

CUET 2026 May 15 Shift 1 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. When does a firm experience normal profit?

- (A) When total revenue equals total cost.
- (B) When economic profit is zero.
- (C) When price is equal to minimum AVC.
- (D) When price is equal to ATC in the long run.

Choose the correct answer:

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

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

Solution:

Step 1: Understand normal profit.

Normal profit occurs when:

$$\text{Total Revenue} = \text{Total Cost}$$

Thus:

$$\text{Economic Profit} = 0$$

Hence statements (A) and (B) are correct.

Step 2: Analyze statement (C).

Price equal to minimum AVC represents shutdown point condition in short run.

It does not necessarily imply normal profit.

⇒ Incorrect

Step 3: Analyze statement (D).

In long run equilibrium:

$$P = ATC$$

At this point firms earn:

Normal Profit

Hence:

⇒ Correct

Step 4: Identify correct combination.

Correct statements are:

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

Therefore, the correct answer is:

(A)

Quick Tip: Normal Profit:

$$TR = TC$$

$$\text{Economic Profit} = 0$$

Long run equilibrium:

$$P = ATC$$

2. The problem of “What to produce?” includes which of the following considerations?

- (A) Whether to produce more of food, clothing, and housing or luxury goods.
- (B) Whether to allocate more resources to education or military services.
- (C) Whether to use labour-intensive or capital-intensive production methods.
- (D) Whether to focus on consumption goods or investment goods.

Choose the correct answer from the options below:

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

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

Solution:

Step 1: Understand the problem of “What to produce?”

This central problem of an economy deals with:

- Choice among different goods and services
- Allocation of scarce resources
- Priority of production

Step 2: Analyze statement (A).

Choosing between:

Necessities and Luxury Goods

is part of deciding what goods should be produced.

⇒ Correct

Step 3: Analyze statement (B).

Allocation of resources between:

Education and Military Services

is also related to what society wants to produce.

⇒ Correct

Step 4: Analyze statement (C).

Choice between:

Labour-Intensive and Capital-Intensive

methods belongs to:

How to Produce

not what to produce.

⇒ Incorrect

Step 5: Analyze statement (D).

Choosing between:

Consumption Goods and Investment Goods

is also a part of deciding what to produce.

⇒ Correct

Step 6: Identify the correct combination.

Correct statements are:

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

Hence, the correct answer is:

(A)

Quick Tip: Central problems of an economy:

What to Produce

How to Produce

For Whom to Produce

3. The short-run supply curve of a firm is:

- (A) The downward-sloping portion of the SMC curve
- (B) The rising portion of the SMC curve above the minimum AVC
- (C) The entire SMC curve
- (D) The portion of the SMC curve below AVC

Correct Answer: (B) The rising portion of the SMC curve above the minimum AVC

Solution:

Step 1: Understand short-run supply curve.

In the short run, a firm will continue production only if:

$$P \geq AVC$$

If price falls below AVC, the firm shuts down.

Step 2: Relation between SMC and supply curve.

The firm's short-run supply curve is:

That portion of SMC curve which lies above minimum AVC

because:

- SMC determines output level
- AVC determines shutdown point

Step 3: Analyze the options.

Option (A)

Downward-sloping portion cannot be supply curve.

⇒ Incorrect

Option (B)

Correct definition of short-run supply curve.

⇒ Correct

Option (C)

Entire SMC curve includes portion below AVC.

⇒ Incorrect

Option (D)

Below AVC firm shuts down.

⇒ Incorrect

Step 4: Identify the correct option.

Therefore:

The rising portion of SMC above minimum AVC

Hence, the correct answer is:

(B)

Quick Tip: Short-run supply curve:

SMC above minimum AVC

Shutdown condition:

$$P < AVC$$

4. Which of the following statements are correct regarding firms in perfect competition?

- (A) No single buyer or seller can influence the market price.
- (B) Products sold by different firms are differentiated to attract customers.
- (C) There are no barriers to entry or exit in the long run.
- (D) Firms in a perfectly competitive market always make super-normal profit in the long run.

Choose the correct answer:

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

Correct Answer: (A) (A) and (C) only

Solution:

Step 1: Analyze statement (A).

In perfect competition:

No individual buyer or seller can influence market price

Firms are:

Price Takers

Hence:

⇒ Correct

Step 2: Analyze statement (B).

In perfect competition:

Products are homogeneous

There is no product differentiation.

⇒ Incorrect

Step 3: Analyze statement (C).

Perfect competition assumes:

Free Entry and Exit

Thus:

⇒ Correct

Step 4: Analyze statement (D).

In long run equilibrium:

$$P = ATC$$

Firms earn only:

Normal Profit

not super-normal profit.

⇒ Incorrect

Step 5: Identify correct combination.

Correct statements are:

(A) and (C)

Hence, the correct answer is:

(A)

Quick Tip: Features of perfect competition:

Homogeneous Product

Free Entry and Exit

Price Taking Firms

5. Which of the following is not included in inventory?

- (A) Raw materials
- (B) Semi-finished goods
- (C) Sold finished goods
- (D) Unsold finished goods

Correct Answer: (C) Sold finished goods

Solution:

Step 1: Understand the meaning of inventory.

Inventory refers to stock of goods held by a business for:

- Production
- Sale
- Future use

Step 2: Identify items included in inventory.

Inventory generally includes:

- Raw materials

- Work-in-progress or semi-finished goods
- Unsold finished goods

Step 3: Analyze the options.

Raw materials

Used for production.

⇒ Included

Semi-finished goods

Partially completed goods.

⇒ Included

Sold finished goods

Once sold, they are no longer part of stock.

⇒ Not Included

Unsold finished goods

Available for sale and part of inventory.

⇒ Included

Step 4: Identify the correct option.

Therefore:

Sold Finished Goods

Hence, the correct answer is:

(C)

Quick Tip: Inventory includes:

Raw Materials

Work-in-Progress

Unsold Finished Goods

6. Match List-I (Concepts) with List-II (Definitions/Examples):

List-I (Concepts)		List-II (Definitions/Examples)	
(A)	Intermediate Goods	(I)	Unexpected rise in sales leads to stock depletion
(B)	Unplanned Accumulation of Inventories	(II)	Production - Sales
(C)	Change in Inventories Formula	(III)	Completely used in the production process
(D)	Unplanned Decumulation of Inventories	(IV)	Unexpected fall in sales leads to unsold stock

Choose the correct answer from the options given below:

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

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

Solution:

Step 1: Match Intermediate Goods.

Intermediate goods are:

Goods completely used in production

Thus:

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

Step 2: Match Unplanned Accumulation of Inventories.

When sales unexpectedly fall:

Unsold stock increases

This leads to:

Unplanned Accumulation

Thus:

$$(B) \rightarrow (IV)$$

Step 3: Match Change in Inventories Formula.

Change in inventories is:

Production – Sales

Thus:

$$(C) \rightarrow (II)$$

Step 4: Match Unplanned Decumulation of Inventories.

Unexpected rise in sales causes:

Stock depletion

Thus:

$$(D) \rightarrow (I)$$

Step 5: Identify correct option.

Correct matching is:

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

$$(B) \rightarrow (IV)$$

$$(C) \rightarrow (II)$$

$$(D) \rightarrow (I)$$

Hence, the correct answer is:

(A)

Quick Tip: Inventory Change:

$$\text{Production} - \text{Sales}$$

Unplanned accumulation:

$$\text{Sales} < \text{Production}$$

Unplanned decumulation:

$$\text{Sales} > \text{Production}$$

7. What is a liquidity trap?

- (A) A situation where money supply has no impact on interest rates and demand for bonds
- (B) A condition where interest rates keep increasing indefinitely
- (C) A state where money is not needed in an economy
- (D) A phase of high inflation due to excess money supply

Correct Answer: (A) A situation where money supply has no impact on interest rates and demand for bonds

Solution:

Step 1: Understand liquidity trap.

Liquidity trap is a situation where:

Interest rates become extremely low

and people prefer holding cash instead of bonds.

Step 2: Effect of increasing money supply.

In liquidity trap:

Increase in money supply

does not reduce interest rate further.

Thus monetary policy becomes ineffective.

⇒ Money supply has little or no impact

on:

- Interest rates
- Demand for bonds

Step 3: Analyze remaining options.

Option (B)

Liquidity trap occurs at very low interest rates, not indefinitely increasing rates.

⇒ Incorrect

Option (C)

Money continues to be important in the economy.

⇒ Incorrect

Option (D)

Liquidity trap is related to recession and low interest rates, not high inflation.

⇒ Incorrect

Step 4: Identify the correct option.

Therefore:

Money supply has no significant impact on interest rates

Hence, the correct answer is:

(A)

Quick Tip: Liquidity trap occurs when:

Interest Rates are Extremely Low

People prefer:

Holding Cash instead of Bonds

8. The concept of market equilibrium assumes that:

- (A) Market forces of supply and demand determine prices
- (B) Government intervention is necessary to set prices
- (C) Firms individually decide market prices
- (D) Consumers control the supply

Correct Answer: (A) Market forces of supply and demand determine prices

Solution:

Step 1: Understand market equilibrium.

Market equilibrium occurs when:

Quantity Demanded = Quantity Supplied

At this point:

Market Price

is determined through interaction of:

Demand and Supply

Step 2: Analyze the options.

Option (A)

Prices are determined by:

Market Forces of Demand and Supply

⇒ Correct

Option (B)

Government intervention is not necessary in free market equilibrium.

⇒ Incorrect

Option (C)

Individual firms are price takers in competitive markets.

⇒ Incorrect

Option (D)

Consumers influence demand, not supply directly.

⇒ Incorrect

Step 3: Identify the correct option.

Therefore:

Market Forces of Supply and Demand Determine Prices

Hence, the correct answer is:

(A)

Quick Tip: Market equilibrium:

$$Q_d = Q_s$$

Price is determined by:

Demand and Supply

9. If excess demand exists in the market, what should happen to restore equilibrium?

- (A) Prices should increase
- (B) Prices should decrease
- (C) Government should set a price cap

(D) Firms should stop production

Correct Answer: (A) Prices should increase

Solution:

Step 1: Understand excess demand.

Excess demand occurs when:

$$Q_d > Q_s$$

that is:

$$\text{Quantity Demanded} > \text{Quantity Supplied}$$

This creates shortage in the market.

Step 2: Effect on price.

Due to shortage:

Buyers compete for limited goods

As a result:

Price rises

Step 3: How equilibrium is restored.

Increase in price:

- Reduces demand
- Increases supply

Eventually:

$$Q_d = Q_s$$

and equilibrium is restored.

Step 4: Analyze remaining options.

Option (B)

Price decrease would increase excess demand further.

⇒ Incorrect

Option (C)

Price cap may worsen shortage.

⇒ Incorrect

Option (D)

Stopping production reduces supply further.

⇒ Incorrect

Step 5: Identify the correct option.

Therefore:

Prices should increase

Hence, the correct answer is:

(A)

Quick Tip: Excess demand:

$$Q_d > Q_s$$

Leads to:

Rise in Price

10. Match List-I (Concepts) with List-II (Meanings):

List-I (Concepts)		List-II (Meanings)	
(A)	Effective Demand Principle	(I)	Planned investment before actual execution
(B)	Autonomous Change	(II)	Expected consumption expenditure before the actual occurrence
(C)	Ex-ante Consumption	(III)	Change occurring independently of other factors in the economy
(D)	Ex-ante Investment	(IV)	Demand determines the level of employment and output

Choose the correct answer from the options given below:

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

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

Solution:

Step 1: Match Effective Demand Principle.

According to Keynes:

Demand determines employment and output

Thus:

(A) $\rightarrow$ (IV)

Step 2: Match Autonomous Change.

Autonomous change means:

Change independent of other economic factors

Thus:

(B) $\rightarrow$ (III)

Step 3: Match Ex-ante Consumption.

Ex-ante consumption means:

Planned or expected consumption expenditure

before actual occurrence.

Thus:

(C) $\rightarrow$ (II)

Step 4: Match Ex-ante Investment.

Ex-ante investment means:

Planned investment

before actual execution.

Thus:

$$(D) \rightarrow (I)$$

Step 5: Identify correct combination.

Correct matching is:

$$(A) \rightarrow (IV)$$

$$(B) \rightarrow (III)$$

$$(C) \rightarrow (II)$$

$$(D) \rightarrow (I)$$

Hence, the correct answer is:

(A)

Quick Tip: Ex-ante:

Planned Values

Ex-post:

Actual Values