

**CUET ECONOMICS PRACTICE PAPER 1**

1. What is the central problem of an economy primarily concerned with?

- (A) Generating unlimited wants without resources
- (B) Allocating scarce resources among competing uses
- (C) Regulating foreign trade policies exclusively
- (D) Determining population growth strategies

2. According to the production possibility curve (PPC), which factor remains constant along the curve?

- (A) Level of technology
- (B) Quantity of goods produced
- (C) Price of goods
- (D) Consumers' tastes and preferences

3. In a two-commodity utility approach, consumer's equilibrium is achieved when

- (A) MU of both goods is identical
- (B) Total utility of the goods is always maximized
- (C) Ratio of MU to price is equal for both goods
- (D) Consumer's budget is fully utilized regardless of MU

4. Which of the following does not shift the demand curve for a product to the right?

- (A) An increase in consumers income for a normal good
- (B) A successful advertising campaign that enhances product appeal
- (C) A significant decrease in the price of a substitute
- (D) An anticipated future price rise that encourages current buying

5. Match the column

Column A	Column B
1. Price Elasticity of Demand	(i) Goods where rise in the price of one increases demand for the other
2. Movement Along Demand Curve	ii. Change in quantity demanded due to price change alone
3. Shift of Demand Curve	iii. Responsiveness of quantity demanded to price changes
4. Substitute Goods	iv. change in demand due to non-price factors

Options:

- (A) 1-iii, 2-ii, 3-iv, 4-i
- (B) 1-iv, 2-iii, 3-ii, 4-i
- (C) 1-ii, 2-iv, 3-I, 4-iii
- (D) 1-I, 2-iv, 3-ii, 4-iii

6. Identify the correct statements regarding returns to a factor (assuming other factors remain constant):

- 1. In the initial stages, total product may increase at an increasing rate.
- 2. The law of diminishing marginal returns never applies to any input.

3. Marginal product can become negative at very high input levels.

4. Diminishing returns occur after a certain point of adding a variable input.

- (A) 1, 2, and 3 only
- (B) 1, 3, and 4 only
- (C) 2 and 4 only
- (D) 1, 2, and 4 only

7. Which statement best differentiates returns to factor from returns to scale?

- (A) Returns to factor analyze long-run production; returns to scale analyze short-run production
- (B) Returns to factor focus on one input varying; returns to scale involve all inputs changing
- (C) Both apply only to labor inputs
- (D) Both address constant output with changing inputs.

8. Assertion (A) Average cost always falls when marginal cost is below it.

Reason (R): Marginal cost influences the direction of average cost.

- (A) Both (A) and (R) are true, and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A)
- (C) (A) is true. (R) is false
- (D) (A) is false. (R) is true

9. Arrange the following concepts in the order they appear in the microeconomics framework for producer analysis:

- 1. Total Fixed Cost (TFC)
- 2. Total Variable Cost
- 3. Total Cost (TC)
- 4. Marginal Cost (MC)
- (A) 1→2→3→4
- (B) 2→1→3→4
- (C) 1→3→2→4
- (D) 4→3→2→1

10. Which statement best compares perfect competition with monopoly?

- (A) Both markets have many sellers and identical products  
 (B) Perfect competition has unrestricted entry, monopoly has high or absolute barriers  
 (C) In perfect competition, a single seller controls price, in monopoly, many sellers do  
 (D) Profits in perfect competition are always higher than in monopoly

11. Arrange the following market structures from most competitive to least competitive:

1. Perfect Competition
2. Monopolistic Competition
3. Oligopoly
4. Monopoly

- (A) 4→3→2→1                      (B) 1→2→3→4  
 (C) 2→1→3→4                      (D) 1→3→4→2

12. Assertion (A): In a free market with perfect competition, the equilibrium price equals marginal cost.

Reason (R): Firms set prices arbitrarily to maximize revenue in competitive markets.

- (A) Both (A) and (R) are true, and (R) is the correct explanation of (A)  
 (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A)  
 (C) (A) is true, (R) is false  
 (D) (A) is false, (R) is true

13. Match each concept in Column A with its characteristic in Column B:

Column A	Column B
1. Producer's Equilibrium	i. TR + Quantity
2. Total Revenue (TR)	ii. Change in TR from selling one more unit
3. Average Revenue (AR)	iii. Achieved when MC = MR
4. Marginal Revenue (MR)	iv. Price x Quantity

Options:

- (A) 1-iii, 2-iv, 3-1, 4-ii                      (B) 1-1, 2-ii, 3-iv, 4-iii  
 (C) 1-iv, 2-1, 3-iii, 4-ii                      (D) 1-ii, 2-iii, 3-1, 4-iv

14. Which statements about price determination under perfect competition are true?

1. Firms face horizontal demand curves
2. Market demand curve slopes downward
3. Individual firm can influence market price
4. Equilibrium price is determined by industry supply and demand

- (A) 1, 2, and 4 only                      (B) 2 and 3 only  
 (C) 1, 3, and 4 only                      (D) 1 and 2 only

15. Which of the following could be a real-world example of price ceiling?

- (A) A minimum support price for wheat set above equilibrium  
 (B) Rent control imposed on apartments in a crowded city  
 (C) A fixed wage rate legislated above the market level  
 (D) Free trade policies that reduce tariffs

16. Under which market form are many firms producing differentiated products, each retaining some price-setting power?

- (A) Perfect Competition                      (B) Monopoly  
 (C) Monopolistic Competition                      (D) Oligopoly

17. Assertion (A): In perfect competition, profits in the long run tend to be normal (zero economic profit).

Reason (R): Product differentiation and brand loyalty allow firms to sustain abnormal profits.

- (A) Both (A) and (R) are true, and (R) is the correct explanation of (A)  
 (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A)  
 (C) (A) is true, (R) is false  
 (D) (A) is false, (R) is true

18. Arrange these steps in consumer equilibrium using the utility approach (single commodity) in correct sequence:

1. Identify MU of the commodity
2. Compare MU with price
3. Check for budget constraint
4. Choose quantity where  $MU \geq \text{price}$

- (A) 1→3→4→2                      (B) 3→1→2→4  
 (C) 1→2→4→3                      (D) 1→3→2→4

19. Which statements are incorrect about a supply curve?

1. Technological advances can shift the supply curve left.
  2. Higher input costs typically shift the supply curve right.
  3. Price elasticity of supply measures how quantity supplied changes with price.
  4. A movement along the supply curve occurs with a change in the good's price.
- (A) 1 and 2 only                      (B) 2 and 3 only  
(C) 1, 2, and 4 only                  (D) 3 and 4 only

20. A producer's equilibrium, using the MC and MR approach, is reached when:

- (A) MC first equals MR and then exceeds it  
(B) MC is always below MR  
(C) Total cost is minimized  
(D) Profit is negative but stable

21. Which of the following best defines National Disposable Income?

- (A) Personal Income minus transfer payments  
(B) Net National Product at market price plus net indirect taxes  
(C) National Income plus net current transfers from abroad  
(D) Gross Domestic Product at factor cost plus depreciation

22. In the two-sector model (households and firms), which component is not included in Aggregate Demand?

- (A) Consumption (C)  
(B) Investment (I)  
(C) Government spending (G)  
(D) Sum of consumption and investment

23. If marginal propensity to consume (MPC) is 0.8, how does an initial injection of 100 units of investment affect total income via the multiplier process (assuming no leakages)?

- (A) Increase by 180 units (B) Increase by 500 units  
(C) Increase by 125 units (D) Increase by 800 units

24. Which of the following does not directly reduce the problem of deficient demand?

- (A) Lowering the policy interest rate  
(B) Increasing government expenditures  
(C) Raising taxes across all income groups  
(D) Encouraging investment through tax rebates

25. Match each national income concept in Column A with its description in Column B

Column A	Column B
1. GDP at market price	(i) GNP at factor cost -- taxes + subsidies + transfers from government and rest of the world
2. NDP at factor cost	(ii) GDP minus depreciation evaluated at factor payment
3. Personal income	(iii) Sum of all final goods and serviced at prevailing market prices
4. Private income	(iv) Total income accruing to private sector including factor incomes and transfer income

Options:

- (A) 1-iv, 2-11, 3-1, 4-iii    (B) 1-iii, 2-11, 3-1, 4-iv  
(C) 1-ii, 2-iv, 3-ifi, 4-1    (D) 1-1, 2-iii, 3-ii, 4-iv

26. Which statement correctly contrasts GDP at factor cost with GDP at market price?

- (A) GDP at factor cost includes indirect taxes; GDP at market price excludes them  
(B) GDP at market price = GDP at factor cost + indirect taxes subsidies  
(C) Both measures are always identical  
(D) GDP at factor cost = GDP at market price + indirect taxes + subsidies

27. Assertion (A): Central banks are "lenders of last resort."

Reason (R): Central banks accept deposits from the public and primarily fund themselves through commercial activities.

- (A) Both (A) and (R) are true, and (R) is the correct explanation of (A)  
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A)  
(C) (A) is true. (R) is false  
(D) (A) is false. (R) is true

28. Which function of money allows for comparison of the value of different goods and services?

- (A) Medium of exchange
- (B) Unit of account
- (C) Store of value
- (D) Standard of deferred payments

29. Which of the following best describes the principal function of a commercial bank?

- (A) Issuing currency notes to the public
- (B) Providing loans and accepting deposits from individuals and businesses
- (C) Managing the government's fiscal policy
- (D) Collecting taxes on behalf of the government

30. Which of the following is not a component of the government budget?

- (A) Revenue receipts
- (B) Capital receipts
- (C) Market equilibrium price
- (D) Revenue expenditure

31. Arrange these budget concepts in the usual sequence of budget preparation:

- |                     |                        |
|---------------------|------------------------|
| 1. Revenue Receipts | 2. Revenue Expenditure |
| 3. Fiscal Deficit   | 4. Capital Receipts    |
| (A) 1 → 2 → 3 → 4   | (B) 1 → 4 → 2 → 3      |
| (C) 1 → 2 → 4 → 3   | (D) 2 → 1 → 4 → 3      |

32. Assertion (A): A revenue deficit means government's revenue receipts are less than its revenue expenditure. Reason (R): Revenue deficit directly measures government's additional borrowing requirement for capital projects.

- (A) Both (A) and (R) are true, and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A)
- (C) (A) is true, (R) is false
- (D) (A) is false, (R) is true

33. Which option best distinguishes between a surplus budget and a balanced budget?

- (A) A surplus budget has higher expenditure than receipts; a balanced budget has zero expenditure
- (B) A surplus budget has lower receipts than expenditure, a balanced budget has equal receipts and expenditure

(C) A surplus budget has receipts exceeding expenditure, a balanced budget has receipts equal to expenditure

(D) Both represent the same concept under different names

34. Which type of bank reforms primarily aimed to modernize Indian banking operations with computerization and digital services?

- (A) Nationalization of banks
- (B) Liberalization of branch licensing
- (C) Privatization of public sector banks
- (D) Technological modernization initiatives

35. Identify the true statements about flexible exchange rates:

1. They adjust based on market demand and supply of currency
  2. They are fixed by the central bank at a predetermined level
  3. They can fluctuate daily, reflecting economic fundamentals
  4. They eliminate all risks in foreign exchange markets
- (A) 1 and 3 only                      (B) 2, 3, and 4 only  
(C) 1, 3, and 4 only                (D) 1, 2, and 3 only

36. Match each external account term in Column A with its description in Column B:

Column A	Column B
1. Current Account	Non-physical transactions like services, remittances, and transfers
2. Capital Account	ii. Records inflows and outflows related to assets, liabilities, and investments
3. Visible Items	iii. Balance of trade in tangible goods
4. Invisible Items	iv. Transactions involving imports and exports of goods, services, income, and current transfers

- (A) 1-iv, 2-11, 3-iii, 4-I      (B) 1-iii, 2-1, 3-ii, 4-iv  
(C) 1-ii, 2-iv, 3-1, 4-iii      (D) 1-1, 2-iii, 3-iv, 4-ii

37. Which statement correctly differentiates fixed and flexible exchange rate regimes?

- (A) Fixed rates fluctuate minute-by-minute; flexible rates never change
- (B) Fixed rates require government or central bank intervention to maintain, flexible rates adjust automatically based on market forces
- (C) Both rely solely on supply-demand without official intervention
- (D) Flexible rates ensure zero exchange rate volatility

38. Which factor does not directly appear in the Balance of Payments?

- (A) Imports and exports of goods
- (B) Transfer payments (remittances)
- (C) Interest on external loans
- (D) Domestic private consumption of local goods

39. Arrange these steps logically in calculating Net National Product (NNP) at Factor Cost:

1. Subtract depreciation from Gross National Product
  2. Add net factor income from abroad to GDP
  3. Subtract net indirect taxes
  4. Start with GDP at market prices
- (A) 4→2→1→3                      (B) 2→4→1→3  
(C) 4→1→3→2                      (D) 1→3→2→4

40. Which statements about Balance of Payments are accurate?

1. It must always show a surplus
  2. Current Account and Capital Account balances must sum to zero (excluding errors and omissions)
  3. Persistent deficits can lead to borrowing from abroad
  4. It tracks only merchandise trade, ignoring services
- (A) 1 and 2 only                      (B) 2 and 3 only  
(C) 1 and 4 only                      (D) 2 and 4 only

**Direction: Carefully read the case study provided and then thoroughly answer the subsequent five questions.**

A small agricultural community faces shifting consumer preferences. Previously, households demanded primarily wheat, but a recent health trend increased demand for organic millet. The local wheat producers, operating under perfect competition, note their average revenue dropping

as consumers switch. Simultaneously, producers see an opportunity in shifting resources to millet farming, which commands a higher price. However, transitioning requires new seeds, training, and short-term lower yields. Some farmers weigh whether a government-imposed price floor on wheat could help them sustain revenue during the shift. Yet, others worry that an artificially high price for wheat will create surpluses the market cannot absorb. The community debates how best to adapt production decisions for long-term sustainability.

41. In the above scenario, if a price floor is set above the free market equilibrium price for wheat, which outcome is most likely?

- (A) Wheat shortage as supply contracts
- (B) Wheat surplus due to higher price
- (C) No change in market as price floor is irrelevant
- (D) Permanent shift in consumer preferences back to wheat

42. Which factor does not directly drive the farmers' shift from wheat to organic millet in the story?

- (A) Changing consumer tastes for healthier food
- (B) Higher price and profitability potential for millet
- (C) Government banning wheat production
- (D) Availability of new seeds and farming techniques

43. How might the transition to millet initially impact the production possibility curve (PPC) for this community?

- (A) Move the PPC outward immediately
- (B) Shift the PPC inward permanently
- (C) Cause a temporary shift of resources and a point inside the existing PPC
- (D) Make the PPC irrelevant for agricultural analysis

44. Assertion (A) Perfectly competitive wheat producers cannot individually influence the market price.

Reason (R) Each farmer produces a unique, branded product

- (A) Both (A) and (R) are true, and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A)
- (C) (A) is true. (R) is false

(D) (A) is false. (R) is true

45. Which of the following is a direct consequence if the government implements a binding price floor on wheat?

- (A) Farmers are forced to reduce output
- (B) There is guaranteed equilibrium of supply and demand
- (C) A portion of wheat may remain unsold, creating a surplus
- (D) Consumer demand for millet suddenly increases

Direction : A country's central bank notices rising inflation rates. In response, it raises the policy interest rate to control money supply and discourage excessive spending. Commercial banks follow suit, increasing lending rates for businesses and consumers. Meanwhile, the government wants to boost spending on infrastructure to address unemployment. This conflicting scenario draws attention

a tight monetary policy can slow investment and consumption, dampening aggregate demand, whereas higher government expenditure can push demand up. The finance ministry believes carefully calibrated policy is needed. Observers worry that if demand keeps climbing despite inflation, the economy might overheat. Economists debate whether a more balanced approach, combining moderate rate hikes with targeted fiscal spending, could preserve stability without triggering significant economic slowdowns.

46. What is the main purpose of the central bank raising policy interest rates in the scenario?

- (A) To stimulate consumer spending
- (B) To boost exports immediately
- (C) To reduce inflation by curbing money supply growth
- (D) To encourage private sector borrowing

47. Why might higher government expenditure at the same time as rising interest rates create policy conflict?

- (A) Government spending and interest rates have no correlation

(B) Government expenditure can further boost demand, while higher interest rates aim to restrain it

(C) Interest rates only affect exports, not domestic policies

(D) Higher spending always leads to reduced inflation

48. Which statement best contrasts fiscal policy with monetary policy in the above context?

- (A) Fiscal policy is set by the central bank, monetary policy by the government
- (B) Fiscal policy adjusts government spending and taxation; monetary policy manages the money supply and interest rates
- (C) Both target identical instruments for controlling inflation
- (D) Monetary policy deals only with public debt management

49. Assertion (A): Persistent excess demand can lead to inflationary pressures in an economy.

Reason (R): Lowering policy interest rates to near zero always eradicates inflation.

- (A) Both (A) and (R) are true, and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true, but (R) is not correct explanation of (A)
- (C) (A) is true, (R) is false
- (D) (A) is false, (R) is true

50. Which outcome might occur if government spending substantially increases despite high interest rates?

- (A) Aggregate demand might still rise, risking more inflation
- (B) Private investment becomes unaffected by costs of borrowing
- (C) The money supply automatically contracts
- (D) The central bank ceases open market operation.