

CUET 2026 May 13 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. In macroeconomics, the difference between a country's exports and imports of goods is known as:

- (A) Balance of Payments
- (B) Balance of Trade
- (C) Current Account Deficit
- (D) Foreign Exchange Reserve

Correct Answer: (B) Balance of Trade

Solution:

Step 1: Understanding the Concept:

Balance of Trade (BOT) is a specific component of a country's international transactions that focuses solely on the "visible" or tangible trade of physical goods.

Step 2: Detailed Explanation:

- **Balance of Trade (BOT):** Calculated as (Value of Exports of Goods) – (Value of Imports of Goods).

- **Balance of Payments (BOP):** A broader record that includes not just goods, but services (invisible items), transfer payments, and capital transfers.
- **Current Account Deficit:** Occurs when the total value of goods and services imported exceeds the value of those exported.

Step 3: Final Answer:

The difference between exports and imports of goods is the Balance of Trade.

Quick Tip: Remember: Trade = Goods. When economists talk about "Balance of Trade," they are looking at physical containers and products. When they talk about "Balance of Payments," they are looking at the entire financial ledger.

2. According to the paradox of thrift, if people in an economy increase their savings excessively, it may lead to:

- (A) Rise in national income
- (B) Increase in employment
- (C) Fall in aggregate demand
- (D) Increase in exports

Correct Answer: (C) Fall in aggregate demand

Solution:

Step 1: Understanding the Concept:

The "Paradox of Thrift" is a Keynesian economic theory. It suggests that while saving is good for an individual, if everyone in an economy tries to save more at the same time, it can harm the economy as a whole.

Step 2: Detailed Explanation:

The logic follows a chain reaction: 1. People save more → They spend less. 2. Less spending → Fall in Aggregate Demand. 3. Fall in demand → Lower production and lower business income. 4. Lower income → Eventually leads to lower total savings in the economy, even though people *tried* to save more.

Step 3: Final Answer:

Excessive saving leads to a fall in aggregate demand.

Quick Tip: The "Paradox" part is that individual "thrift" (virtue) becomes a collective "vice" for the economy. One person's spending is another person's income!

3. Which of the following was a major objective of the LPG reforms introduced in India in 1991?

- (A) Expansion of the public sector
- (B) Reduction in foreign trade
- (C) Liberalisation of the economy
- (D) Nationalisation of industries

Correct Answer: (C) Liberalisation of the economy

Solution:**Step 1: Understanding the Concept:**

In 1991, India faced a severe economic crisis. To solve this, the government introduced the New Economic Policy (NEP) based on three pillars: Liberalisation, Privatisation, and Globalisation (LPG).

Step 2: Detailed Explanation:

- **Liberalisation:** Removing unnecessary government controls and "License Raj" to make it easier to do business.
- **Privatisation:** Reducing the role of the public sector and encouraging private ownership.
- **Globalisation:** Integrating the Indian economy with the world economy through trade and investment.

Options (A), (B), and (D) represent policies from the pre-1991 era (The "Socialist" model).

Step 3: Final Answer:

The major objective was the Liberalisation of the economy.

Quick Tip: LPG is the "Opening of the Doors." L = Fewer rules, P = More private business, G = Connecting with the world.

4. Match the following correctly with their formulas:

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

AFC stands for:

- (A) Average Fixed Cost
- (B) Average Variable Cost
- (C) Marginal Cost
- (D) Average Revenue

Correct Answer: (A) Average Fixed Cost

Solution:

Step 1: Understanding the Concept:

In production economics, "Average" costs are found by dividing the total cost by the total quantity (Q) produced. "Fixed" costs are those that do not change with the level of output (like rent).

Step 2: Detailed Explanation:

The formula provided is:

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

- **TFC** = Total Fixed Cost.
- **Q** = Quantity of output.
- Dividing a fixed total by an increasing quantity results in a value that continuously decreases (forming a rectangular hyperbola curve).

Step 3: Final Answer:

AFC stands for Average Fixed Cost.

Quick Tip: The Average Fixed Cost curve never touches the x-axis or y-axis because Total Fixed Cost is never zero, and we cannot divide by a quantity of zero!

5. Which of the following institutions/events was established earliest?

- (A) NABARD
- (B) WTO
- (C) TISCO
- (D) GST

Correct Answer: (C) TISCO

Solution:

Step 1: Understanding the Concept:

This question requires knowledge of the historical timeline of Indian industry and global economic institutions.

Step 2: Detailed Explanation:

Let's look at the establishment dates:

- **TISCO (Tata Iron and Steel Company):** Established in 1907 (Jamshedpur).
- **NABARD (National Bank for Agriculture and Rural Development):** Established in 1982.
- **WTO (World Trade Organization):** Established in 1995 (replacing GATT).
- **GST (Goods and Services Tax):** Implemented in India in 2017.

Step 3: Final Answer:

TISCO was established the earliest.

Quick Tip: TISCO was a landmark in Indian history, marking the beginning of large-scale heavy industry in India during the colonial period—long before the others were even conceived!

6. The economic theory stating that the prices of identical goods in different countries should

be equal after exchange rate adjustment is called:

- (A) Law of Demand
- (B) Purchasing Power Parity
- (C) Opportunity Cost Theory
- (D) Comparative Advantage Theory

Correct Answer: (B) Purchasing Power Parity

Solution:

Step 1: Understanding the Concept:

This theory is based on the "Law of One Price." It suggests that in the absence of transaction costs and trade barriers, identical goods should cost the same when expressed in a common currency.

