CUET 2026 May 13 Shift 2 Economics

Question Paper (Memory-Based) With Solutions PDF

Conducted by National Testing Agency (NTA)

NATIONAL TESTING AGENCY
Excellence in Assessment

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. GDP Deflator is used to measure:

(A) Unemployment rate
(B) Inflation in the economy
(C) Poverty ratio
(D) Fiscal deficit

Correct Answer: (B) Inflation in the economy

Solution:

Step 1: Understanding the Concept:

The GDP Deflator is an index that measures the change in price levels of all new, domestically produced, final goods and services in an economy.

Step 2: Detailed Explanation:

The GDP Deflator is calculated using the formula:

$$\text{GDP Deflator} = \left(\frac{\text{Nominal GDP}}{\text{Real GDP}}\right) \times 100$$

- **Nominal GDP:** Measured at current market prices.

- **Real GDP:** Measured at constant base-year prices.

By comparing these two, the deflator shows how much of the increase in GDP is due to higher prices (inflation) rather than an increase in actual output.

Step 3: Final Answer:
The GDP Deflator is a tool used to measure inflation.

Quick Tip: Unlike the Consumer Price Index (CPI), which only tracks a "basket" of consumer goods, the GDP Deflator is broader because it includes everything produced in the country (including capital goods and government services).

---

2. Which of the following is included while calculating National Income?

(A) Transfer payments
(B) Sale of second-hand goods
(C) Value of final goods and services
(D) Illegal income

Correct Answer: (C) Value of final goods and services

Solution:
Step 1: Understanding the Concept:
National Income is the total value of final goods and services produced by the normal residents of a country during an accounting year.

Step 2: Detailed Explanation:
To avoid "double counting," only the value of **final** goods is included, not intermediate goods.

- **Transfer Payments:** (Pensions, scholarships) are excluded because no productive activity takes place in exchange.
- **Second-hand Goods:** Excluded because their value was already counted in the year they were originally produced.
- **Illegal Income:** Excluded due to lack of official records and social illegitimacy.

Step 3: Final Answer:
Only the value of final goods and services is included.

Quick Tip: The golden rule for National Income: It must involve a productive contribution to the current flow of goods and services. If it's just a transfer of money or an old item, it doesn't count!

---

3. An increase in Aggregate Demand with constant Aggregate Supply generally leads to:

(A) Fall in price level
(B) Rise in unemployment
(C) Rise in output and prices
(D) Fall in national income

Correct Answer: (C) Rise in output and prices

Solution:
Step 1: Understanding the Concept:
The equilibrium of an economy is determined by the intersection of the Aggregate Demand (AD) and Aggregate Supply (AS) curves.

Step 2: Detailed Explanation:
When AD increases (shifts to the right) while AS remains constant:

- More people want to buy goods and services.
- Producers increase production to meet this demand (if the economy is not at full capacity), leading to a rise in output.
- As demand outpaces current supply, it puts upward pressure on the general price level, leading to a rise in prices (Demand-Pull Inflation).

Step 3: Final Answer:
The result is a rise in both output and prices.

Quick Tip: If the economy is already at "Full Employment," output cannot increase further. In that specific case, an increase in AD would only lead to a rise in prices (Inflationary Gap).

---

4. Which function is mainly performed by commercial banks?

(A) Printing currency notes
(B) Accepting deposits and providing loans
(C) Framing monetary policy
(D) Collecting taxes

Correct Answer: (B) Accepting deposits and providing loans

Solution:

Step 1: Understanding the Concept:

Commercial banks are financial institutions that act as intermediaries between savers (those with surplus funds) and borrowers (those who need funds for investment or consumption).

Step 2: Detailed Explanation:

- **Accepting Deposits:** Banks collect money from the public in various accounts (Saving, Current, Fixed).
- **Providing Loans:** They use these deposits to give loans to businesses and individuals, charging a higher interest rate than what they pay to depositors.
- **Other Options:** Printing notes (A) and framing monetary policy (C) are exclusive functions of the Central Bank (RBI in India).

Step 3: Final Answer:

The primary functions of commercial banks are accepting deposits and providing loans.

Quick Tip: The difference between the interest rate a bank charges from borrowers and the interest rate it pays to depositors is called the "Spread." This is the main source of profit for a bank.

---

5. Which account of Balance of Payments records export and import of goods?

(A) Capital Account
(B) Current Account
(C) Official Reserve Account
(D) Monetary Account

Correct Answer: (B) Current Account

Solution:

Step 1: Understanding the Concept:

The Balance of Payments (BOP) is a systematic record of all economic transactions between the residents of a country and the rest of the world. It is divided into the Current Account and the Capital Account.

Step 2: Detailed Explanation:

- **Current Account:** Records trade in goods (visible trade), trade in services (invisible trade), and unilateral transfers (gifts/remittances).
- **Capital Account:** Records transactions that cause a change in the assets or liabilities of a country (e.g., FDI, loans, and investments).

Step 3: Final Answer:

Export and import of goods are recorded in the Current Account.

