone.

So:

$$B = \text{Correct}$$

Step 3: Check monetary exchanges.

Monetary exchanges are generally included in GDP if they are related to final goods and services.

So, monetary exchanges are not a reason for GDP being an incomplete welfare measure.

Thus:

$$C = \text{Incorrect}$$

Step 4: Check non-monetary exchanges.

Many useful services are not sold in the market.

For example, household work done by family members is not counted in GDP.

So:

$$D = \text{Correct}$$

Step 5: Final conclusion.

The correct reasons are:

$$A,\ B,\ D$$

Hence:

$$\boxed{\text{(A) A, B and D only}}$$

> **Quick Tip:** GDP is not a perfect welfare index because it ignores externalities, inequality in distribution, and many non-monetary activities.

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4. The ratio of the total increase in equilibrium value of final goods output to the initial increase in autonomous investment expenditure is known as:

(A) Investment Multiplier

(B) Autonomous Multiplier

(C) Credit Multiplier

(D) Induced Multiplier

Correct Answer: (A) Investment Multiplier

Solution:

Concept:

Investment multiplier shows how much total income or output increases due to an initial increase in autonomous investment.
It is the ratio of change in income to change in investment.

$$K = \frac{\Delta Y}{\Delta I}$$

where,

$$K = \text{Investment Multiplier}$$

$$\Delta Y = \text{change in income or output}$$

$$\Delta I = \text{change in investment}$$

Step 1: Understand the phrase "initial increase in autonomous investment".

Autonomous investment is investment that does not depend directly on current income.
When autonomous investment increases, it creates new income in the economy.

Step 2: Understand the phrase "total increase in equilibrium output".

The initial investment creates income for some people.

Those people spend part of their income, which becomes income for others.

This process continues and causes a multiple increase in output.

Step 3: Identify the concept.

The ratio:

$$\frac{\text{Total increase in output}}{\text{Initial increase in autonomous investment}}$$

is called: Investment Multiplier

Step 4: Final conclusion.

Hence:

$$\boxed{\text{Investment Multiplier}}$$

Therefore, the correct answer is:

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

Quick Tip: Investment multiplier is:

$$K = \frac{\Delta Y}{\Delta I}$$

It measures the total increase in income due to an initial increase in investment.

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5. In the Balance of Payments, transactions involving bonds and equity shares are recorded under which of the following accounts?

(A) Trading Account

(B) Financial Account

(C) Current Account

(D) Errors and Omissions

Correct Answer: (B) Financial Account

Solution:

Concept:

Balance of Payments records all economic transactions between residents of a country and the rest of the world.

It has different accounts such as: Current Account

Capital Account

Financial Account

Step 1: Understand bonds and equity shares.

Bonds and equity shares are financial assets.

Transactions in these assets involve investment flows between countries.

Step 2: Identify where financial assets are recorded.

Transactions involving financial assets such as: bonds

equity shares

portfolio investment

are recorded in the Financial Account.

Step 3: Eliminate other options.

Current account records trade in goods and services, income and transfers.

Trading account is not the correct Balance of Payments account here.

Errors and omissions are used for statistical adjustment.

Step 4: Final conclusion.

Therefore, transactions involving bonds and equity shares are recorded under:

$$\boxed{\text{Financial Account}}$$

Hence:

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

Quick Tip: Bonds and equity shares are financial assets, so their transactions are recorded in the Financial Account of Balance of Payments.

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6. Consider the following statements about Adam Smith and his economic philosophy:

A. Adam Smith's concept of the "invisible hand" implies that individuals pursuing their self-interest contribute to societal well-being.

B. Smith argued that government intervention is essential in regulating markets for economic efficiency.

C. The wealth of a nation is determined by the productivity and efficiency of its labour force.

D. Modern economists have built upon Smith's ideas but have also recognized the need for macroeconomic policies.

Choose the correct answer from the options given below:

(A) A, C, D only

(B) B, C, D only

(C) A, B, D only

(D) A, B, C, D

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

Solution:

Concept:

Adam Smith is known as the father of modern economics.

He supported the idea that markets can coordinate economic activities through self-interest and competition.

His famous concept of the invisible hand explains how private self-interest may promote social welfare.

Step 1: Check statement A.

The invisible hand means individuals pursue their own self-interest, but their actions can indirectly promote social welfare.
So:

$$A = \text{Correct}$$

Step 2: Check statement B.

Adam Smith did not argue that government intervention is essential for regulating markets for efficiency.
He generally supported free markets and limited government intervention.
So:

$$B = \text{Incorrect}$$

Step 3: Check statement C.

Smith emphasized productivity, division of labour and efficiency as important sources of national wealth.
So:

$$C = \text{Correct}$$

Step 4: Check statement D.

Modern economists have developed Smith's ideas further.
They also recognize the role of macroeconomic policies in managing employment, inflation, growth and stability.
So:

$$D = \text{Correct}$$

Step 5: Final conclusion.

The correct statements are:

$$A,\ C,\ D$$

Hence:

$$\boxed{\text{(A) A, C, D only}}$$

Quick Tip: Adam Smith is linked with invisible hand, self-interest, division of labour and free-market ideas, not heavy government regulation.

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7. Which of the following is an example of a consumer good?

(A) A machine used in a factory

(B) A taxi purchased by a company for commercial use

(C) A refrigerator bought for home use

(D) A building purchased by a firm for office space

Correct Answer: (C) A refrigerator bought for home use

Solution:

Concept:

Consumer goods are goods purchased by households for direct satisfaction of wants.
They are not used for further production or commercial earning.

Step 1: Understand consumer goods.

A consumer good is used directly by the final consumer.
For example: food, clothes, television, refrigerator for home use

Step 2: Check option A.

A machine used in a factory is used for production.
So, it is a capital good, not a consumer good.

Step 3: Check option B.

A taxi purchased by a company for commercial use is used to earn income.
So, it is also a capital good.

Step 4: Check option C.

A refrigerator bought for home use is used directly by a household.
It gives direct satisfaction and is not used for production.
So, it is a consumer good.

Step 5: Check option D.

A building purchased by a firm for office space is used for business purposes.
So, it is not a consumer good.

Hence:

$$\boxed{\text{A refrigerator bought for home use}}$$

Therefore:

$$\boxed{(C)}$$

Quick Tip: If a good is bought by a household for direct use, it is a consumer good. If it is used by a firm for production or business, it is a capital good.

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8. The flow of goods and services along with factors of production across different sectors in a barter economy is known as:

(A) Circular Flow
(B) Real Flow
(C) Monetary Flow
(D) Capital Flow

Correct Answer: (B) Real Flow

Solution:

Concept:

In an economy, there are two main types of flows: Real Flow and Money Flow

Real flow means the movement of goods, services and factor services.
Money flow means the movement of money payments.

Step 1: Understand barter economy.

In a barter economy, goods and services are exchanged directly without money.
So, there is no monetary flow.

Step 2: Understand real flow.

Real flow includes: flow of goods and services from firms to households and flow of factor services from households to firms

Step 3: Connect with the question.

The question mentions: goods and services and factors of production

This clearly refers to real flow.

Step 4: Final conclusion.

Therefore, the correct answer is:

$$\boxed{\text{Real Flow}}$$

Hence:

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

Quick Tip: Real flow means movement of goods, services and factor services. Money flow means movement of money payments.

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9. When demand shifts rightward and supply shifts leftward, which of the following outcomes is certain?

A. Equilibrium quantity will increase

B. Equilibrium price will increase

C. Equilibrium quantity may increase, decrease, or remain unchanged

D. Equilibrium price may increase, decrease, or remain unchanged

(A) A and B only

(B) B and C only

(C) A and D only

(D) B only

Correct Answer: (B) B and C only

Solution:

Concept:

Rightward shift of demand means demand increases.
Leftward shift of supply means supply decreases.
When demand increases and supply decreases, both changes push price upward.
But their effects on quantity are opposite.

Step 1: Effect of rightward shift in demand.

When demand increases: Equilibrium price increases
and Equilibrium quantity increases

Step 2: Effect of leftward shift in supply.

When supply decreases: Equilibrium price increases
and Equilibrium quantity decreases

Step 3: Combine both effects on price.

Both changes increase price.
Therefore, equilibrium price will certainly increase.
So:

$$B = \text{Correct}$$

Step 4: Combine both effects on quantity.

Demand increase pushes quantity upward.
Supply decrease pushes quantity downward.
So, the final effect on quantity depends on the relative magnitude of the shifts.
Therefore, equilibrium quantity may increase, decrease or remain unchanged.
So:

$$C = \text{Correct}$$

Step 5: Final conclusion.

The certain outcomes are:

$$B, \; C$$

Hence:

$$\boxed{\text{(B) B and C only}}$$

Quick Tip: Demand right and supply left: Price definitely rises, quantity is uncertain.

10. Which of the following are characteristics of a perfectly competitive market?

A. There is perfect information in the market.

B. The market price is determined by the collective interaction of supply and demand.

C. Each firm has significant market power to influence prices.

D. Firms in a perfectly competitive market earn normal profit in the long run.

Choose the correct answer:

(A) A, B, and D only

(B) B, C, and D only

(C) A, C, and D only

(D) A, B, C, and D

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

Solution:

Concept:

A perfectly competitive market has many buyers and sellers, homogeneous products, perfect information, free entry and exit, and no individual firm has control over price.
Each firm is a price taker.

Step 1: Check statement A.

Perfect competition assumes perfect information among buyers and sellers.
So:

$$A = \text{Correct}$$

Step 2: Check statement B.

In perfect competition, market price is determined by the interaction of total demand and total supply.
Individual firms accept this price.
So:

$$B = \text{Correct}$$

Step 3: Check statement C.

In perfect competition, no single firm has market power.

Each firm is a price taker, not a price maker.

So:

$$C = \text{Incorrect}$$

Step 4: Check statement D.

In the long run, free entry and exit ensure that firms earn only normal profit.

If firms earn abnormal profit, new firms enter.

If firms suffer losses, some firms leave.

Finally, only normal profit remains.

So:

$$D = \text{Correct}$$

Step 5: Final conclusion.

The correct statements are:

$$A,\ B,\ D$$

Hence:

$$\boxed{\text{(A) A, B, and D only}}$$

Quick Tip: In perfect competition, firms are price takers and earn normal profit in the long run.