Step 2: Detailed Explanation:

- **Purchasing Power Parity (PPP):** Allows economists to compare the standard of living between countries by looking at how much a "basket of goods" costs in different places.
- **Law of Demand:** Relates price and quantity demanded.
- **Opportunity Cost:** The value of the next best alternative foregone.
- **Comparative Advantage:** Explains why countries should specialize in producing goods where they have a lower relative cost.

Step 3: Final Answer:

The theory is called Purchasing Power Parity.

Quick Tip: A famous informal way to measure PPP is the "Big Mac Index," which compares the price of a McDonald's Big Mac burger in different countries to see if currencies are "undervalued" or "overvalued."

7. In a managed floating exchange rate system:

- (A) Exchange rates are fully market determined

- (B) Gold determines exchange rates
- (C) Government or central bank intervenes when required
- (D) Exchange rates remain permanently fixed

Correct Answer: (C) Government or central bank intervenes when required

Solution:

Step 1: Understanding the Concept:

A managed floating exchange rate system (also known as "dirty floating") is a hybrid between a fixed and a flexible exchange rate system.

Step 2: Detailed Explanation:

- **Flexible (Floating) Part:** Under normal conditions, the value of the currency is determined by the forces of demand and supply in the foreign exchange market.
- **Managed Part:** The Central Bank (like the RBI) intervenes by buying or selling foreign currency to prevent excessive fluctuations or to keep the exchange rate within a desired "target zone."

Step 3: Final Answer:

The central bank intervenes when required to stabilize the currency.

Quick Tip: Think of it like a kite: it flies freely in the wind (market forces), but the central bank holds the string and pulls it back if it drifts too far in any direction!

8. Which of the following is a quantitative tool of the Reserve Bank of India (RBI)?

- (A) Moral Suasion
- (B) Margin Requirement
- (C) Bank Rate
- (D) Credit Rationing

Correct Answer: (C) Bank Rate

Solution:**Step 1: Understanding the Concept:**

Monetary policy tools used by the RBI are divided into two categories: Quantitative (affecting the overall volume of money) and Qualitative (affecting the direction of credit).

Step 2: Detailed Explanation:

- **Quantitative Tools:** These include Repo Rate, Reverse Repo Rate, CRR, SLR, and Bank Rate. They affect all sectors of the economy equally by changing the total money supply.
- **Qualitative (Selective) Tools:** These include Moral Suasion, Margin Requirements, and Credit Rationing. They are used to control credit for specific sectors (like luxury goods or agriculture).

Step 3: Final Answer:

Bank Rate is a quantitative tool.

Quick Tip: Quantitative tools are like a "volume knob"—they turn the entire economy's money supply up or down. Qualitative tools are like a "spotlight"—they focus on specific areas.

9. Consumption expenditure that remains unchanged even when income changes is known as:

- (A) Induced Consumption
- (B) Autonomous Consumption
- (C) Productive Consumption
- (D) Intermediate Consumption

Correct Answer: (B) Autonomous Consumption

Solution:**Step 1: Understanding the Concept:**

In the consumption function $C = \bar{c} + bY$, consumption is divided into two parts: one that depends on income (Y) and one that does not.

Step 2: Detailed Explanation:

- **Autonomous Consumption ($\bar{c}$):** This is the minimum level of consumption required to survive (food, shelter) even if the income is zero. It is independent of the level of income.
- **Induced Consumption (bY):** This is the portion of consumption that increases as income increases.

Step 3: Final Answer:

Consumption that is independent of income is called Autonomous Consumption.

Quick Tip: Even if you have zero income, you still need to eat! Autonomous consumption is usually funded by "dissaving" (spending past savings) or borrowing.

10. The price of bananas rises from 10 per kg to 14 per kg, due to which quantity demanded falls from 30 kg to 26 kg. What is the slope of the demand curve?

- (A) -1
- (B) -2
- (C) -4
- (D) -0.5

Correct Answer: (A) -1

Solution:

Step 1: Understanding the Concept:

The slope of a demand curve measures the rate at which the price changes with respect to the change in the quantity demanded. In economic graphs, Price (P) is plotted on the vertical y-axis and Quantity (Q) is on the horizontal x-axis. Therefore, the formula for the slope is:

$$\text{Slope} = \frac{\Delta P}{\Delta Q} = \frac{\text{Change in Price}}{\text{Change in Quantity}}$$

Step 2: Identifying the Values and Calculating Changes:

From the question, we have:

- Initial Price (P_1) = 10, New Price (P_2) = 14
- Initial Quantity (Q_1) = 30 kg, New Quantity (Q_2) = 26 kg

Now, calculate the changes (Δ):

$$\Delta P = P_2 - P_1 = 14 - 10 = 4$$

$$\Delta Q = Q_2 - Q_1 = 26 - 30 = -4$$

Step 3: Calculating the Slope:

Substitute the values into the slope formula:

$$\text{Slope} = \frac{\Delta P}{\Delta Q} = \frac{4}{-4}$$

$$\text{Slope} = -1$$

Step 4: Final Answer:

The slope of the demand curve is -1 .

Quick Tip: The slope of a normal demand curve is always negative because of the "Law of Demand," which states that price and quantity demanded move in opposite directions. If you get a positive number for a standard demand curve, double-check your subtraction!