Quick Tip: Think of the Current Account as a record of "actual trade and income," while the Capital Account is a record of "who owns what" and financial claims.

---

6. If the value of Indian Rupee falls against the US Dollar, it is called:

(A) Appreciation
(B) Inflation
(C) Depreciation
(D) Deflation

Correct Answer: (C) Depreciation

Solution:

Step 1: Understanding the Concept:

In a flexible exchange rate system, the value of a currency changes based on market demand and supply.

Step 2: Detailed Explanation:

- **Depreciation:** A fall in the value of domestic currency in terms of foreign currency (e.g., if $\$1 = 80$ becomes $\$1 = 85$).
- **Appreciation:** An increase in the value of domestic currency (e.g., $\$1 = 80$ becomes $\$1 = 75$).
- **Inflation/Deflation:** These terms refer to the internal purchasing power of money (price levels within the country), not the exchange rate.

Step 3: Final Answer:

The fall in the value of the Rupee against the Dollar is called Depreciation.

Quick Tip: Depreciation makes a country's exports cheaper for foreigners, which can help increase the volume of exports!

---

7. In Microeconomics, the main focus is on:

(A) National income
(B) Individual consumer and firm behavior
(C) Economic growth of a country
(D) Balance of Payments

Correct Answer: (B) Individual consumer and firm behavior

Solution:

Step 1: Understanding the Concept:

Microeconomics is the study of economics at an individual, group, or company level. The prefix "micro-" means small, indicating that it examines the specific parts of the economy rather than the whole.

Step 2: Detailed Explanation:

- **Microeconomics:** Focuses on supply and demand in specific markets, the determination of prices for specific goods, and how individuals make choices (Utility and Profit maximization).
- **Macroeconomics:** Focuses on aggregates like National Income (A), Economic Growth (C), and the Balance of Payments (D).

Step 3: Final Answer:
The main focus of Microeconomics is individual consumer and firm behavior.

Quick Tip: Think of Microeconomics as looking at the "individual trees," while Macroeconomics looks at the "entire forest."

---

8. A consumer reaches equilibrium when:

(A) Income becomes zero
(B) Marginal utility becomes negative
(C) Budget line is tangent to indifference curve
(D) Prices increase continuously

Correct Answer: (C) Budget line is tangent to indifference curve

Solution:
Step 1: Understanding the Concept:
Consumer equilibrium refers to a situation where a consumer spends their limited income on various goods in such a way that they get maximum satisfaction.

Step 2: Detailed Explanation:

In the Indifference Curve (IC) analysis, equilibrium is reached at the point where: 1. The Budget Line (which represents income and price constraints) is exactly tangent to the Indifference Curve (which represents preferences). 2. At this point, the Marginal Rate of Substitution (MRS) equals the price ratio (P_x/P_y). 3. The consumer is on the highest possible IC they can afford.

Step 3: Final Answer:

Equilibrium occurs when the budget line is tangent to the indifference curve.

Quick Tip: "Tangent" means the two lines just touch at one point. At this point, the slope of the budget line and the slope of the indifference curve are equal!

---

9. Which of the following is considered a variable cost?

(A) Rent of building

(B) Salary of permanent staff

(C) Cost of raw materials

(D) Insurance premium

Correct Answer: (C) Cost of raw materials

Solution:

Step 1: Understanding the Concept:

Costs are divided into Fixed Costs and Variable Costs. Variable costs are those that change directly with the level of output.

Step 2: Detailed Explanation:

- **Variable Cost (VC):** If you produce more, you need more raw materials. If you produce zero, the cost of raw materials is zero. Hence, it is a variable cost.
- **Fixed Costs (FC):** Rent (A), permanent salaries (B), and insurance (D) must be paid even if the factory produces nothing. These do not change with the level of production in the short run.

Step 3: Final Answer:

The cost of raw materials is a variable cost.

Quick Tip: Ask yourself: "If I stop production today, do I still have to pay this?" If the answer is "No," it's a Variable Cost.

---

10. The LPG reforms introduced in India in 1991 stand for:

(A) Liberalisation, Privatisation, Globalisation

(B) Labour, Production, Growth

(C) Liberal Policy Governance

(D) Local Production Growth

Correct Answer: (A) Liberalisation, Privatisation, Globalisation

Solution:

Step 1: Understanding the Concept:

In 1991, India shifted from a closed, controlled economy to an open, market-oriented economy through a set of policies known as the New Economic Policy (NEP).

Step 2: Detailed Explanation:

- **L - Liberalisation:** Ending the "License Raj" and reducing government control over the private sector.
- **P - Privatisation:** Increasing the role of private capital and reducing the dominance of Public Sector Undertakings (PSUs).
- **G - Globalisation:** Opening the economy to foreign investment (FDI) and international trade.

Step 3: Final Answer:

LPG stands for Liberalisation, Privatisation, and Globalisation.

Quick Tip: These reforms were initiated during the Prime Ministership of P.V. Narasimha Rao, with Dr. Manmohan Singh serving as the Finance Minister.
