UGC NET Economics Memory Based Question -7 JAN 2026 SHIFT -1

Q1. Which among the following statements is/are correct with respect to the "Paul Sweezy Model" under Oligopoly Market Structure?
1.The marginal revenue (MR) curve is discontinuous at the level of output corresponding to the kink
2.Upper section of the kinked demand curve has lower price elasticity
3.Lower section of the kinked demand curve has higher price elasticity
4.In the upper section of the MR curve, MR > MC
(A). (2) and (3)
(B). (1) and (3)
(C). (1) and (4)
(D). (1) and (3)

Correct ans

Explanatio nange prices fearing com since price increases ca

The **lower s**

Informatio

- **Stateme** MR) cu — this is a fundamenta d curve. B vo different elasticities (IR cu has that output level. This gidity firms ons to price changes.
- **Stateme of the MR curve, M** nding on the firm's outpu ve is disco n a range of marginal co ter than MC in the upper Th vit no ation fo pr e r dity.

Additional dg:

- **Stateme The upper s tion o he kinked emand ha he asticity**, not lower. Whe es rise abo e the k nk, com petitors d not fo so h q i handed falls significantly
- **Stateme e elasticity** because con kink. So (3) stating **high**

Q2. Arrange the following Chairman of the Finance Commission in chronological order:
(i) K.C. Pant
(ii) K. Brahamananda Reddy
(iii) A.M. Khusro
(iv) K. Santhanam
Codes :
(A). (i), (iii), (ii), (iv)
(B). (ii), (i), (iii), (iv)
(C). (iv), (ii), (i), (iii)
(D). (iii), (ii), (i), (iv)

Answer: c
Solution:
Correct Option: (C) (iv), (ii), (i), (iii)
Explanation:

- **K. Santhanam (iv):** Chairman of the 2nd Finance Commission, appointed in 1956.
- **K. Brahamananda Reddy (ii):** Chairman of the 6th Finance Commission, appointed in 1972.
- **K.C. Pant (i):** Chairman of the 10th Finance Commission, appointed in 1992.
- **A.M. Khusro (iii):** Chairman of the 11th Finance Commission, appointed in 1998.

Additional Knowledge:

- **Article 280:** The Finance Commission is a constitutional body constituted by the President of India every five years (or earlier) under Article 280.
- **Functio** n the Centre and the Stat
- **16th Fi** constituted under the ch
- **First Ch** 1951).

Q3. Accordi , what ate for India in the fiscal
(A). 8.2%
(B). 7.2%
(C). 6.4%
(D). 5.5%
Answer: b
Solution:
Correct Opt %
Explanatio
1. The Econ rve is a an al doc ner presen d by th overn of d Parliament a day before t on Budget
2. It reviews and provides an outlook fo oming year.
3. The Econ ent's official growth proj
Informatio
1. The Economic Survey 2024-25 projected India's Real GDP growth for FY25 at 7.2%.
2. This projection was based on robust investment demand, continued momentum in services, and expectations of a normal monsoon supporting agriculture.
3. The estimate of 7.2% positioned India as one of the fastest-growing major economies in the world for FY25.

Q4. For a Giffen good, the price elasticity of demand is:
(A). Negative
(B). Zero
(C). Greater than one
(D). Positive

Answer: d
Solution:
Ans. (d) Positive
Solution:

- When the price of a Giffen good increases, the demand also increases, because the income effect (i.e., consumers' real income effectively decreases) outweighs the substitution effect.
- This results in a **positive price elasticity of demand**, meaning demand increases when the price increases.

Information Booster:

- **Giffen good** is a special type of inferior good that violates the **law of demand**. Normally, as the price of a good ris ns.
- Example nic hardship where it wa t and other substitutes,

Additional

- Option (ods, **ive** (inverse relationship
- Option (ndicates t **change** with price change en g ds.
- Option (**Grea an 1** **iffen goods** have **positi** y **inelastic** in this

Q5. The "Tr
(A). Private
(B). A share e is d sed an depleted beca individuals ct i their ow nterest.
(C). Internat eat s e ctiv y pre t the degradation of obal pu goo .
(D). Governm egulation l alw ys succ ssful i ma ging env nmen a res c
Answer: b
Solution:
Correct Op n their own self-interest
Explanation:
The "Tragedy of the Commons" is a classic economic problem articulated by **Garrett Hardin.** It describes a scenario where a shared, common-pool resource (like a pasture, fishery, or clean air) is depleted because each individual user has an incentive to consume as much as possible, since the personal benefit of using an additional unit is gained individually, while the cost of its degradation is shared by all.
Information Booster:

- **Core Mechanism:** The tragedy arises from a divergence between individual and collective rationality. For each individual, the marginal private benefit of using the resource exceeds their marginal private cost, leading to overconsumption.

- **Key Features:**
  - The resource is rivalrous (one person's use diminishes another's).
  - The resource is non-excludable (it is difficult to prevent anyone from using it).
  - **Classic Example:** A common pasture where each herder is motivated to add more and more grazing animals because they receive all the benefit from their own animals, but the cost of overgrazing is shared by all herders. This leads to the pasture's eventual destruction.

Additional Knowledge:

- **Private ownership of a resource leads to its overexploitation:** This is generally not the case. A core proposed solution to the tragedy is precisely the assignment of private property rights, which internalizes the costs and benefits, giving the owner an incentive to manage the resource sustainably.
- **Governm** regulation is always successful: While government intervention (quotas, taxes, regulations) allenges like enforcemen
- **Internat** aging global commons (tional scale, where free- ctively.

Q6. Regardi ion':

A. It defines e per capit

B. It is a dyn techn gy a

C. It sugges and pop a country's economic w

D. The theor ll Malthusian princip

Which of the ct?

(A). A and C

(B). B and D

(C). A, B, and

(D). A, B, C, a

Answer: c

Solution:

Correct Opt

Explanatio

The Optimum Theory of Population, unlike the purely subsistence-focused Malthusian theory, is an economic concept that links population size directly to per capita income and overall economic welfare.

A. Defines maximum per capita output: The theory identifies an optimum population (O) as the size where the total output of the country is divided by the population, resulting in the highest possible per capita output (income). This point represents the ideal balance between the workforce and the country's resources → **Statement A is correct.**

B. A dynamic concept: While the basic model uses static assumptions (like fixed technology) to determine the optimum at a specific point in time, the theory acknowledges that the optimum level is not fixed. Improvements in technology, discovery of new resources, or increased capital accumulation will shift the ideal population size upwards, making it a dynamic concept over the long run → **Statement B is correct.**

C. Detrimental nature of deviation: The theory posits that any deviation from the optimum size is economically detrimental:

- Under-population (population < Optimum) means resources are under-utilized, and the economy fails to achieve economies of scale, resulting in lower per capita income.
- Over-population (population > Optimum) means resources are strained, the Law of Diminishing Returns sets in, and per capita income falls.
- **Statement C is Correct.**

D. Relationship with Malthus: The Optimum Theory is generally considered superior to the Malthusian theory because it links population to wealth/total production (not just food supply) and allows for a stage of increasing returns. However, it is not a complete refutation of all Malthusian principles, as it still relies on the Law of Diminishing Returns to explain why over-population leads to falling incon

- **Stateme** underlying economic lo

Q7. In an ec o 2020. The incremental f inv

(A). 27.5 Pe

(B). 22.5 Pe

(C). 3.9 Perc

(D). 19.5 Pe

Answer: b

Solution:

Correct Option: B. 22.5 percent

Solution: Using the fundamental equation derived from the Harrod-Domar Model is: **Rate of Investment = Proportional Growth Rate of GDP × ICOR**

Given Values:

1. Initial Real GDP (Y_{2015}): \$990 PPP

2. Final Real GDP (Y_{2020}): \$1080 PPP

3. Incremental Capital Output Ratio (ICOR): 2.5

Step 1. Calculate the Proportional Growth Rate of GDP (g);

- The growth rate is the total change in GDP over the period divided by the initial GDP.
- Change in GDP = Y_{2020} - Y_{2015} = \$1080 - \$990 = \$90
- Now, $g = \frac{90}{990} = 0.0909$

Step 2. Calculate the Rate of Investment (s);

- Put the values in the formula; **Rate of Investment = Proportional Growth Rate of GDP × ICOR** = 0.0909 ×2.5 = 0.22725
- Hence, to get the percentage, multiply by 100: Rate of investment $0.22725 \times 100 = 22.725\%$, which is closest to Option B.

Q8. The "Big Push" theory, primarily associated with Paul Rosenstein-Rodan, argues that industrialization requires:

(A). A slow, gradual process of capital accumulation.

(B). Widespread, coordinated investment across several industries to create markets for each other.

(C). That a country should first achieve a surplus in its agricultural sector.

(D). That foreign direct investment alone is sufficient for development.
Answer: b
Solution:
Correct Option: B. Widespread, coordinated investment across several industries to create markets for each other.
Explanation:
The Big Push theory, proposed by Paul Rosenstein-Rodan in 1943, argues that underdeveloped economies are trapped in a low-income equilibrium due to small market size and lack of incentives for individual investments. A large-scale, synchronized industrialization effort is needed to overcome this by creating demand across sectors.
Information Booster:
- **Key Pro** e to limited markets.
- **Solutio** each sector become cus
Additional
- **Option** mor l views, not the Big Push
- **Option** part of son ewis model precondition n.
- **Option** **nt** a as i stein-Rodan emphasized ment and planning.

Q9. Which o ?
(A) It is a de
(B) Alcohol n co ption i ully co ered u pu vi o
(C) The GST is co itu na bo u der Art 279A
Select the co option:
(A). Only (A)
(B). Only (A)
(C). Only (B)
(D). All (A),
Answer: b
Solution:
Correct Option: (b) Only (A) and (C)
Explanation:
· **Statement (A) is Correct:** GST is a destination-based tax on consumption. This means the tax accrues to the state where the goods or services are finally consumed, rather than the state where they are manufactured or produced.
· **Statement (B) is Incorrect:** Alcohol for human consumption is constitutionally excluded from the purview of GST. States continue to levy State Excise Duty and VAT on it.

· **Statement (C) is Correct:** The GST Council is a constitutional body established under Article 279A of the Indian Constitution (introduced by the 101st Amendment Act). It makes recommendations to the Union and State Governments on issues related to GST.

Information Booster:

· **Petroleum Products:** While Alcohol is permanently out (unless the Constitution is amended), Petroleum products are technically part of GST, but the decision to levy tax on them has been deferred until the GST Council decides to include them.

· **GST Council Structure:** The Council is chaired by the Union Finance Minister and includes the Union State Minister of Revenue or Finance and Ministers in charge of Finance or Taxation of all the States.

Additional Knowledge:

· **Dual GST:** India adopted a Dual GST model (Central GST + State GST) because it is a federal country.

· **IGST:** Inte collected by the Center t

Q10. In we tial welfare comparison

(A). The Kal hange to be considered

(B). A social r making mpensation principles o

(C). The Sci uatio re a erion but its reverse also

(D). The Rav n is perfectly aligned tion criteria proposed by

Answer: c

Solution:

Correct Op Th Sc vsk pa ad hi ghts a tuatio where ng a s the Kaldor criterion bu verse also sati es he aldor c ter o .

Explanatio

The Compe ots to make welfare judg nners" from a change co

Information Booster:

- **The Scitovsky Paradox:** This is the correct alternative. Economist Tibor Scitovsky identified a critical flaw in the Kaldor-Hicks criterion. The paradox occurs when:
  - A change from State A to State B passes the Kaldor test (winners in B could compensate losers and still be better off).
  - However, a change back from State B to State A also passes the Kaldor test (the new "winners" in A could compensate the new "losers" and still be better off).

This creates an internal inconsistency, showing that the Kaldor-Hicks criterion alone cannot provide a clear, unambiguous ranking of social states.

Additional Knowledge:

- **"The Kaldor-Hicks criterion requires that compensation must actually be paid...": This is false.** The core of the Kaldor-Hicks criterion is that compensation is potential, not actual. A change is considered an efficiency improvement if the gainers could compensate the losers, even if they never do. This is why it is often used in cost-benefit analysis.
- **"A social welfare function is unnecessary for making welfare judgments based on the compensation principles...": This is false.** The compensation principles (Kaldor, Hicks, Scitovsky) were developed precisely because economists wanted to make welfare judgments without a specific social welfare function, which requires making ethical choices about income distribution. The principles try to separate "efficiency" from "equity."
- **"The Rawlsian social welfare function is perfectly aligned with the potential compensation criteria...": This is false.** They are fundamentally opposed. The Rawlsian "maximin" principle judges social welfa h the actual distribution es solely on potential, ag ociety worse off.

Q11. The S odel mic growth through:
(A). Endoge
(B). Capital nnol al ch
(C). Governm l pol
(D). Human ning-by-doing
Answer: b
Solution:
Correct Opt
Explanatio
The Solow-S odel de lop by Ro ert olow a d revor van is ne neoclassical growth theo explains lo g-run e onomic gro th s primari ve l ex r echnological progress, wi t in long-run per capita g
Informatio
- **Core Me** This means that as an economy accumulates more capital per worker, each additional unit of capital contributes less to output.
- **The Steady State:** Because of diminishing returns, the economy eventually reaches a steady state where capital per worker and output per worker are constant. In this state, investment only covers depreciation and capital-widening for population growth.
- **Role of Technology:** Long-run growth in output per worker can only occur through exogenous technological progress—an unexplained factor that shifts the production function outward over time. The model treats technological change as a "manna from heaven" that it does not attempt to explain.

Additional Knowledge:

- **Endogenous technological progress:** This is the focus of Endogenous Growth Theory (pioneered by Paul Romer), which explicitly models technological progress as resulting from factors like R&D investment, human capital, and knowledge spillovers within the model.
- **Government intervention and industrial policy:** While these can influence an economy's growth path, they are not the primary drivers of long-run growth in the Solow model.
- **Human capital accumulation and learning-by-doing:** These are elements incorporated into extensions of the Solow model and are central to endogenous growth models, but they are not the core explanation in the basic Solow-Swan framework.

Q12. If all values in a dataset are the same, what will be the standard deviation?
(A). 0
(B). 1
(C). The valu
(D). Cannot
Answer: a
Solution:
Correct Opt
Standard de meas variation or dispersion i average, h mean of the dataset.
Informatio
* When all th ical, there is no spr for example, in a dataset n is 10. Every single d the mean.
* Since there ation of zero indicates tha set

Q13. Put th vin co ep n hr ol gical or er:
1. Pareto's al Utility C ncept
2. Marshall
3. Hicks &
4. Samuels
(A). 2 – 1 – 3
(B). 1 – 2 – 3 – 4
(C). 2 – 3 – 1 – 4
(D). 4 – 3 – 2 – 1
Answer: a
Solution:

Ans. (a) 2 – 1 – 3 – 4
Solution:
- Marshall Consumer Surplus (1890)
- Pareto Ordinal Utility (1906)

- Hicks & Allen Indifference Curves (1934)
- Samuelson Revealed Preference (1938)

Information Booster:

- Marshall's concept of **Consumer Surplus** was introduced in 1890. According to Marshall, consumer surplus is the difference between the total amount that consumers are willing to pay for a good and the total amount they actually do pay.
- **Pareto Ordinal Utility**, introduced by **Vilfredo Pareto** in 1906, emphasizes the ranking of preferences or utilities rather than measuring them in absolute terms.
- **Hicks and Allen Indifference Curves** (1934) illustrates consumer preferences for different combinations of two goods while maintaining the same level of satisfaction or utility.
- S**amuelson's Revealed Preference Theory (1938)** was an alternative approach to understanding consumer c ver another when both a nd, and thus their prefer s.

Q14. Preser

A. Adverse s

B. Marginal sources er of unit of resources

C. Efficiency

D. Principal-

Choose the c ns given below:

(A). A, B and

(B). B, C and

(C). A and D

(D). A and C

Answer: c

Solution:

Correct Opt

Explanatio

Asymmetric mation than the other. T

A. Adverse selection – Occurs before the transaction (e.g., in insurance, risky individuals are more likely to buy insurance, but the insurer cannot distinguish them).

D. Principal-Agent problem – Arises when the agent (e.g., manager) has more information than the principal (e.g., owner) and may not act in the principal's best interest.

Additional Knowledge:

B. Diminishing marginal benefits – This is a general principle of economics related to utility or returns, not caused by asymmetric information.

C. Efficiency wages – These are higher wages paid to increase productivity or reduce shirking; while they can be a response to asymmetric information (to mitigate moral hazard), they are not themselves caused by it. They are a solution, not a direct result.

Q15. The Harrod-Domar growth model primarily emphasizes the following factors as essential for achieving sustained economic growth:

A. Technological progress

B. Capital accumulation

C. Savings rate

D. Labor force growth

E. Capital-output ratio

Choose the correct answer from the options given below:

(A). B, D, and E Only

(B). A, B, and D Only

(C). B, C, and

(D). A, C, and

Answer: c

Solution:

Correct Option: 3. B, C, and E Only

Explanation:

The Harrod-Domar growth model is a classical model that focuses on the role of capital accumulation in driving economic growth. The key variables in the model are the savings rate and the capital-output ratio.

Information Booster:

- **Core Equation:** The growth rate (g) in the Harrod-Domar model is given by: $g = \frac{s}{v}$
  - where: s = savings rate (B & C) , v = capital-output ratio (E)
- **Mechanism:**
  - Savings (C) provide the funds for investment.
  - Investment leads to capital accumulation (B).
  - The capital-output ratio (E) determines how efficiently capital is converted into output.
- **Key Drivers:** Higher savings and lower capital-output ratio lead to higher growth.

Additional Knowledge:

- **A. Technological progress:** This is not explicitly included in the basic Harrod-Domar model. It was later incorporated in the Solow-Swan model.
- **D. Labor force growth:** While labor is acknowledged, the model primarily focuses on capital requirements to employ growing labor, not labor growth itself as a direct driver.
- A major **limitation** of the model is its **knife-edge problem**—the instability of the equilibrium growth path, where any deviation leads to further divergence.

Q16.

Consider the following system of equations:

$$Y_1 = \alpha_0 + \alpha_1 Y_2 + \alpha_3 Y_3 + \alpha_4 X_1 + \alpha_5 X_2 + U_1$$

$$Y_2 = \beta_0 + \beta_1 Y_3 + \beta_2 Y_1 + \beta_3 X_2 + U_2$$

$$Y_3 = \lambda_0 + \lambda_1 X_1 + \lambda_2 X_2 + \lambda_3 X_3 + U_3$$

According to the order condition, the first equation is:

(A). Unidentified

(B). Just identified

(C). Over identified

(D). Not possible to say because the reduced form of the model is not given.

Answer: a

Solution:

Correct Option: A. Unidentified

Explanation:

- The **Order Condition** is a necessary condition for the identification of a structural equation.
- It compares the number of excluded exogenous variables to the number of included endogenous variables (minus one).
- If the number of excluded exogenous variables is less than the number of included endogenous variables minus one, the equation is unidentified.

Information Booster:

- **Formula:** $K - k \geq g - 1$
  - $K = 3$: Total exogenous variables in the system (X_1, X_2, X_3).
  - $k = 2$: Exogenous variables in the first equation (X_1, X_2).
  - $g = 3$: Total endogenous variables in the first equation (Y_1, Y_2, Y_3).
- **Calculation:**
  - Excluded Variables ($K - k$): $3 - 2 = 1$ (Only X_3 is excluded).
  - RHS Endogenous Variables ($g - 1$): $3 - 1 = 2$ (Y_2 *and* Y_3 appear on the RHS).
- **Conclusion:** Since $1 < 2$ (Excluded < Required), the equation is **Unidentified.**

Additional Knowledge:

- **Just Identified:** Condition holds with equality ($K - k = g - 1$).
- **Over Identified:** Excluded variables are greater than required ($K - k > g - 1$).
- **Rank Condition:** While the Order Condition is necessary, the Rank Condition is both necessary and sufficient for identification. It checks if the matrix of excluded coefficients has full rank.

Q17. Consid rding e IS-
Statement I: natio inter re the goods market is in
Statement II pending shifts the IS
Statement II gion is pe
Which of the
(A). I only
(B). I and II
(C). I and III
(D). II and II
Answer: c
Solution:
Correct Opt
Explanation:

The IS-LM model illustrates the interaction between the goods market (IS curve) and the money market (LM curve) to determine equilibrium interest rates and output.

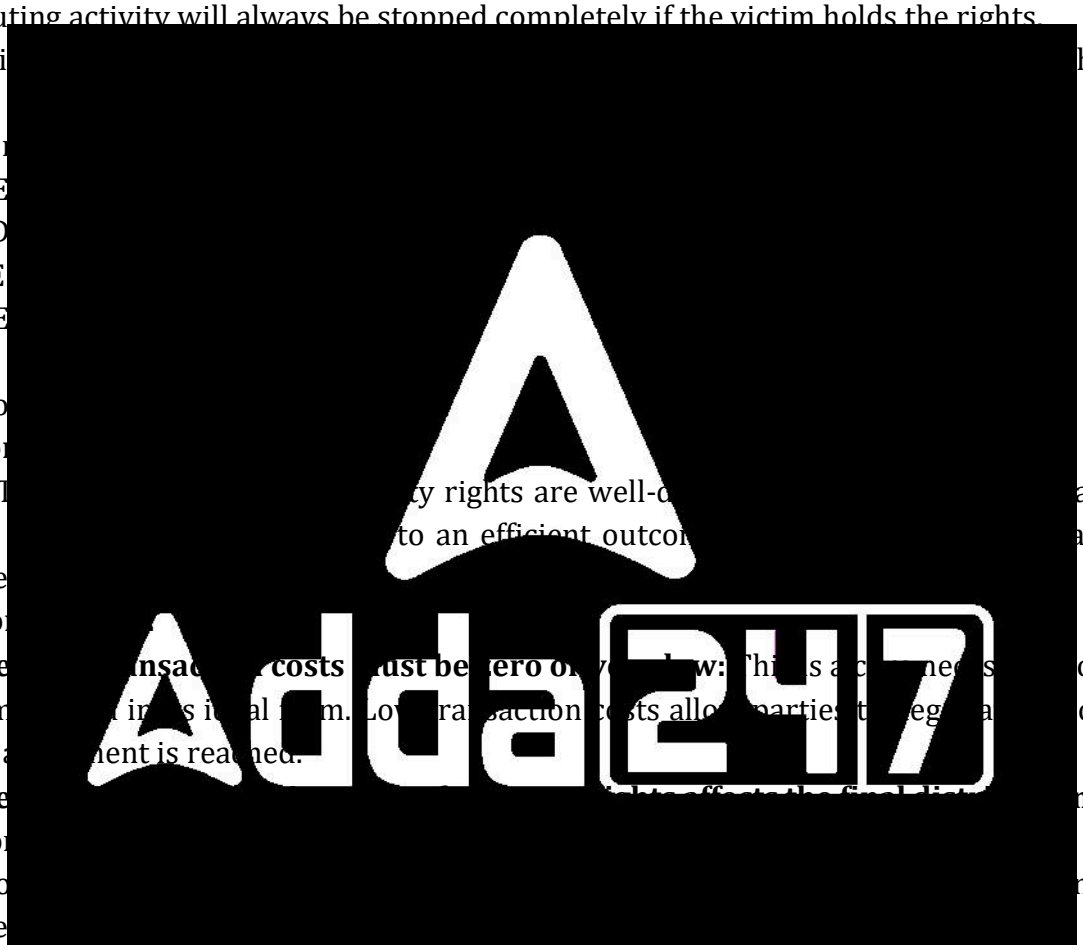
Information Booster:

- **Statement I is correct:** The IS curve plots all combinations of interest rate (r) and output (Y) where Investment = Saving, i.e., where the goods market is in equilibrium.
- **Statement III is correct:** The "Liquidity Trap" occurs when interest rates are very low and money demand becomes perfectly elastic. Here, the LM curve is horizontal, meaning monetary policy cannot lower interest rates further to stimulate output.

Additional Knowledge:

- **Statement II is incorrect:** A decrease in government spending reduces aggregate demand, shifting the IS curve to the left, not the right.
- An increase in government spending **shifts IS right**.
- In a liquidity trap, fiscal policy is effective because the IS shift does not raise interest rates.

Q18. According to the Coase Theorem, which of the following are necessary conditions or likely outcomes for the efficient resolution of an externality through bargaining?
A. Transaction costs must be zero or very low.
B. The initial assignment of property rights affects the final distribution of wealth.
C. The government must intervene to define the legal liability for the externality.
D. The polluting activity will always be stopped completely if the victim holds the rights.
E. The effici he property rights.
Choose the
(A). A, B & E
(B). A, C & D
(C). B, C & E
(D). C, D & E
Answer: a
Solution: Co
Explanatio
The Coase T y rights are well-d are zero (or negligible), to an efficient outco llocation of those prope
Informatio
- **Stateme nsac costs ust be ero o w:** Thi s a c ne s ondition for the theorem in s i al m. Lo ra saction sts allo parties t eg a ctively until an efficient a ment is rea ed.
- **Stateme n of wealth:** This is a co is the same regardless o mpensation, thereby affe



- **Statement E. The efficient level of pollution control can be achieved regardless of who is assigned the property rights:** This is the central outcome or "invariance" proposition of the Coase Theorem. As long as conditions (like zero transaction costs) are met, the same efficient solution (e.g., optimal level of pollution abatement) is reached through bargaining, regardless of the initial owner of the property right.

Additional Knowledge:

- **Statement C. The government must intervene to define the legal liability for the externality:** This is incorrect. The Coase Theorem's key insight is that private bargaining can solve the externality problem without government intervention (beyond defining and enforcing property rights in the first place).

- **Statement D. The polluting activity will always be stopped completely if the victim holds the rights: This is incorrect.** The outcome depends on a cost-benefit analysis through bargaining. The polluting activity will only stop if the victim's value of clean air is greater than the polluter's value of polluting (or the cost of abatement is less than the damage caused). The efficient level of pollution (which might be a reduced level, not zero) will be reached, not necessarily a complete stop.

Q19. For a linear demand function Q = 100 - 2P, at what price is the point elasticity of demand equal to unity?

(A). 25

(B). 20

(C). 15

(D). 10

Correct Option: (A) 25

Solution:

- The point elasticity of demand **measures** the responsiveness of quantity demanded to a change in price at a **specific point** on the demand curve.
- It is given by the formula: $|E_d| = \left(\frac{dQ}{dP}\right) \times \left(\frac{P}{Q}\right)$
- Demand function: $Q = 100 - 2P$
- Derivative: $\frac{dQ}{dP} = -2$
- $|E_d| = \left|(-2) \times \frac{P}{Q}\right| = 1$
- Substitute $Q = 100 - 2P$: $2 \times \frac{P}{100 - 2P} = 1$
- Now, Solve for P: $\frac{2P}{100 - 2P} = 1 \Rightarrow 2P = 100 - 2P \Rightarrow 4P = 100 \Rightarrow P = 25$
- At $P = 25, Q = 100 - 2(25) = 50.$

Q20. Prima

(A). Fiscal d

(B). Revenue

(C). Budget deficit - Interest Payment

(D). Revenue Receipt - Revenue Expenditure

Answer: A

Solution:

Correct Answer: A. Fiscal deficit – Interest payments

Explanation:

Primary Deficit measures the government's borrowing requirement excluding interest payments on past debt.

Information Booster:

1. Formula: Primary Deficit = Fiscal Deficit – Interest Payments

2. It shows the fiscal gap arising from current-year spending other than debt servicing.
3. A zero primary deficit means borrowing is only for interest payments, not new expenditure.

Additional Knowledge:

1. Fiscal Deficit = Total expenditure − (Revenue receipts + Non-debt creating capital receipts).
2. Revenue Deficit = Revenue expenditure − Revenue receipts.
3. Budget Deficit (older term) = Total expenditure − Total receipts (now largely replaced by fiscal deficit).

Q21. A firm's production function is given as $Q=50L^{0.8}K^{0.4}$. What kind of returns to scale does this function exhibit?

(A). Constant returns to scale
(B). Increasi
(C). Decreas
(D). Cannot
Answer: b
Solution:
Correct Opt
Returns to s when nally. For a production exponents ale.
Informatio
· The produ
· Here, the e tal (K) are 0.8 and
· Sum of exp
· Since α+β= sin
· This mean do (D ltiplied by 2) output increa y more than double.
· Increasing s to sca oduc r due fa like pecializ tion, e fi nt e achinery, or economies o .
· This is com with h fixed cts an low marginal costs (e.g. tech y).
Additional
· Option 1 (c
· Option 3 (c
· Option 4 is incorrect as we can determine it.

Q22. Testing for cointegration between two non-stationary time series is primarily performed using which of the following?
(A). Chow Test for structural break
(B). Phillips-Perron unit root test
(C). Engel-Granger two-step method
(D). Error-correction mechanism estimation
Answer: c
Solution:
Correct Option: (C): Engel-Granger two-step method

Explanation:

- The Engel-Granger two-step method is primarily used to test for cointegration between two non-stationary time series. This method involves two main steps:
- First, testing for unit roots (non-stationarity) in each of the individual time series using the Augmented Dickey-Fuller (ADF) test or Phillips-Perron test.
- Second, performing a cointegration test on the residuals obtained from the regression of one series on the other.
- If the residuals are found to be stationary, then the two series are considered cointegrated.

Additional Knowledge:

- Option (a) : The Chow test is primarily used to test for structural breaks in a time series, such as changes in trend or variance, rather than for cointegration.
- Option (b) : The Dickey-Fuller test is used to test for non-stationarity in a single time series, not for cointegration testing.
- Option (c) : The Vector Error Correction Model (VECM) is used for modeling cointegrated time series. It helps in modeling the short-term dynamics and the long-term relationships between the series, allowing them to return to equilibrium.

Q23.

Let A and B be two events in a sample space S. Consider the following statements:

I. If A and B are mutually exclusive, then $P(A \cap B) = 0$.

II. If A and B are independent, then $P(A \cup B) = P(A) + P(B)$.

III. $P(A^c) = 1 - P(A)$, where A^c is the complement of event A.

IV. $If A \subseteq B, then P(A) \geq P(B)$.

Which of the above statements are correct?

Correct Option: B) I and III only

Explanation:

The statements deal with relationships between events in a sample space, including mutually exclusive events, independent events, complements, and subsets of events.

Information Booster:

The correct statements are I and III, which are direct definitions and axioms of probability.

*** Statement I. If A and B are mutually exclusive, then $P(A \cap B) = 0$.**

1. **Correct.** