CUET UG 2024 Economics Question Paper

COMMON UNIVERSITY ENTRANCE TEST

CUET UG (Economics)

16 May 2024 Shift 1

Question 1

_________ depicts what has actually happened.

Options:

A. Ex-Ante

B. Ex-Post

C. Constant

D. Variable

Answer: B

Solution:

The correct answer is - Ex-Post

Key Points

- **Ex-Post**
  - Ex-Post is a Latin term meaning "after the fact".
  - It refers to analyses or evaluations that are conducted after an event has occurred.
  - This method is used to assess the outcomes and effectiveness of policies, investments, or decisions based on actual results.
  - In finance and economics, Ex-Post analysis helps to understand the real performance compared to expectations or forecasts.

Additional Information

- **Ex-Ante**
  - Ex-Ante is a Latin term meaning "before the event".
  - It involves predictions or forecasts made prior to an event happening.
  - This type of analysis is used to anticipate future outcomes and plan accordingly.
- **Constant**
  - In mathematics and economics, a constant is a value that does not change.
  - It is often used in equations and models to represent a fixed value.
- **Variable**
  - A variable is any quantity that can change or vary.
  - In statistical and mathematical models, variables represent elements that can assume different values.

Question 2

If the value of Investment Multiplier is 5 and the increased income is ₹ 800 crore in an economy, then find the value of change in the investment in the economy

Options:

A.

₹4000 crore

B.

₹120 crore

C.

₹400 crore

D.

₹160 crore

Answer: D

Solution:

The correct answer is - ₹160 crore

Key Points

- **Investment Multiplier**
  - The Investment Multiplier (k) is a ratio that measures the change in income resulting from an initial change in investment.
  - It is defined as $k = \frac{\Delta Y}{\Delta I}$, where ΔY is the change in income and ΔI is the change in investment.
  - Given that the Investment Multiplier is 5 and the increased income is ₹800 crore, we can use the formula to find the change in investment.
- **Calculation**
  - Using the formula $k = \frac{\Delta Y}{\Delta I}$, we have $5 = \frac{₹800 \text{ crore}}{\Delta I}$.
  - Rearranging the formula to solve for ΔI: $\Delta I = \frac{₹800 \text{ crore}}{5}$.
  - This simplifies to $\Delta I = ₹160 \text{ crore}$.

Additional Information

- **Investment Multiplier Concept**
  - The concept of the Investment Multiplier was introduced by John Maynard Keynes.
  - It illustrates the proportional amount of increase in final income that results from an injection of spending.
  - For example, if an investment of ₹1 crore leads to an increase in income of ₹5 crore, the multiplier is 5.
- **Other Incorrect Options**
  - ₹4000 crore: This is too high and not consistent with the given multiplier.
  - ₹120 crore: This amount is lower than the correct value given the multiplier.
  - ₹400 crore: This is higher than the calculated change in investment.

Question 3

Which of the following statements are true ?

(A) Quantitative tools control the extent of money supply by changing the CRR.

(B) There are two types of open market operations – outright and upright.

(C) A fall in the bank rate can decrease the money supply.

(D) Selling of a bond by RBI leads to reduction in quantity of reserves.

(E) The RBI can influence money supply by changing the rate at which it gives loan to the commercial banks.

Choose the correct answer from the options given below :

Options:

A. (A), (C) and (D) only

B. (A), (B) and(D) only

C. (B), (D) and (E) only

D. (A), (D) and (E) only

Answer: D

Solution:

The correct answer is - (A), (D), and (E) only

Key Points

- **(A) Quantitative tools control the extent of money supply by changing the CRR.**
  - Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in the form of cash or as deposits with the central bank.
  - By changing the CRR, the central bank can control the money supply in the economy. Increasing the CRR reduces the money supply, while decreasing the CRR increases the money supply.
- **(D) Selling of a bond by RBI leads to reduction in quantity of reserves.**
  - When the RBI sells bonds, it absorbs liquidity from the market, thereby reducing the quantity of reserves in the banking system.
  - This process helps in controlling inflation by reducing the money supply.
- **(E) The RBI can influence money supply by changing the rate at which it gives loans to the commercial banks.**
  - The rate at which RBI lends to commercial banks is known as the repo rate.
  - By increasing the repo rate, borrowing becomes more expensive for banks, leading to a reduction in the money supply. Conversely, decreasing the repo rate makes borrowing cheaper, increasing the money supply.

Additional Information

- **(B) There are two types of open market operations – outright and upright.**
  - This statement is incorrect. There are two types of open market operations – outright and repurchase (repo).
  - Outright transactions involve the outright buying or selling of government securities, which has a permanent effect on the money supply.
  - Repo transactions involve the temporary buying or selling of government securities with an agreement to reverse the transaction at a later date, affecting the money supply temporarily.
- **(C) A fall in the bank rate can decrease the money supply.**
  - This statement is incorrect. A fall in the bank rate typically leads to an increase in the money supply. The bank rate is the rate at which the central bank lends to commercial banks.
  - When the bank rate is reduced, it becomes cheaper for banks to borrow, leading to an increase in their lending capacity and thereby increasing the money supply in the economy.

Question 4

Paradox of Thrift means :

Options:

A. If all the people of the economy increase the proportion of income they save, the total value of investment in the economy will not increase, it will either decline or remain unchanged

B. If all the people of the economy increase the proportion of income they spend, the total value of savings in the economy will not increase, it will either decline or remain unchanged.

C. If all the people of the economy decrease the proportion of income they save, the total value of savings in the economy will not increase, it will either decline or remain unchanged.

D. If all the people of the economy increase the proportion of income they save, the total value of savings in the economy will not increase, it will either decline or remain unchanged.

Answer: D

Solution:

The correct answer is - If all the people of the economy increase the proportion of income they save, the total value of savings in the economy will not increase, it will either decline or remain unchanged.

Key Points

- **Paradox of Thrift**
  - The Paradox of Thrift is an economic theory that suggests that if everyone tries to save more during a recession, aggregate demand will fall, leading to lower overall savings in the economy.
  - This paradox occurs because increased savings reduce consumption, which in turn reduces income and production, leading to a decline in economic growth.
  - As people save more, they spend less, which can decrease businesses' revenues, leading to layoffs and further reductions in income and spending.
  - John Maynard Keynes popularized this concept during the Great Depression, emphasizing the importance of consumption in driving economic growth.

Additional Information

- **Option 1: Investment Perspective**
  - This option incorrectly interprets the paradox by focusing on investment rather than savings.
  - While increased savings might theoretically lead to more investment, the paradox highlights that the reduced consumption can lead to lower economic growth and investment.
- **Option 2: Spending Perspective**
  - This option confuses the concept by suggesting increased spending, which is opposite to the idea of increased saving in the paradox.
  - Increased spending would typically lead to higher aggregate demand and economic growth, contrary to what the paradox of thrift describes.
- **Option 3: Decreased Saving**
  - This option focuses on decreased saving, which does not align with the paradox of thrift.
  - The paradox specifically addresses the scenario where people save more, not less.

Question 5

Match List-I with List-II :

List – I		List - II	
A.	Bank Rate	I.	Securities are pledged in order to repurchase
B.	Marginal Standing Facility	II.	Minimum rate at which funds are provided for long term
C.	Repo Rate	III.	Also known as Penal Interest Rate
D.	Reverse Repo Rate	IV.	Central Bank borrows funds from commerical banks

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: B

Solution:

The correct answer is - (A) - (II), (B) - (III), (C) - (I), (D) - (IV)

Key Points

- **Bank Rate (II)**
  - The Bank Rate is the minimum rate at which the central bank (RBI in India) provides funds to commercial banks for long-term purposes.
  - This rate influences the lending rates of commercial banks and is a tool for controlling money supply and inflation.
- **Marginal Standing Facility (III)**
  - The Marginal Standing Facility (MSF) is a window for banks to borrow from the RBI in an emergency situation when inter-bank liquidity dries up completely.
  - The interest rate on MSF is higher than the repo rate and is considered a penal rate.
- **Repo Rate (I)**
  - The Repo Rate is the rate at which the central bank lends short-term money to commercial banks against securities.
  - Banks borrow funds by selling securities to the RBI with an agreement to repurchase them at a future date.
- **Reverse Repo Rate (IV)**
  - The Reverse Repo Rate is the rate at which the central bank borrows money from commercial banks.
  - This tool is used to absorb liquidity from the banking system.

Additional Information

- **Key concepts related to the terms:**
  - **Bank Rate:** It's a long-term interest rate and is different from the repo rate, which is for short-term borrowing.
  - **Marginal Standing Facility (MSF):** This facility allows banks to borrow overnight funds from the RBI against approved government securities.
  - **Repo Rate:** It stands for 'Repurchase Option'. It is a key tool for RBI to control inflation and manage liquidity.
  - **Reverse Repo Rate:** It is used to control the money supply in the economy, by absorbing excess liquidity.

Question 6

Which of the following is *not* a function of Central Bank ?

Options:

A. It controls the money supply in the economy through different rates.

B. It acts as a banker to the government.

C. It accepts deposits and give loans to people.

D. It issues the currency of the country.

Answer: C

Solution:

The correct answer is - It accepts deposits and give loans to people.

Key Points

- **Central Bank**
  - The Central Bank is the primary monetary authority of a country, often responsible for implementing monetary policy, issuing currency, and overseeing the financial system.
  - While commercial banks accept deposits and give loans to individuals and businesses, the Central Bank does not engage in these activities directly with the public.
  - Instead, the Central Bank regulates and supervises commercial banks to ensure the stability and efficiency of the financial system.

Additional Information

- **Control of Money Supply**
  - The Central Bank uses various tools such as interest rates, open market operations, and reserve requirements to control the money supply in the economy.
  - This helps in managing inflation, stabilizing the currency, and fostering economic growth.
- **Banker to the Government**
  - The Central Bank acts as a banker to the government by managing its accounts, facilitating transactions, and providing short-term funding.
  - It also advises the government on economic and financial matters.
- **Issuance of Currency**
  - The Central Bank has the sole authority to issue currency notes and coins in the country.
  - This ensures a uniform and controlled supply of money, reducing the risk of counterfeiting and maintaining public confidence in the currency.

Question 7

Article 112 deals with:

Options:

A. Consolidated Fund of India

B. Public Account

C. Union Budget

D. Contingency Fund

Answer: C

Solution:

The correct answer is - Union Budget

Key Points

- **Union Budget**
  - Article 112 of the Indian Constitution deals with the annual financial statement, more commonly known as the Union Budget.
  - The Union Budget is presented by the Finance Minister in the Parliament every year.
  - It outlines the government's revenue and expenditure for the upcoming financial year.
  - The budget includes estimates of revenue and capital receipts and proposals for expenditures.
  - It also lays down the fiscal policy and financial priorities of the government.

Additional Information

- **Consolidated Fund of India**
  - This is the chief account of the Government of India, where all receipts are credited and all payments are debited.
  - It includes revenues received by the government, loans raised, and money received in repayment of loans.
- **Public Account**
  - Public Account funds are those where the government acts as a banker, such as provident funds, small savings collections, and other similar funds.
  - These funds do not belong to the government and have to be paid back to the depositors.
- **Contingency Fund**
  - This fund is established under Article 267 of the Indian Constitution.
  - It is used to meet unforeseen expenditures that cannot wait for the approval of the Parliament.

Question 8

All those elements which create liability and decrease the assets of government are known as :

Options:

A. Capital Receipts

B. Capital Payments

C. Revenue Receipts

D. Revenue Payments

Answer: A

Solution:

The correct answer is - Capital Receipts

Key Points

- **Capital Receipts**
  - Capital receipts are funds received by the government which create a liability or reduce the assets.
  - Examples include loans raised by the government from the public, foreign governments, and financial institutions, as well as disinvestment proceeds.
  - They are non-recurring in nature and are not a part of the regular income of the government.
  - Capital receipts increase the liabilities of the government or decrease its assets.

Additional Information

- **Capital Payments**
  - These are expenditures that create assets or reduce liabilities.
  - Examples include expenditure on the acquisition of assets like land, buildings, and machinery.
  - They are non-recurring and lead to the creation of assets.
- **Revenue Receipts**
  - These are regular incomes received by the government which do not create a liability or reduce assets.
  - Examples include tax revenues, dividends from public sector enterprises, and interest receipts.
  - They are recurring in nature and part of the regular income.
- **Revenue Payments**
  - These are expenditures that do not result in the creation of assets or reduction of liabilities.
  - Examples include salaries, pensions, and interest payments.
  - They are recurring in nature and do not result in capital formation.

Question 9

Arrange the following elements in correct chronological sequence (earliest to latest) :

(A) Smithsonian Agreement

(B) Bretton Woods Conference

(C) Establishment of WTO

(D) Gold Standard

Choose the correct answer from the options given below :

Options:

A. (A), (B), (C), (D)

B. (D), (B), (A), (C)

C. (D), (A), (B), (C)

D. (C), (B), (D), (A)

Answer: B

Solution:

The correct answer is - (D), (B), (A), (C)

Key Points

- **Gold Standard**
    - The Gold Standard was established in the 19th century and was the system under which the value of a country's currency was directly tied to a specific amount of gold.
    - Most countries abandoned the Gold Standard during the Great Depression in the 1930s.
- **Bretton Woods Conference**
    - The Bretton Woods Conference took place in July 1944. It established the Bretton Woods system of monetary management, which created the International Monetary Fund (IMF) and the World Bank.
    - The conference aimed to provide a framework for economic cooperation and development to avoid the economic issues that led to World War II.
- **Smithsonian Agreement**
    - The Smithsonian Agreement was reached in December 1971. It was an attempt to stabilize the international monetary system after the collapse of the Bretton Woods system.
    - This agreement led to the devaluation of the US dollar and adjustments to the fixed exchange rates between other world currencies.
- **Establishment of WTO**
    - The World Trade Organization (WTO) was established on January 1, 1995.
    - The WTO succeeded the General Agreement on Tariffs and Trade (GATT) and aimed to ensure that trade flows as smoothly, predictably, and freely as possible.

Additional Information

- **Gold Standard**
    - The Gold Standard is significant because it provided a stable exchange rate system, which facilitated international trade and investment during its time.
- **Bretton Woods System**
    - The Bretton Woods system collapsed in the early 1970s when the US decided to stop converting dollars to gold, leading to the Smithsonian Agreement.
- **World Trade Organization**
    - The establishment of the WTO marked a significant milestone in the regulation of international trade, encompassing agreements on goods, services, and intellectual property rights.

Question 10

Under flexible exchange rate, when the price of domestic currency in terms of foreign currency increases, it is called ___________ .

Options:

A. Depreciation of domestic currency

B. Appreciation of domestic currency

C. Devaluation of domestic currency

D. Revaluation of domestic currency

Answer: B

Solution:

The correct answer is - Appreciation of domestic currency

Key Points

- **Appreciation of domestic currency**
  - Under a flexible exchange rate system, currencies fluctuate based on market forces of demand and supply.
  - When the price of domestic currency in terms of foreign currency increases, it means that the domestic currency has become stronger or more valuable relative to the foreign currency.
  - This increase in value is referred to as an appreciation of the domestic currency.
  - For instance, if the exchange rate changes from 1 USD = 70 INR to 1 USD = 65 INR, the Indian Rupee (INR) has appreciated.

Additional Information

- **Depreciation of domestic currency**
  - Depreciation refers to a decrease in the value of the domestic currency relative to foreign currencies under a flexible exchange rate system.
  - It occurs due to market forces such as changes in demand and supply, economic conditions, or geopolitical events.
- **Devaluation of domestic currency**
  - Devaluation is a deliberate downward adjustment to the value of a country's currency relative to another currency or a standard under a fixed exchange rate system.
  - It is often implemented by a country's government or monetary authority to correct imbalances.
- **Revaluation of domestic currency**
  - Revaluation is the opposite of devaluation, where the value of the currency is increased by the government or monetary authority under a fixed exchange rate system.
  - This action makes the currency stronger in relation to foreign currencies.

Question 11

Match List-I with List-II :

List – I		List - II	
A.	Pegged exchange rate system	I.	Setting up of IMF and World Bank
B.	Managed floating	II.	Fixed exchange rate system
C.	Bretton Woods Conference	III.	Dirty floating
D.	Third element in BOP	IV.	Error and Omission Account

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: B

Solution:

The correct answer is - 2) (A) - (II), (B) - (III), (C) - (I), (D) - (IV)

Key Points

- **Pegged exchange rate system - Fixed exchange rate system (A - II)**
  - In a pegged exchange rate system, a country's currency value is fixed or pegged relative to another currency or a basket of currencies.
  - This system ensures stability in exchange rates and helps in controlling inflation.
- **Managed floating - Dirty floating (B - III)**
  - Managed floating, also known as dirty floating, is a system where the currency value is primarily determined by the market forces of demand and supply, but the central bank occasionally intervenes to stabilize the currency.
  - This intervention is done to prevent excessive fluctuations in the currency value.
- **Bretton Woods Conference - Setting up of IMF and World Bank (C - I)**
  - The Bretton Woods Conference, held in 1944, led to the establishment of the International Monetary Fund (IMF) and the World Bank.
  - The primary goal was to create a framework for economic cooperation and development to prevent future economic crises.
- **Third element in BOP - Error and Omission Account (D - IV)**
  - The Balance of Payments (BOP) consists of the current account, the capital account, and the financial account.
  - The third element, known as the Error and Omission Account, is used to balance any discrepancies that arise due to errors in recording transactions.

Additional Information

- **Additional Details on Key Concepts**
  - **Pegged Exchange Rate System:** This system can help in stabilizing a country's economy by providing a predictable exchange rate, which is beneficial for international trade and investment.
  - **Managed Floating (Dirty Floating):** Central banks intervene in this system to prevent extreme volatility and to achieve specific economic objectives such as controlling inflation or boosting exports.
  - **Bretton Woods Conference:** The conference established a new international monetary order and aimed to ensure economic stability and prevent competitive devaluations that had contributed to the Great Depression.
  - **Balance of Payments (BOP):** The BOP accounts for all economic transactions between residents of a country and the rest of the world, including trade in goods and services, cross-border investments, and financial transfers.

Question 12

Casualization of workforce would result in :

Options:

A. Decrease in the vulnerablility of the workforce

B. Increase in the vulnerability of the workforce.

C. Increase in the number of regular workers.

D. Income and employment stablility.

Answer: B

Solution:

The correct answer is - Increase in the vulnerability of the workforce.

Key Points

- **Increase in the vulnerability of the workforce**
  - Casualization of the workforce refers to the shift from permanent, secure jobs to more temporary or casual employment.
  - This results in workers having less job security, fewer benefits, and often lower wages.
  - Casual workers are typically more susceptible to economic fluctuations and employer discretion, making their employment more precarious.
  - Such conditions increase the overall vulnerability of the workforce as they lack the stability and protections that regular workers receive.

Additional Information

- **Decrease in the vulnerability of the workforce**
  - Casualization typically does not provide the stability and benefits that reduce vulnerability; hence, this statement is incorrect.
- **Increase in the number of regular workers**
  - Casualization means more temporary or part-time positions rather than regular, full-time employment.
  - Therefore, it does not lead to an increase in the number of regular workers but rather to an increase in non-regular workers.
- **Income and employment stability**
  - Casual jobs are inherently less stable, with fluctuating hours and income, and fewer long-term guarantees.
  - This is contrary to the stability implied by regular, full-time employment.

Question 13

Choose the correct chronological sequence in ascending order (earliest to latest) :

(A) Establishment of NABARD

(B) FRBMA (Fiscal Responsibility and Budget Management Act)

(C) Third Five Year Plan

(D) Nationalization of RBI

Options:

A. (A), (B), (C), (D)

B. (A), (C), (B), (D)

C. (D), (A), (B), (C)

D. (D), (C), (A), (B)

Answer: D

Solution:

The correct answer is - (D), (C), (A), (B)

Key Points

- **Nationalization of RBI**
  - The Reserve Bank of India (RBI) was nationalized on January 1, 1949.
  - It was initially established as a private entity in 1935, but the government took over its ownership in 1949.
  - The nationalization aimed to ensure better control over credit delivery.
- **Third Five Year Plan**
  - The Third Five Year Plan of India was launched in 1961 and lasted until 1966.
  - The focus of this plan was on making India self-reliant and self-generating.
  - It aimed at a target of 5.6% growth rate, but it faced setbacks due to the Indo-China war in 1962 and the Indo-Pak war in 1965.
- **Establishment of NABARD**
  - The National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982.
  - It was created based on the recommendations of the B. Sivaraman Committee.
  - NABARD focuses on providing and regulating credit and other facilities for the promotion and development of agriculture and rural areas.
- **FRBMA (Fiscal Responsibility and Budget Management Act)**
  - The Fiscal Responsibility and Budget Management Act (FRBMA) was enacted in 2003.
  - The act aims to ensure fiscal discipline, reduce fiscal deficit, and improve macroeconomic management.
  - It mandates the government to reduce the fiscal deficit to a certain level and eliminate revenue deficit.

Additional Information

- **Additional Information**
  - These events represent significant milestones in India's economic and financial history.
  - The nationalization of RBI helped in centralizing the banking sector, which was crucial for planned economic development.
  - The Five Year Plans were critical in setting the direction for India's economic policies and growth objectives.
  - NABARD plays a crucial role in enhancing the credit availability for agriculture and rural development.
  - The FRBMA was a major step towards fiscal consolidation and ensuring responsible financial management by the government.

Question 14

_______ implies that resource extraction is not above the rate of regeneration of resources and the wastes generated are within the assimilating capacity of the environment.

Options:

A. Absorptive capacity

B. Carrying capacity

C. Subsistence capacity

D. Exhaustive capacity

Answer: B

Solution:

The correct answer is - Carrying capacity

Key Points

- **Carrying capacity**
  - Carrying capacity refers to the maximum number of individuals or amount of resource use that the environment can sustain without degrading.
  - It implies that the rate of resource extraction should not exceed the rate at which resources regenerate.
  - The wastes generated by human activities should be within the environment's ability to assimilate and neutralize them.
  - This concept is crucial for sustainable development and environmental management.

Additional Information

- **Absorptive capacity**
  - Absorptive capacity refers to the ability of an environment to absorb, assimilate, and break down wastes and pollutants without harmful effects.
  - It is essential for understanding how much pollution an environment can handle before it becomes detrimental.
- **Subsistence capacity**
  - Subsistence capacity generally refers to the ability to sustain basic needs and livelihoods, particularly in a subsistence economy where people rely on local resources for survival.
  - This concept is more focused on the minimum level of resources necessary for human survival rather than overall sustainability.
- **Exhaustive capacity**
  - Exhaustive capacity is not a commonly used term in environmental science or resource management.
  - It could imply the limit beyond which resource extraction or waste generation leads to depletion or degradation, but it is not a standardized concept like carrying capacity or absorptive capacity.

Question 15

Government of India enacted the Right to Education Act in 2009 to make free education a Fundamental Right of all children in the age group of ___________ years.

Options:

A. 4 – 10

B. 6 – 12

C. 6 – 14

D. 8 – 15

Answer: C

Solution:

The correct option is 6-14 years

Key Points

- The Right to Education (RTE) Act was enacted by the Government of India in 2009 with the aim to provide free and compulsory education to all children in the age group of 6 to 14 years.
- This is in line with Article 21-A of the Indian Constitution, which was introduced through the 86th Constitutional Amendment. The Act mandates that all children in this age group receive quality education in a formal school setting.

Question 16

Following are the sources of electricity generation in India. Arrange them in correct sequence on the basis of total power generation capacity (higher to lower) :

(A) Nuclear

(B) Thermal

(C) New and renewable energy

(D) Hydro

Choose the correct answer from the options given below :

Options:

A. (A), (B), (C), (D)

B. (A), (C), (B), (D)

C. (B), (C), (D), (A)

D. (B), (D), (C), (A)

Answer: D

Solution:

The correct answer is - (B), (D), (C), (A)

Key Points

- **Thermal Power (B)**
  - Thermal power is the largest source of electricity generation in India.
  - It includes power generated from coal, gas, and oil.
  - Coal-based thermal power plants contribute the major share within thermal power.
- **Hydro Power (D)**
  - Hydropower is the second-largest source of electricity in India.
  - It involves generating power through the use of water flowing from higher to lower points.
  - India has significant hydroelectric power plants due to its geographical diversity.
- **New and Renewable Energy (C)**
  - Renewable energy sources include solar, wind, biomass, and small hydro projects.
  - The government of India has been actively promoting the adoption of renewable energy.
  - It is the third-largest source of electricity generation after thermal and hydro.
- **Nuclear Power (A)**
  - Nuclear power contributes the least among the listed sources.
  - India has a few operational nuclear power plants contributing to the national grid.
  - It is considered a clean and efficient source of energy but has higher setup costs and long development times.

Additional Information

- **India's Energy Mix**
  - India's energy mix is diverse, ensuring energy security and addressing environmental concerns.
  - The government has set ambitious targets for increasing the share of renewable energy in the power generation mix.
  - Investments and policies are increasingly focused on sustainable and clean energy sources.
- **Future of Power Generation in India**
  - India is focusing on reducing its carbon footprint by enhancing renewable energy capacity.
  - Technological advancements in energy storage and smart grids are expected to play a significant role.
  - Public and private sector collaboration is crucial for achieving energy targets.

Question 17

Arrange the following items in correct sequence :

(A) Competition Act

(B) FEMA

(C) FERA

(D) MRTP

Choose the correct answer from the options given below :

Options:

A. (A), (B), (C), (D)

B. (A), (C), (B), (D)

C. (D), (C), (B), (A)

D. (C), (B), (D), (A)

Answer: C

Solution:

The correct answer is - (D), (C), (B), (A)

Key Points

- **(D) MRTP**
  - The Monopolies and Restrictive Trade Practices (MRTP) Act was enacted in 1969.
  - It aimed to prevent concentration of economic power, control monopolies, and restrict unfair trade practices.
- **(C) FERA**
  - The Foreign Exchange Regulation Act (FERA) was introduced in 1973.
  - FERA was designed to regulate foreign exchange and ensure the judicious use of foreign exchange resources in the country.
- **(B) FEMA**
  - The Foreign Exchange Management Act (FEMA) replaced FERA in 1999.
  - FEMA aimed to facilitate external trade and payments, and promote the orderly development and maintenance of the foreign exchange market in India.
- **(A) Competition Act**
  - The Competition Act was enacted in 2002 and came into full force in 2009.
  - The Act aimed to eliminate practices that adversely affect competition, promote and sustain competition, protect the interests of consumers, and ensure freedom of trade in Indian markets.

Additional Information

- **MRTP Act**
  - It was one of the earliest attempts to regulate monopolistic and restrictive trade practices in India.
  - It was repealed with the introduction of the Competition Act, 2002.
- **FERA**
  - FERA was stringent and emphasized strict control over foreign exchange.
  - It was eventually replaced by FEMA as a part of economic liberalization and to make foreign exchange regulations more in tune with the post-liberalization era.
- **FEMA**
  - FEMA was introduced to facilitate external trade and payments, and for promoting the orderly development and maintenance of the foreign exchange market in India.
  - Unlike FERA, FEMA is more management-oriented and emphasizes on facilitating foreign exchange transactions.
- **Competition Act**
  - The Act established the Competition Commission of India (CCI) to prevent activities that have an adverse effect on competition in India.
  - It repealed and replaced the MRTP Act.

Question 18

The Great Leap Forward (GLF) campaign was initiated in ________

Options:

A. 1948

B. 1938

C. 1958

D. 1942

Answer: C

Solution:

The correct answer is - 1958

Key Points

- **The Great Leap Forward (GLF)**
  - The campaign was initiated in 1958 by the Chinese Communist Party (CCP) led by Mao Zedong.
  - The main aim was to rapidly transform China from an agrarian society into a socialist society through rapid industrialization and collectivization.
  - The GLF involved the establishment of people's communes and the mobilization of the entire population to work on large-scale infrastructure projects.
  - Despite the ambitious goals, the campaign led to severe economic dislocation, widespread famine, and millions of deaths.

Additional Information

- **Other Options and Relevant Information**
  - **1948**
    - This was the year when the Chinese Civil War was ongoing, leading to the eventual establishment of the People's Republic of China in 1949.
  - **1938**
    - During this period, China was engaged in the Second Sino-Japanese War, and the focus was on resisting Japanese invasion rather than internal reforms.
  - **1942**
    - This year was significant in Chinese history for the Yan'an Rectification Movement, an ideological campaign within the Chinese Communist Party.

Question 19

Match List-I with List-II :

List – I		List - II	
A.	Great Leap Forward	I.	Protecting the future generation
B.	Mao Zedong	II.	Aimed at industralising the country on a massive scal
C.	Brundtland Commission	III.	Introduced the Great Proletarian Cultural Revolution
D.	Our Common Future	IV.	Seminal Report that explained sustainable development as

			meeting the basic needs of all for a better life

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: B

Solution:

The correct answer is - (A) - (II), (B) - (III), (C) - (I), (D) - (IV)

Key Points

- **Great Leap Forward - Aimed at industrializing the country on a massive scale (A-II)**
  - The Great Leap Forward was a campaign led by the Communist Party of China from 1958 to 1962.
  - It aimed to rapidly transform China from an agrarian economy into a socialist society through rapid industrialization and collectivization.
- **Mao Zedong - Introduced the Great Proletarian Cultural Revolution (B-III)**
  - Mao Zedong was the founding father of the People's Republic of China and the chairman of the Communist Party of China.
  - He launched the Cultural Revolution in 1966 to preserve 'true' communist ideology by purging remnants of capitalist and traditional elements from Chinese society.
- **Brundtland Commission - Protecting the future generation (C-I)**
  - The Brundtland Commission, formally known as the World Commission on Environment and Development (WCED), was convened by the United Nations in 1983.
  - Its mission was to unite countries to pursue sustainable development together.
- **Our Common Future - Seminal Report that explained sustainable development as meeting the basic needs of all for a better life (D-IV)**
  - Our Common Future, also known as the Brundtland Report, was published in 1987 by the Brundtland Commission.
  - The report is significant for popularizing the term "sustainable development" and stressing the importance of balancing economic growth, environmental protection, and social equity.

Additional Information

- **Great Leap Forward**
  - Despite its ambitious goals, the Great Leap Forward led to a severe economic crisis and widespread famine in China.
  - Estimates of the death toll range from 15 to 45 million people.
- **Mao Zedong**
  - The Cultural Revolution caused significant upheaval in Chinese society, leading to the persecution of millions, destruction of cultural heritage, and widespread chaos.
  - It officially ended in 1976 following Mao's death.
- **Brundtland Commission**
  - The Commission's work laid the groundwork for the Earth Summit in Rio de Janeiro in 1992, which was a pivotal moment for global environmental governance.
- **Our Common Future**
  - The report highlighted the interconnectedness of environmental, social, and economic issues and called for integrated solutions.
  - It emphasized the need for global cooperation and the responsibility of both developed and developing nations in achieving sustainable development.

Question 20

Second phase of Green Revolution is termed from :

Options:

A. mid 1960s to mid 1970s

B. mid 1970s to mid 1980s

C. mid 1950s to mid 1960s

D. mid 1980s to mid 1990s

Answer: B

Solution:

The correct answer is: mid 1970s to mid 1980s

Key Points

- **Second Phase of Green Revolution**
  - The second phase of the Green Revolution in India focused on the period from the mid-1970s to the mid-1980s.
  - This phase emphasized the expansion of the Green Revolution to more diverse regions and crops beyond the initial focus on wheat and rice.
  - It involved the introduction of high-yielding varieties of other crops, improvements in irrigation, and better use of fertilizers and pesticides.
  - The goal was to achieve self-sufficiency in food grains and to address regional disparities in agricultural productivity.

Additional Information

- **Other Options**
  - **Mid 1960s to mid 1970s**
    - This period marks the first phase of the Green Revolution in India, focusing primarily on the introduction of high-yielding varieties of wheat and rice.
    - It was characterized by the initial success in increasing food grain production and achieving food security.
  - **Mid 1950s to mid 1960s**
    - This period predates the Green Revolution in India, which began in the mid-1960s.
    - Agricultural practices during this time were more traditional and did not involve the significant technological advancements seen later.
  - **Mid 1980s to mid 1990s**
    - This period follows the second phase and focuses on the continuation and consolidation of the gains made during the Green Revolution.
    - It includes efforts to address the environmental and socio-economic challenges that arose from the Green Revolution practices.

Question 21

During 1980s, the growth rate in Pakistan improved on account of which of the following reasons ?

Options:

A. Institutionalised process of technical change

B. A good harvest

C. Sustainable export of manufactured goods

D. High amount of foreign direct investment inflow

Answer: B

Solution:

The correct answer is - A good harvest

Key Points

- **A good harvest**
  - During the 1980s, Pakistan experienced significant improvements in agricultural output.
  - This period saw favorable weather conditions, leading to bumper crops of major staples like wheat and rice.
  - The increase in agricultural production helped ensure food security and contributed positively to the country's GDP.
  - The agricultural sector was a major part of Pakistan's economy, and a good harvest led to overall economic stability and growth.
  - Rural income levels improved, leading to increased purchasing power and demand for goods and services.

Additional Information

- **Institutionalised process of technical change**
  - This involves systematic and structured adoption of new technologies and innovations across various sectors.
  - While technical change can drive economic growth, it was not the primary reason for Pakistan's growth in the 1980s.
- **Sustainable export of manufactured goods**
  - Export of manufactured goods refers to the sale of domestically produced goods to other countries.
  - Though important for economic growth, Pakistan's manufacturing sector was not the main driver of growth in the 1980s.
- **High amount of foreign direct investment inflow**
  - Foreign direct investment (FDI) involves investment from foreign entities in domestic companies and projects.
  - FDI can boost economic growth by providing capital, technology, and expertise, but it was not the key factor for growth in Pakistan during the 1980s.

Question 22

When there is unexpected rise in the sales ___________ .

Options:

A. Aggregate demand would decline.

B. There will be unplanned accumulation of inventories.

C. There will be unplanned decumulation of inventories.

D. Normal profit would be lower.

Answer: C

Solution:

The correct answer is - There will be unplanned decumulation of inventories.

Key Points

- **Unplanned Decumulation of Inventories**
  - When sales unexpectedly rise, businesses often experience a higher than anticipated demand for their products.
  - This leads to a rapid depletion of inventories, as the available stock is sold faster than planned.
  - Companies may struggle to replenish their inventory quickly enough to meet the sudden surge in demand, leading to unplanned decumulation.

Additional Information

- **Aggregate Demand**

   - Aggregate demand is the total demand for goods and services within an economy at a given overall price level and in a given time period.
   - An unexpected rise in sales generally indicates an increase in aggregate demand, not a decline.
- **Unplanned Accumulation of Inventories**
   - This occurs when sales are lower than expected, leading to excess stock.
   - Instead of selling products, they accumulate in the warehouse, which is the opposite of what happens with an unexpected rise in sales.
- **Normal Profit**
   - Normal profit is the minimum level of profit needed for a company to remain competitive in the market.
   - Typically, an unexpected rise in sales would increase overall profit, rather than lowering it.

Question 23

During festive season, the currency deposit ratio _____________ .

Options:

A. decreases

B. increases

C. has no impact on it

D. first decreases then increases

Answer: B

Solution:

The correct answer is - increases

Key Points

- **During festive season, the currency deposit ratio increases.**
   - During festivals, people tend to withdraw more cash for spending on celebrations, gifts, travel, etc.
   - This increased cash withdrawal results in a higher currency deposit ratio, as more cash is in circulation outside the banking system.

Additional Information

- **Currency Deposit Ratio**
   - This ratio measures the amount of currency that the public holds relative to deposits in banks.
   - An increase in the currency deposit ratio indicates more currency is being held by the public rather than being deposited in banks.
   - This can be influenced by seasonal factors, such as festive seasons, when the demand for cash increases.
- **Other Options**
   - Decreases: This would suggest people deposit more cash back into banks during festive seasons, which is generally not the case.
   - Has no impact: Seasonal variations like festive seasons do impact the currency deposit ratio significantly.
   - First decreases then increases: This suggests a pattern that does not typically align with the usual behavior observed during festive seasons.

Question 24

European Monetary Union was created in __________.

Options:

A. 1996

B. 1994

C. 1999

D. 2002

Answer: C

Solution:

The correct answer is - 1999

Key Points

- **European Monetary Union (EMU)**
  - The European Monetary Union was formally established in 1999.
  - The EMU involves the coordination of economic and fiscal policies, a common monetary policy, and the euro as the common currency.
  - In 1999, the euro was introduced as a virtual currency for accounting purposes and electronic payments.
  - The physical euro banknotes and coins were introduced later, in 2002.

Question 25

Identify the correct statement in the context of Circular Flow of Income in a two sector economy :

Options:

A. Household receives factor services from firms.

B. Household invests while firm saves.

C. Firms produce goods and services.

D. Household supplies factor services to Government.

Answer: C

Solution:

The correct answer is - Firms produce goods and services

Key Points

- **Firms produce goods and services**
  - In a two-sector economy, the two primary sectors are households and firms.
  - Firms are responsible for the production of goods and services, which are then sold to households.
  - This production process forms the basis of the economic activity in this model.
  - Firms utilize factors of production such as labor, capital, and land to create these goods and services.

Additional Information

- **Household receives factor services from firms**
  - Incorrect because households supply factor services (labor, capital, land) to firms, not receive them.
  - Households receive income in return for providing these factor services.
- **Household invests while firm saves**
  - Incorrect because households typically save and firms invest in the context of a two-sector economy.
  - Households save a part of their income, which can be used by firms for investment.

- **Household supplies factor services to Government**
  - Incorrect in the context of a two-sector economy because there is no government sector involved.
  - In a two-sector model, the primary interaction is between households and firms only.

Question 26

Identify the correct set of statements.

(A) Ex Ante Saving represents what is actually planned to save.

(B) Ex Post Saving represents what is actually planned to save.

(C) Ex Post Saving depicts what has actually happened.

(D) Ex Ante Post Saving represents what is actually saved.

Choose the correct answer from the options given below :

Options:

A. (A) and (D) only

B. (A) and (C) only

C. (B) and (D) only

D. (C) and (D) only

Answer: B

Solution:

The correct answer is option 2

Key Points

- **(A) Ex Ante Saving represents what is actually planned to save.**
  - Ex Ante Saving refers to the savings that households or firms plan to make in a given period. It represents the anticipated or planned savings before the period begins.
- **(C) Ex Post Saving depicts what has actually happened.**
  - Ex Post Saving refers to the actual savings made by households or firms in a given period. It represents the savings that have occurred after all economic activities have taken place.

Additional Information

- **(B) Ex Post Saving represents what is actually planned to save.**
  - This statement is incorrect because Ex Post Saving refers to actual savings, not planned savings.
- **(D) Ex Ante Post Saving represents what is actually saved.**
  - This statement is incorrect and confusing because it mixes the terms "Ex Ante" and "Ex Post". "Ex Ante" relates to planning before the fact, while "Ex Post" relates to what has actually occurred.

Question 27

Match List-I with List-II :

List – I (Elements)		List - II (Features)	
A.	Annual Financial Statement	I.	Create liabilities or reduce financial assets
B.	Capital Receipts	II.	Trade surplus
C.	Capital Payment	III.	Main budget document
D.	Export > Import	IV.	Create financial assets or reduce liabilities

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: B

Solution:

The correct answer is - (A) - (III), (B) - (I), (C) - (IV), (D) - (II)

Key Points

- **Annual Financial Statement**
  - The Annual Financial Statement is the main budget document presented by the government. It contains details about the financial position, including expected revenues and expenditures for the upcoming fiscal year.
- **Capital Receipts**
  - Capital Receipts include funds that create liabilities or reduce financial assets. Examples include borrowings, disinvestments, and recoveries of loans.
- **Capital Payment**
  - Capital Payments refer to expenditures that create financial assets or reduce liabilities. Examples include the acquisition of assets or repayment of loans.
- **Export > Import**
  - When a country's export exceeds its import, it results in a trade surplus, meaning the country is selling more goods and services abroad than it is buying from other countries.

Additional Information

- **Additional Key Concepts**
  - **Revenue Receipts**
    - These are funds that do not create liabilities or reduce financial assets. They include tax revenues, interest, and dividends.
  - **Fiscal Deficit**
    - This occurs when the government's total expenditure exceeds its total revenue, excluding borrowings.
  - **Current Account Deficit**
    - This is a situation where a country's total imports of goods, services, and transfers exceed its total export of goods, services, and transfers.

Question 28

How is civic authority getting benefitted due to biocomposting ?

Options:

A. They have to dispose increased quantity of waste.

B. They don’t have to dispose any waste.

C. Because civic authority has no role in waste management.

D. They have to dispose reduced quantity of waste.

Answer: D

Solution:

The correct answer is - They have to dispose reduced quantity of waste.

Key Points

- **Biocomposting Benefits**
  - Biocomposting involves the decomposition of organic waste using microbial processes, turning it into valuable compost.
  - This process significantly reduces the volume of waste that needs to be transported to landfills or waste disposal sites.
  - As a result, the civic authorities are required to manage and dispose of a reduced quantity of waste.
  - The reduction in waste volume also decreases transportation costs and the environmental impact associated with waste disposal.

Additional Information

- **Increased Quantity of Waste**
  - This option is incorrect because biocomposting reduces the overall volume of waste rather than increasing it.
- **No Waste to Dispose**
  - This option is incorrect as there will always be some residual waste even after biocomposting, just significantly reduced.
- **No Role in Waste Management**
  - This option is incorrect because civic authorities play a crucial role in managing waste, including overseeing biocomposting initiatives.

Question 29

Choose the correct statement concerned with the passage :

Options:

A. Earthworm takes equal time to convert organic matter into compost with respect to normal composting process.

B. Earthworm takes more time to convert organic matter into compost with respect to normal composting process.

C. Earthworm takes less time to convert organic matter into compost with respect to normal composting process.

D. Comparison between earthworm based composting and normal composting cannot be made.

Answer: C

Solution:

The correct answer is - Earthworm takes less time to convert organic matter into compost with respect to normal composting process.

Key Points

- **Earthworms in Composting**
  - Earthworms are highly efficient decomposers, breaking down organic matter more quickly compared to traditional composting methods.
  - Their digestive processes accelerate the breakdown of organic material, resulting in faster compost production.
  - This process, known as vermicomposting, typically takes less time than normal composting due to the biological activity of the worms.

Additional Information

- **Normal Composting Process**
  - Involves natural decomposition of organic materials such as food scraps, yard waste, and other biodegradable items.
  - Relies on microorganisms like bacteria and fungi to break down the material over a period of weeks to months.
  - The process can be slower compared to vermicomposting due to lesser biological activity and varying environmental conditions.
- **Benefits of Vermicomposting**
  - Produces high-quality compost that is rich in nutrients and beneficial microorganisms.
  - Reduces waste in landfills and promotes sustainable waste management practices.
  - Improves soil structure, water retention, and fertility when applied to gardens and farms.

Question 30

Water bodies including ground water system have suffered due to :

Options:

A. Biocomposting

B. Chemical contamination and increased demand for irrigation

C. Organic farming

D. Increased fertility of land

Answer: B

Solution:

The correct answer is - Chemical contamination and increased demand for irrigation

Key Points

- **Chemical contamination and increased demand for irrigation**
  - Water bodies and groundwater systems are often contaminated with chemicals due to the excessive use of fertilizers and pesticides in agriculture. These chemicals can leach into the soil and reach groundwater, leading to pollution.
  - The increasing demand for irrigation to support agricultural activities has led to over-extraction of groundwater. This over-extraction can lower the water table, reduce water availability, and degrade the quality of water.
  - Industrial activities also contribute to chemical contamination through the discharge of untreated or inadequately treated effluents into water bodies.

Additional Information

- **Biocomposting**
  - Biocomposting is an environmentally friendly process that converts organic waste into nutrient-rich compost. It generally has a positive impact on soil health and water retention, but it does not contribute to water contamination.
- **Organic farming**
  - Organic farming avoids synthetic chemicals and emphasizes natural processes and materials. It generally reduces the risk of water contamination and is considered sustainable for both soil and water health.
- **Increased fertility of land**
  - Increased fertility of land usually refers to the enhanced nutrient content and health of the soil, which can improve agricultural productivity. This is not directly related to water contamination or excessive water demand.

Question 31

In certain parts of the country, cattle are maintained only because they ___________ .

Options:

A. Produce milk to increase income of farmers

B. Producedung which is an important fertilizer and soil conditioner

C. Work as insect repellants

D. Are a symbol of traditional ethics and values

Answer: B

Solution:

The correct answer is - Produce dung which is an important fertilizer and soil conditioner

Key Points

- **Produce dung which is an important fertilizer and soil conditioner**
  - Cattle dung is a crucial organic fertilizer. It is rich in nutrients like nitrogen, phosphorus, and potassium, which are essential for soil health and crop growth.
  - It improves soil structure, enhances its water-holding capacity, and promotes the activity of beneficial microorganisms.
  - In many rural areas, cattle are primarily kept for their dung, which is used to maintain soil fertility and ensure sustainable agricultural practices.
  - Besides its use as a fertilizer, cattle dung is also used to make biogas, which can be used for cooking and generating electricity.

Additional Information

- **Produce milk to increase income of farmers**
  - While milk production is a significant reason for maintaining cattle, it is not the primary reason in certain parts of the country where dung is more valued.
- **Work as insect repellants**
  - Cattle dung has some insect-repellent properties, but this is not the primary reason for maintaining cattle in certain parts of the country.
- **Are a symbol of traditional ethics and values**
  - While cattle may hold cultural significance and symbolize traditional values, this is not the primary practical reason for maintaining them in certain regions.

Question 32

What should be the suitable title for the above passage ?

Options:

A. Biocomposting

B. Biopest Control

C. Traditional Knowledge and Practice

D. Uses of Chemical Fertilizers

Answer: B

Solution:

The correct answer is - Biopest Control

Key Points

- **Biopest Control**
  - Biopest control refers to the management and regulation of pests using biological methods rather than chemical substances.
  - It involves the use of natural predators, parasites, or pathogens to control pest populations.
  - This method is environmentally friendly and sustainable compared to chemical pest control methods.
  - Examples include the use of ladybugs to control aphid populations or the introduction of specific fungi to control insect pests.

Additional Information

- **Biocomposting**
  - Biocomposting involves the decomposition of organic waste through the action of microorganisms, producing compost which is used to enrich soil.
  - This method recycles organic material and reduces the need for chemical fertilizers.
- **Traditional Knowledge and Practice**
  - This refers to the long-standing traditions and practices of indigenous and local communities.
  - It includes knowledge systems that have evolved over centuries and are used in various domains such as agriculture, medicine, and environmental management.
- **Uses of Chemical Fertilizers**
  - Chemical fertilizers are synthetic substances that provide essential nutrients to plants to enhance their growth and productivity.
  - They are widely used in modern agriculture to meet the food demands of the growing population.

Question 33

Before the British rule, India was well known for which manufacturing industries' products ?

Options:

A. Cotton and Silk or Khadi textiles

B. Cotton and Engineering products

C. Cotton and Silk textiles, metal and precious stones, etc

D. Engineering goods and precious metals

Answer: C

Solution:

The correct answer is - Cotton and Silk textiles, metal and precious stones, etc

Key Points

- **Cotton and Silk textiles, metal and precious stones, etc**
  - Before British rule, India was renowned for its high-quality cotton and silk textiles, which were highly prized in international markets.
  - India's metal industries were also well-developed, producing fine items made from various metals, including iron and steel.
  - Precious stones like diamonds and other gemstones were significant exports, and India was known for its expertise in cutting and polishing these stones.

Additional Information

- **Cotton and Silk or Khadi textiles**

- While India was known for its cotton and silk textiles, the option does not encompass the full range of India's manufacturing prowess, particularly in metals and precious stones.
- **Cotton and Engineering products**
  - Engineering products were not a significant export during the pre-British era in India. The focus was more on textiles and metalwork.
- **Engineering goods and precious metals**
  - This option is partially correct but does not include textiles, which were a major part of India's manufacturing industry.

Question 34

What kind of interests was the colonial government concerned with in the economic policy for Indian industries ?

Options:

A. To promote the handicraft industries of India

B. Promote and protect small scale industries of India

C. Protect and promote the economic interests of Indian industry along with their home country

D. Provide protection and promotion of the economic interests of their home country

Answer: D

Solution:

The correct answer is - Provide protection and promotion of the economic interests of their home country

Key Points

- **Economic Policy of the Colonial Government**
  - The colonial government of India was primarily concerned with safeguarding the economic interests of their home country, Britain, rather than fostering the growth of Indian industries.
  - The policy was designed to transform India into a supplier of raw materials for British industries and a market for British manufactured goods.
  - Industrial development in India was limited to ensure that Indian industries did not compete with British industries.
  - Infrastructural developments like railways were implemented mainly to facilitate the movement of raw materials to ports for export to Britain and the import of British goods into India.

Additional Information

- **Promotion of Handicraft Industries**
  - The colonial government did not focus on promoting handicraft industries in India. In fact, the influx of British manufactured goods led to the decline of traditional handicrafts.
- **Promotion of Small Scale Industries**
  - There was no significant effort to promote or protect small-scale industries in India. The focus was on British economic interests.
- **Protection of Indian Industries**
  - The policy was not aimed at protecting or promoting Indian industries. Instead, it aimed to stifle them to prevent competition with British goods.

Question 35

Choose the economists who estimated India's National Income and Per Capita Income.

Options:

A. Dadabhai Naoroji, William Digby, Bernier, V.K.R.V. Raoand R.C. Desai

B. Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai

C. Dadabhai Naoroji, Jagdish Bhagwati, V.K.R.V. Rao and R.C. Desai

D. Dadabhai Naoroji, Findlay Shrirras and V.K.R.V. Rao

Answer: B

Solution:

The correct answer is - Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai

Key Points

- **Dadabhai Naoroji**
  - Known as the "Grand Old Man of India," he was among the earliest to estimate India's national income.
  - In his book "Poverty and Un-British Rule in India" (1901), Naoroji provided an estimate of India's per capita income.
- **William Digby**
  - A British author and journalist, Digby wrote extensively on the economic conditions of India under British rule.
  - He used statistical data to highlight the poverty and economic exploitation in India.
- **Findlay Shirras**
  - An economist and statistician, Shirras made significant contributions to the study of India's national income.
  - He conducted comprehensive studies and provided detailed estimates of India's income and economic conditions.
- **V.K.R.V. Rao**
  - V.K.R.V. Rao was an eminent economist who played a pivotal role in the development of economic planning in India.
  - He conducted extensive research on the national income of India and provided valuable estimates and analysis.
- **R.C. Desai**
  - R.C. Desai was another notable economist who contributed to the estimation of India's national income and economic studies.

Additional Information

- **Jagdish Bhagwati**
  - Jagdish Bhagwati is a renowned economist known for his work on international trade and economic development.
  - He is not primarily known for his work on estimating India's national income.
- **Bernier**
  - Francois Bernier was a French traveler and physician who visited India in the 17th century.
  - While his observations provide valuable historical insights, he did not estimate India's national income.

Question 36

What was the country’s growth of aggregate real output during the first half of the 20th century ?

Options:

A. The country’s growth of aggregate real output was less than two percent coupled with a meagre one percent growth in per capita output per year.

B. The country’s growth of aggregate real output was less than two percent coupled with a meagre one and a half percent growthin per capitaoutput per year.

C. The country’s growth of aggregate real output was less than two and a half percent coupled with a meagre halfpercent growth in per capita output per year.

D. The country’s growth of aggregate real output was less than two percent coupled with a meagre half percent growth in per capita output per year.

Answer: D

Solution:

The correct answer is - The country’s growth of aggregate real output was less than two percent coupled with a meagre half percent growth in per capita output per year.

Key Points

- **Growth of Aggregate Real Output**
  - The country's growth of aggregate real output was less than two percent during the first half of the 20th century. This indicates a slow pace of overall economic expansion.
  - Aggregate real output refers to the total value of goods and services produced in the country, adjusted for inflation.
  - Growth in aggregate output is a crucial indicator of the overall economic health and development of a country.
- **Growth in Per Capita Output**
  - The growth in per capita output was a meagre half percent per year. This indicates a very slow increase in the average economic output per person.
  - Per capita output is calculated by dividing the total output by the population, providing a measure of the average economic productivity of individuals.
  - A growth rate of half a percent in per capita output suggests that the standard of living and economic well-being of the average citizen were improving very slowly.

Additional Information

- **Other Options Overview**
  - Growth rates mentioned in other options:
    - Less than two percent aggregate output growth with one percent per capita output growth.
    - Less than two percent aggregate output growth with one and a half percent per capita output growth.
    - Less than two and a half percent aggregate output growth with half percent per capita output growth.
  - These variations in growth rates highlight different hypothetical scenarios of economic performance, but the correct answer specifically combines less than two percent aggregate output growth with half percent per capita output growth.

Question 37

According to the passage, which of the following statement was true about Indian industries’ products ?

Options:

A. Indian products were of inferior quality and cheap in the worldwide market.

B. Indian products were promoted by the colonial government and competed with other countries’ markets also.

C. Indian products enjoyed a worldwide market based on quality of material used and the high standard of craftsmanship.

D. Indian products’ raw material for primary goods was imported from the other countries and it helped to increase export.

Answer: C

Solution:

The correct answer is - Indian products enjoyed a worldwide market based on quality of material used and the high standard of craftsmanship

Key Points

- **Indian products enjoyed a worldwide market based on quality of material used and the high standard of craftsmanship**

  - Indian products were renowned for their superior quality and exquisite craftsmanship.
  - They were highly sought after in the global market, indicating a significant demand based on their quality.
  - This high standard was a result of traditional skills and methods passed down through generations.
  - The reputation of Indian products was built on the excellence of materials used and the meticulous attention to detail in their creation.

Additional Information

- **Indian products were of inferior quality and cheap in the worldwide market**
  - This is incorrect as it contradicts the actual historical reputation of Indian products.
  - Indian products were valued for their quality and were not considered inferior.
- **Indian products were promoted by the colonial government and competed with other countries' markets also**
  - Colonial policies often aimed at suppressing Indian industries to benefit British manufacturers, rather than promoting Indian products.
- **Indian products' raw material for primary goods was imported from the other countries and it helped to increase export**
  - Indian products were typically made from locally sourced materials, particularly textiles and handicrafts.
  - Importing raw materials was not a common practice for traditional Indian industries.

Question 38

______ is a market where economic agents can freely exchange their endowments with each other

Options:

A. Market economy

B. Centrally planned economy

C. Aggregate demand based economy

D. Aggregate supply based economy

Answer: A

Solution:

The correct answer is - Market economy

Key Points

- **Market economy**
  - A market economy is a system where the laws of supply and demand direct the production of goods and services.
  - Economic agents, such as consumers and businesses, are free to exchange their endowments and resources without government intervention.
  - Prices are determined through competition in the market, which ensures that resources are allocated efficiently.
  - Individuals have the freedom to choose what to produce, how to produce, and for whom to produce.

Additional Information

- **Centrally planned economy**
  - In a centrally planned economy, the government or central authority makes all decisions about the production and distribution of goods and services.
  - Resources are allocated based on the plans and directives of the central authority, not through market forces.
- **Aggregate demand based economy**
  - An aggregate demand based economy focuses on the total demand for goods and services within the economy at a given overall price level and in a given period.
  - It is more of a macroeconomic concept rather than a distinct type of economy.
- **Aggregate supply based economy**
  - An aggregate supply based economy emphasizes the total supply of goods and services that firms in an economy plan on selling during a specific time period.

- Like aggregate demand, it is a macroeconomic concept and not a separate economic system.

Question 39

Which of the following are correct statements ?

(A) Marginal Utility is the change in Total Utility due to consumption of one additional unit of commodity.

(B) Two Indifference Curves intersect each other.

(C) Marginal Utility becomes Zero at a level when Total Utility remains constant.

(D) Diminishing Marginal Rate of Substitution does not affect Indifference Curve.

(E) Indifference Curve slopes downwards from left to right.

Choose the correct answer from the options given below :

Options:

A. (A), (B) and (E) only

B. (A), (C) and (E) only

C. (A), (D) and (E) only

D. (B), (D) and (E) only

Answer: B

Solution:

The correct answer is - (A), (C) and (E) only

Key Points

- **(A) Marginal Utility is the change in Total Utility due to consumption of one additional unit of commodity.**
  - This statement is correct as marginal utility refers to the additional satisfaction or benefit (utility) that a person receives from consuming an additional unit of a good or service.
- **(C) Marginal Utility becomes Zero at a level when Total Utility remains constant.**
  - This statement is correct because when marginal utility is zero, it indicates that the consumption of additional units does not increase total utility. Total utility remains constant at this point.
- **(E) Indifference Curve slopes downwards from left to right.**
  - This statement is correct as indifference curves typically slope downwards from left to right, representing that as the quantity of one good increases, the quantity of the other good must decrease for the consumer to maintain the same level of utility.

Additional Information

- **(B) Two Indifference Curves intersect each other.**
  - This statement is incorrect because indifference curves cannot intersect each other. If they did, it would violate the assumption that preferences are consistent and transitive.
- **(D) Diminishing Marginal Rate of Substitution does not affect Indifference Curve.**
  - This statement is incorrect because the diminishing marginal rate of substitution (MRS) affects the shape of the indifference curve. Indifference curves are typically convex to the origin due to the diminishing MRS.

Question 40

Match List-I with List-II :

List – I (Characteristic)		List - II (Implication)	
A.	Equilibrium	I.	Plans of all the consumers and firms in the market match
B.	Excess supply	II.	Demand decreases with an increase in income
C.	Inferior good	III.	Supply is greater than market demand
D.	Price ceiling	IV.	Imposition of upper limit by government

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: B

Solution:

The correct answer is - Option 2

Key Points

- **Equilibrium**
  - In economics, equilibrium refers to a situation where market supply and demand balance each other, resulting in stable prices.
  - This means that the plans of all consumers and firms in the market match, leading to no excess supply or demand.
- **Excess Supply**
  - Excess supply occurs when the quantity of a good or service supplied is more than the quantity demanded at the current price.
  - This results in a surplus, where supply is greater than market demand.
- **Inferior Good**
  - An inferior good is a type of good whose demand decreases when consumer income rises, unlike normal goods, for which the opposite is observed.
  - This is represented by demand decreasing with an increase in income.
- **Price Ceiling**
  - A price ceiling is a government-imposed limit on how high a price can be charged on a product.
  - This is an upper limit set by the government to control prices and protect consumers from prices that are considered too high.

Additional Information

- **Other Options Explanation**

- Option 1: Incorrect because it mismatches the implications with the characteristics. Specifically, excess supply is incorrectly matched with demand decreasing due to income increase, which describes an inferior good.
- Option 3: Incorrect because it mismatches the implications with the characteristics. It wrongly associates excess supply with the price ceiling concept.
- Option 4: Incorrect because it mismatches the implications with the characteristics. It wrongly associates equilibrium with supply being greater than demand.

Question 41

When Elasticity of Demand Curve is 1 at every point on the Demand Curve, this curve is known as :

Options:

A. Perfectly inelastic demand curve

B. Perfectly elastic demand curve

C. Rectangular Hyperbola

D. Greater than unitary demand curve

Answer: C

Solution:

The correct answer is - Rectangular Hyperbola

Key Points

- **Rectangular Hyperbola**
  - A demand curve where the elasticity of demand is equal to one at every point is called a rectangular hyperbola.
  - Elasticity of demand measures how much the quantity demanded responds to changes in price.
  - When the elasticity of demand is unitary (equals 1), it implies that the percentage change in quantity demanded is exactly equal to the percentage change in price.
  - This means that total revenue (price multiplied by quantity) remains constant along the curve.

Additional Information

- **Perfectly Inelastic Demand Curve**
  - In a perfectly inelastic demand curve, the quantity demanded does not change at all with changes in price.
  - This curve is vertical, indicating zero elasticity (elasticity = 0).
- **Perfectly Elastic Demand Curve**
  - In a perfectly elastic demand curve, any small change in price leads to an infinite change in quantity demanded.
  - This curve is horizontal, indicating infinite elasticity (elasticity = ∞).
- **Greater Than Unitary Demand Curve**
  - A demand curve where the elasticity is greater than one at every point is considered elastic.
  - This implies that the percentage change in quantity demanded is greater than the percentage change in price.

Question 42

According to the Theory of Consumer Behaviour, Inequality $p_1 x_1 + p_2 x_2 \leq M$ is called the Consumer's ___________ .

Options:

A.

Budget

B.

Budget Set

C.

Budget Constraint

D.

Budget Behaviour

Answer: C

Solution:

The correct answer is - Budget Constraint

Key Points

- **Budget Constraint**
  - The inequality $p1 \cdot x1 + p2 \cdot x2 \leq M$represents the consumer's budget constraint.
  - It indicates that the total expenditure on goods $x1$ and $x2$ should not exceed the consumer's income M.
  - This constraint helps in determining the feasible combinations of goods that a consumer can afford.

Additional Information

- **Budget**
  - The budget refers to the total amount of money available for spending.

  - In the context of consumer behavior, it is represented by M.

- **Budget Set**
  - The budget set includes all possible combinations of goods that a consumer can afford given their budget.
  - It is the collection of all bundles that satisfy the budget constraint.
- **Budget Behaviour**
  - This term is not standard in economic theory.
  - It could be interpreted as how a consumer allocates their budget among various goods, but it is not a defined concept like the other terms.

Question 43

Choose the correct statements from the following :

(A) Adam Smith is termed as Father of Modern Economics.

(B) J.M. Keynes gave the Theory of Income, Output and Employment.

(C) Four Sector Model = C + I + G + (X – M)

(D) Store of value is primary function of money.

Choose the correct answer from the options given below :

Options:

A. (A), (B) and (D) only

B. (A), (B) and (C) only

C. (A), (B), (C) and (D)

D. (B), (C) and (D) only

Answer: B

Solution:

The correct answer is - (A), (B) and (C) only

Key Points

- **Adam Smith**
  - Adam Smith is widely considered the Father of Modern Economics.
  - He authored "The Wealth of Nations" in 1776, laying the foundations for classical economics.
  - His ideas on free markets, the division of labor, and the invisible hand are central to economic theory.
- **J.M. Keynes**
  - John Maynard Keynes is known for his contributions to macroeconomics.
  - His book, "The General Theory of Employment, Interest, and Money" (1936), introduced the theory of income, output, and employment.
  - Keynesian economics emphasizes the role of government intervention in stabilizing the economy.
- **Four Sector Model**
  - The Four Sector Model in economics is represented by the equation: C + I + G + (X - M).
  - It includes Consumption (C), Investment (I), Government Spending (G), and Net Exports (X - M).
  - This model is used to analyze the aggregate demand and output in an open economy.

Additional Information

- **Store of Value**
  - While the store of value is an important function of money, it is not considered a primary function.
  - The primary functions of money are as a medium of exchange and a unit of account.
  - Store of value refers to the ability of money to maintain its value over time.

Question 44

Rearrange the given statements in proper chronological sequence in an ascending order (earliest to latest) :

(A) General theory of Employment, Interest and Money by Keynes.

(B) Mahalanobis was made a fellow of Britain's Royal Society.

(C) An Inquiry into the Nature and Cause of the Wealth of Nations by Adam Smith.

(D) The Economic Consequences of the Peace by Keynes.

Choose the correct answer from the options given below :

Options:

A. (C), (D), (A), (B)

B. (A), (B), (C), (D)

C. (A), (C), (B), (D)

D. (D), (A), (C), (B)

Answer: A

Solution:

The correct answer is - (C), (D), (A), (B)

Key Points

- **An Inquiry into the Nature and Causes of the Wealth of Nations by Adam Smith**
  - This seminal work was published in 1776.
  - It laid the foundations of classical economics.
  - Adam Smith is known as the "Father of Economics."
- **The Economic Consequences of the Peace by John Maynard Keynes**
  - Published in 1919, this book critiqued the Treaty of Versailles.
  - Keynes argued that the harsh reparations would lead to economic hardship and future conflict.
  - This work established Keynes as a prominent economic thinker.
- **General Theory of Employment, Interest and Money by John Maynard Keynes**
  - Published in 1936, this work introduced Keynesian economics.
  - Keynes challenged classical economics and emphasized the role of government intervention in the economy.
- **Mahalanobis was made a fellow of Britain's Royal Society**
  - P.C. Mahalanobis, an Indian statistician, was elected a fellow in 1945.
  - He is known for his contributions to statistics and economic planning in India.

Additional Information

- **Adam Smith**
  - He was a Scottish economist and philosopher.
  - His ideas on free markets and the "invisible hand" remain influential.
- **John Maynard Keynes**
  - An influential British economist whose theories changed the practice of macroeconomics and the economic policies of governments.
  - His ideas are the basis for the school of thought known as Keynesian economics.
- **P.C. Mahalanobis**
  - He founded the Indian Statistical Institute.
  - Mahalanobis was instrumental in formulating India's strategy for industrialization after independence.

Question 45

If there is no government and no foreign trade, then:

Options:

A. G = T = M = X > 1

B. G = T = M = X = 1

C. G = T = M = X = 0

D. G = T = M = X < 1

Answer: C

Solution:

The correct answer is - G = T = M = X = 0

Key Points

- **G = T = M = X = 0**
  - In an economy with no government and no foreign trade, the variables G (government spending), T (taxes), M (imports), and X (exports) would all be zero.
  - Government spending (G) is zero because there is no government to spend money.
  - Taxes (T) are zero because there is no government to levy taxes.
  - Imports (M) are zero because there is no foreign trade.
  - Exports (X) are zero because there is no foreign trade.

Additional Information

- **Relevant Concepts**
  - **Government Spending (G):**
    - The total expenditure by the government on goods and services.
    - In the absence of a government, this would naturally be zero.
  - **Taxes (T):**
    - The revenue collected by the government from individuals and businesses.
    - Without a government, there are no taxes imposed, hence T = 0.
  - **Imports (M):**
    - Goods and services purchased from other countries.
    - With no foreign trade, there are no imports, so M = 0.
  - **Exports (X):**
    - Goods and services sold to other countries.
    - In the absence of foreign trade, there are no exports, so X = 0.

Question 46

The value of Nominal GDP is $ 1100 and the value of Real GDP is $ 1000. Find the value of GDP deflator

Options:

A. 0.9

B. 1.1

C. 1

D. 0.8

Answer: B

Solution:

The correct answer is - 1.1

Key Points

- **GDP Deflator Calculation**
  - The GDP deflator is a measure of the level of prices of all new, domestically produced, final goods and services in an economy.
  - It is calculated as: GDP Deflator = (Nominal GDP / Real GDP) * 100
  - Given: Nominal GDP = $1100, Real GDP = $1000

- GDP Deflator = ($1100 / $1000) * 100 = 1.1 * 100 = 110
- Therefore, the value of the GDP deflator is 1.1.

Additional Information

- **Understanding Other Options**
  - Option 1 - 0.9:
    - This value would imply that the nominal GDP is less than the real GDP, which is not the case here.
  - Option 3 - 1:
    - This value would mean that nominal GDP and real GDP are equal, which is not true for the given values.
  - Option 4 - 0.8:
    - Similar to option 1, this value indicates the nominal GDP is less than the real GDP, which contradicts the given data.

Question 47

Identify the correct statements :

(A) Stocks are defined over a period of time.

(B) Flows are defined over a period of time.

(C) Flows are defined at a particular point of time.

(D) Stocks are defined at a particular point of time.

(E) GVA at factor costs + Indirect Taxes – Subsidies = GVA at market prices.

Choose the correct answer from the options given below :

Options:

A. (A), (C) and (E) only

B. (B), (C) and (D) only

C. (B), (D) and (E) only

D. (C), (D) and (E) only

Answer: C

Solution:

The correct answer is - (B), (D) and (E) only

Key Points

- **Flows are defined over a period of time**
  - Flows measure the activities or transactions that take place over a specified duration, such as income earned, production output, or expenditure.
  - Examples include GDP, sales revenue, and consumption.
- **Stocks are defined at a particular point of time**
  - Stocks represent the quantity of an asset or liability at a specific moment, providing a snapshot of a given point in time.
  - Examples include the amount of money in a bank account, inventory levels, and national debt.
- **GVA at factor costs + Indirect Taxes – Subsidies = GVA at market prices**

- Gross Value Added (GVA) at factor cost measures the value of goods and services produced in an economy, excluding taxes and including subsidies.
- To arrive at GVA at market prices, indirect taxes are added and subsidies are subtracted.

Additional Information

- **Stocks**
  - Examples include physical capital, financial assets, and inventories.
  - Stock variables are often used in economic balance sheets.
- **Flows**
  - Examples include exports, imports, and investments.
  - Flow variables are used to measure economic performance over time.
- **GVA**
  - Gross Value Added is a key indicator of economic performance.
  - GVA at factor cost represents the value of output minus the value of intermediate consumption.

Question 48

If the supply of final goods is assumed to be infinitely elastic at constant price over a short period of time, Aggregate output is determined solely by the value of Aggregate demand. This is called __________ Principle.

Options:

A. Aggregate supply

B. Aggregate demand

C. Effective demand

D. Perfectly inelastic demand

Answer: C

Solution:

The correct answer is - Effective demand

Key Points

- **Effective demand**
  - Effective demand refers to the actual amount of goods and services that consumers are willing and able to purchase at a given price level in a given time period.
  - When the supply of final goods is infinitely elastic at a constant price, the aggregate output is determined solely by the value of aggregate demand. This situation aligns with the Keynesian perspective of effective demand.
  - In this context, businesses will produce output to match the aggregate demand, regardless of the total potential supply.
  - This principle is crucial in understanding short-term economic fluctuations and the role of government in stabilizing the economy through demand management.

Additional Information

- **Aggregate supply**
  - Aggregate supply represents the total quantity of goods and services that producers in an economy are willing and able to supply at a given overall price level in a given period.
  - It is usually depicted as a curve showing the relationship between the price level and the quantity of output that firms are willing to produce.
- **Aggregate demand**
  - Aggregate demand is the total demand for final goods and services in an economy at a given time and price level.
  - It includes demand from households, businesses, government, and foreign buyers.
- **Perfectly inelastic demand**

- Perfectly inelastic demand occurs when the quantity demanded does not change regardless of changes in price.
- This is represented by a vertical demand curve on a graph.

Question 49

Nominal Interest Rate =___________

Options:

A. Real Interest Rate× Inflation Rate

B. Real Interest Rate – Inflation rate

C. Real Interest Rate / Inflation rate

D. Real Interest Rate + Inflation rate

Answer: D

Solution:

The correct answer is - Real Interest Rate + Inflation rate

Key Points

- **Nominal Interest Rate**
  - The nominal interest rate is the interest rate before taking inflation into account.
  - It is the rate quoted on loans and deposits, and it represents the actual monetary cost or yield of the financial product.
- **Real Interest Rate**
  - The real interest rate is the nominal interest rate adjusted for inflation.
  - It indicates the true cost of borrowing and the true yield on savings, as it reflects the purchasing power of money.
- **Inflation Rate**
  - The inflation rate measures the rate at which the general level of prices for goods and services is rising and subsequently, the purchasing power is falling.
  - Central banks attempt to limit inflation, and avoid deflation, in order to keep the economy running smoothly.
- **Relation between Nominal, Real Interest Rates, and Inflation**
  - The Fisher equation expresses the relationship between nominal interest rates, real interest rates, and inflation: Nominal Interest Rate = Real Interest Rate + Inflation Rate.
  - This equation helps in understanding how much of the interest is earned from the real value and how much is due to the inflation rate.

Additional Information

- **Other Options**
  - Real Interest Rate × Inflation Rate: This would not correctly adjust for the impact of inflation on the nominal interest rate.
  - Real Interest Rate – Inflation Rate: This would incorrectly suggest that the nominal interest rate is lower when inflation is higher, which is not the case.
  - Real Interest Rate / Inflation Rate: Dividing the real interest rate by the inflation rate does not provide a meaningful economic interpretation in the context of interest rates.

Question 50

Value of MPS (Marginal Propensity to Save) is increased from 0.4 to 0.5. What would be the impact on Multiplier ?

Options:

A. The size of the multiplier would be increased.

B. The size of the multiplier would remain same.

C. Value of multiplier is undetermined with the given information

D. The size of the multiplier would be decreased.

Answer: D

Solution:

The correct answer is - The size of the multiplier would be decreased.

Key Points

- **Marginal Propensity to Save (MPS)**
  - MPS refers to the proportion of additional income that a household saves rather than spends on consumption.
  - If MPS increases, it means households are saving more of their additional income.
- **Multiplier Effect**
  - The multiplier effect measures the impact of a change in investment or spending on the overall economy.
  - The formula for the multiplier is 1 / (1 - MPC) where MPC is the Marginal Propensity to Consume.
  - MPC is related to MPS by the equation MPC = 1 - MPS.
- **Impact of Increased MPS on Multiplier**
  - When MPS increases from 0.4 to 0.5, MPC decreases from 0.6 to 0.5.
  - The multiplier formula becomes 1 / (1 - 0.5) = 2 compared to 1 / (1 - 0.6) = 2.5.
  - Thus, the size of the multiplier decreases from 2.5 to 2.

Additional Information

- **Other Options Explained**
  - The size of the multiplier would be increased: This is incorrect as the multiplier decreases with an increase in MPS.
  - The size of the multiplier would remain same: This is incorrect as the multiplier size changes when MPS changes.
  - Value of multiplier is undetermined with the given information: This is incorrect as the information provided is sufficient to determine the change in the multiplier.
