

CUET Economics Set-5

Year 2025

Time Allowed: 60 minutes	Maximum Marks: 250	Total Questions: 50	Number of questions to be answered : 50
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Kindly read the Instructions given on this Page and Back Page carefully before attempting this Question Paper.

Important Instructions for the Candidates :

1. This Test contains 50 questions printed in English. Out of these, the candidate is required to answer all 50 questions.
2. Each question has four answer options. Out of these four options choose the MOST APPROPRIATE OPTION.
3. Five (5) marks will be given for each correct answer. One (1) mark will be deducted for each incorrect answer. Unanswered questions will be given no mark.

Q1. In the Keynesian model, if the marginal propensity to consume (MPC) is 0.8 and autonomous investment increases by ₹150 crore, what is the resulting change in equilibrium income?

- a) ₹600 crore
- b) ₹750 crore
- c) ₹800 crore
- d) ₹900 crore

Q2. Under perfect competition, firm's demand curve is: (2023, 2024)

- a) Downward sloping
- b) Upward sloping
- c) Perfectly elastic
- d) Perfectly inelastic

Q3. Arrange the following events in chronological order:

1. Introduction of the Fiscal Responsibility and Budget Management (FRBM) Act
2. Implementation of the Goods and Services Tax (GST)
3. Launch of the Make in India initiative
4. Adoption of the New Economic Policy

- a) 4-1-3-2
- b) 1-4-2-3
- c) 4-3-1-2
- d) 2-3-1-4

Q4. Which is NOT a quantitative credit control tool? (2022, 2024)

- a) CRR
- b) SLR
- c) Moral suasion
- d) Repo rate

Q5. In the IS-LM model, an increase in government spending shifts the IS curve:

- a) Leftward
- b) Rightward
- c) Upward
- d) Downward

Q6. Assertion (A): An increase in autonomous investment leads to a multiplied increase in national income.

Reason (R): Because the marginal propensity to consume is greater than zero.

- 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, but R is false
- d) A is false, but R is true

Q7. Which of the following fiscal policies is most effective in closing a deflationary gap?

- a) Increasing taxes
- b) Reducing government spending
- c) Increasing government spending
- d) Reducing transfer payments

Q8. Lender of last resort function is performed by: (2022, 2023)

- a) Commercial banks
- b) Central bank
- c) Government
- d) SEBI

Q9. In the Keynesian model, which of the following is true at the point where the aggregate demand curve intersects the 45-degree line?

- a) Planned savings equal planned investment
- b) Actual savings exceed planned investment
- c) Planned investment exceeds planned savings
- d) There is unplanned inventory accumulation

Q10. Which of the following would shift the aggregate demand curve to the right?

- a) Decrease in government spending
- b) Increase in taxes
- c) Increase in consumer confidence
- d) Decrease in investment

Q11. Arrange the following events in chronological order:

1. China announces its first Five-Year Plan
2. India launches its first Five-Year Plan
3. Pakistan introduces its first Medium-Term Plan
4. Establishment of the People's Republic of China

Options:

- a) 4-2-1-3
- b) 2-4-1-3
- c) 4-1-2-3
- d) 2-3-1-4

Q12. If the marginal propensity to consume (MPC) is 0.8 and the government increases its expenditure by ₹500 crore without changing taxes, the total increase in national income will be:

- a) ₹2,000 crore
- b) ₹2,500 crore
- c) ₹3,000 crore
- d) ₹4,000 crore

Q13. Devaluation improves current account balance if: (2023, 2024)

- a) Marshall-Lerner condition holds
- b) J-curve effect dominates
- c) Terms of trade improve
- d) None of these

Q14. Which country among India, China, and Pakistan had the highest GDP growth rate during the period 1980-2000?

- a) India
- b) China
- c) Pakistan
- d) All had similar growth rates

Q15. Match the following concepts with their definitions:

Concept	Definition
A. Autonomous Consumption	1. Spending independent of income
B. Induced Consumption	2. Spending dependent on income
C. Investment Multiplier	3. Ratio of change in income to change in investment
D. Aggregate Demand	4. Total spending on goods and services

Options:

- a) A-1, B-2, C-3, D-4
- b) A-2, B-1, C-4, D-3
- c) A-3, B-4, C-1, D-2
- d) A-4, B-3, C-2, D-1

Q16. In the Keynesian framework, the equilibrium level of income is determined by:

- a) Aggregate supply only
- b) Aggregate demand only
- c) The intersection of aggregate demand and aggregate supply
- d) The level of full employment

Q17. The 45-degree line in the Keynesian cross diagram represents:

- a) Points where planned expenditure equals actual expenditure
- b) Points where saving equals investment
- c) Points where income equals consumption
- d) Points where aggregate demand equals aggregate supply

Q18. Arrange the following fiscal policy events in the order they occurred in India:

- A. Introduction of Goods and Services Tax (GST)
- B. Implementation of the Fiscal Responsibility and Budget Management (FRBM) Act
- C. Nationalization of major commercial banks
- D. Introduction of the New Economic Policy (Liberalization, Privatization, Globalization)

Options:

- A. C → D → B → A
- B. D → C → B → A
- C. C → B → D → A
- D. B → C → D → A

Q19. Arrange the following steps in the correct sequence as per the Keynesian multiplier process:

1. Increase in investment
2. Rise in income
3. Increase in consumption
4. Further increase in income

Options:

- a) 1-2-3-4
- b) 1-3-2-4
- c) 1-2-4-3
- d) 1-3-4-2

Q20. In the Keynesian framework, which of the following is NOT a characteristic of involuntary unemployment?

- a) Workers are willing to work at the prevailing wage rate
- b) There is excess demand in the labor market
- c) Aggregate demand is insufficient to employ all willing workers
- d) It occurs even when wages are flexible

Q21. Which of the following best explains the concept of 'Primary Deficit' in the context of a government's budget?

- A. Total expenditure minus total receipts
- B. Fiscal deficit minus interest payments
- C. Revenue deficit minus capital receipts
- D. Total borrowings minus fiscal deficit

Q22. Match the economic terms with their appropriate descriptions:

Terms	Descriptions
A. Autonomous Consumption	1. Income level where planned AE = output
B. Equilibrium Income	2. Spending independent of income
C. Marginal Propensity to Consume	3. Change in consumption due to change in income

Options:

- a) A-2, B-1, C-3
- b) A-3, B-2, C-1
- c) A-1, B-3, C-2
- d) A-2, B-3, C-1

Q23. If a consumer's indifference curve is convex to the origin, it implies that:

Options:

- A. The marginal rate of substitution (MRS) increases as more of one good is consumed.
- B. The MRS remains constant along the curve.
- C. The MRS diminishes as more of one good is consumed.
- D. The consumer prefers to consume only one good.

Q24. If the economy is operating at full employment and the government increases its spending, what is the likely short-term effect according to Keynesian theory?

- a) Increase in unemployment
- b) No change in output
- c) Demand-pull inflation
- d) Reduction in interest rates

Q25. In the Keynesian model, the equilibrium level of income is determined where:

- a) Aggregate demand equals aggregate supply
- b) Savings equal investment
- c) Consumption equals income
- d) Both a and b

Q26. Arrange the following events in chronological order:

1. Introduction of Goods and Services Tax (GST)
2. Implementation of the Fiscal Responsibility and Budget Management (FRBM) Act
3. Launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY)
4. Demonetization of ₹500 and ₹1,000 notes

Options:

- a) 2-3-4-1
- b) 3-2-1-4
- c) 2-1-3-4
- d) 1-2-3-4

Q27. If the economy is at equilibrium and the government increases taxes without changing its expenditure, the new equilibrium income will:

- a) Increase
- b) Decrease
- c) Remain unchanged
- d) Cannot be determined

Q28. Which of the following best describes the paradox of thrift in the context of a recessionary gap?

- a) Increased savings lead to higher investments and income
- b) Higher savings reduce aggregate demand, lowering income
- c) Savings have no effect on aggregate demand
- d) Increased savings always benefit the economy

Q29. In the context of the production possibility frontier (PPF), if an economy is operating inside the curve, it indicates:

Options:

- A. Efficient utilization of resources
- B. Unattainable production levels with current resources
- C. Underutilization of resources
- D. Economic growth

Q30. Match the countries with their respective economic reform initiation years:

Country	Year of Economic Reforms Initiation
A. India	1. 1978
B. China	2. 1991
C. Pakistan	3. 1988

Options:

- a) A-2, B-1, C-3
- b) A-1, B-2, C-3
- c) A-3, B-1, C-2
- d) A-2, B-3, C-1

Q31. Which of the following countries experienced a significant rise in GDP growth rate starting in the early 1980s due to economic reforms?

- a) India
- b) Pakistan
- c) China
- d) Bangladesh

Q32. Which of the following statements best explains the concept of effective demand?

- a) It is the total demand at full employment level
- b) It is the level of demand where aggregate supply equals aggregate demand
- c) It is the maximum possible demand in an economy
- d) It is the demand backed by the ability to pay

Q33. Which of the following statements is true regarding the urbanization levels in India, China, and Pakistan?

- a) India has the highest urbanization rate among the three.
- b) Pakistan has a higher urbanization rate than India but lower than China.
- c) China has the lowest urbanization rate among the three.
- d) All three countries have similar urbanization rates.

Q34. Assertion (A): In a perfectly competitive market, firms are price takers.

Reason (R): There are significant barriers to entry and exit in a perfectly competitive market.

Options:

- 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, but R is false.
- D. A is false, but R is true.

Q35. Match the following economic reforms with their corresponding objectives:

Reform	Objective
A. Industrial Policy Resolution, 1956	1. Promotion of small-scale industries
B. New Economic Policy, 1991	2. Liberalization and globalization
C. MRTP Act, 1969	3. Prevention of monopolistic practices
D. Industrial Policy Statement, 1977	4. Establishment of a socialist pattern

Options:

- a) A-4, B-2, C-3, D-1
- b) A-3, B-1, C-4, D-2
- c) A-2, B-4, C-1, D-3
- d) A-1, B-3, C-2, D-4

Q36. In the Keynesian model, what happens to the equilibrium level of income if both autonomous consumption and investment decrease simultaneously?

- a) Equilibrium income increases
- b) Equilibrium income remains unchanged
- c) Equilibrium income decreases
- d) Cannot be determined without additional information

Q37. Arrange the following events in chronological order:

1. Introduction of the Goods and Services Tax (GST)
2. Launch of the Make in India initiative
3. Implementation of the Insolvency and Bankruptcy Code (IBC)
4. Introduction of the New Industrial Policy

Options:

- a) 4, 2, 3, 1
- b) 2, 4, 1, 3
- c) 4, 2, 1, 3
- d) 2, 3, 4, 1

Q38. Match the countries with their respective primary contributors to GDP growth:

Country	Primary Contributor to GDP
A. India	1. Manufacturing Sector
B. China	2. Service Sector
C. Pakistan	3. Agriculture Sector

Options:

- a) A-2, B-1, C-3
- b) A-1, B-2, C-3
- c) A-3, B-1, C-2
- d) A-2, B-3, C-1

Q39. Which of the following statements regarding the economic reforms in India post-1991 is/are correct?

1. The reforms led to a significant increase in the share of the service sector in GDP.
2. Disinvestment in public sector undertakings aimed to reduce the fiscal deficit.
3. The reforms eliminated all forms of industrial licensing.
4. Liberalization policies included reduction in import tariffs and deregulation of markets.

Options:

- a) Only 1 and 2
- b) Only 1, 2, and 4
- c) Only 3 and 4
- d) All of the above

Q40. In the Keynesian two-sector model, if the marginal propensity to consume (MPC) is 0.8 and autonomous investment increases by ₹50 crore, what is the resultant change in equilibrium income?

- a) ₹250 crore
- b) ₹200 crore
- c) ₹150 crore
- d) ₹100 crore

Read the following passage and answer the next five questions.

The Phillips Curve, which initially proposed an inverse relationship between inflation and unemployment, has undergone significant reinterpretation in contemporary economics. While the short-run Phillips Curve suggests policymakers can trade off higher inflation for lower unemployment, the long-run vertical Phillips Curve indicates no such trade-off exists due to adaptive expectations. This was evident during the 1970s stagflation period when both high inflation and unemployment coexisted, contradicting the original theory.

Modern central banks now recognize the importance of inflation targeting and anchored expectations. The Reserve Bank of India's flexible inflation targeting framework ($4\% \pm 2\%$) exemplifies this shift. However, emerging challenges like supply-chain disruptions and commodity price shocks have revived debates about the curve's validity, particularly in developing economies where food and fuel prices dominate consumption baskets.

Q41. The short-run Phillips Curve implies:

- a) No relationship between inflation and unemployment
- b) A positive correlation between inflation and output
- c) A trade-off between inflation and unemployment
- d) Unemployment always decreases with inflation

Q42. Stagflation in the 1970s challenged the Phillips Curve by showing:

- a) Inflation and unemployment rising simultaneously
- b) The curve becoming horizontal
- c) Expectations having no role in macroeconomics
- d) Monetary policy being always effective

Q43. RBI's inflation targeting framework primarily aims to:

- a) Maximize employment in the short run
- b) Anchor inflation expectations
- c) Eliminate fiscal deficits
- d) Control foreign exchange rates

Q44. In developing economies, the Phillips Curve relationship is complicated by:

- a) Dominance of service sector in GDP
- b) High share of food/fuel in consumption
- c) Perfectly elastic labor supply
- d) Absence of central banking systems

Q45. The long-run Phillips Curve is vertical because:

- a) Unemployment always equals the natural rate
- b) Inflation becomes hyperinflation
- c) Expectations adjust to actual inflation
- d) Monetary policy becomes ineffective

Read the following passage and answer the next five questions.

Gresham's Law states that "bad money drives out good" when two forms of currency circulate simultaneously, and one is perceived as having greater intrinsic value. This phenomenon was observed historically when gold coins disappeared from circulation as governments issued debased silver coins. In the modern context, the advent of Central Bank Digital Currencies (CBDCs) like India's e-Rupee has reignited discussions about currency competition.

Unlike cryptocurrencies which operate on decentralized networks, CBDCs represent sovereign digital money with legal tender status. Their introduction raises critical questions about financial intermediation - whether they might reduce bank deposits by providing a safer alternative, potentially leading to disintermediation. The RBI's phased implementation of the digital rupee aims to balance innovation with financial stability, particularly in cross-border transactions where it could reduce dollar dependence.

Q46. Gresham's Law operates when:

- a) Two currencies have equal intrinsic value
- b) One currency is artificially overvalued
- c) Both currencies are digital
- d) Inflation exceeds 10%

Q47. A key difference between CBDCs and cryptocurrencies is:

- a) CBDCs have no legal tender status
- b) Cryptocurrencies are government-issued
- c) CBDCs represent sovereign money
- d) Cryptocurrencies always maintain value

Q48. The shape of indifference curve is convex to origin due to: (2022, 2023)

- a) Increasing MRS
- b) Diminishing MRS
- c) Constant MRS
- d) Negative MRS

Q49. RBI's digital rupee could particularly transform:

- a) Agricultural subsidies
- b) Cross-border transactions
- c) Stock market operations
- d) Real estate dealings

Q50. Historical example of Gresham's Law occurred with:

- a) Disappearance of gold coins
- b) Demonetization of ₹500 notes
- c) Introduction of credit cards
- d) Bitcoin's price volatility

Answer key:

Que	Ans	Que	Ans
Q1	b	Q26	a
Q2	c	Q27	b
Q3	a	Q28	b
Q4	c	Q29	c
Q5	b	Q30	a
Q6	a	Q31	c
Q7	c	Q32	b
Q8	b	Q33	b
Q9	a	Q34	c
Q10	c	Q35	a
Q11	a	Q36	c
Q12	b	Q37	a
Q13	a	Q38	a
Q14	b	Q39	b
Q15	a	Q40	a
Q16	c	Q41	c
Q17	a	Q42	a
Q18	a	Q43	b
Q19	a	Q44	b
Q20	b	Q45	c
Q21	b	Q46	b
Q22	a	Q47	c
Q23	c	Q48	b
Q24	c	Q49	b
Q25	d	Q50	a

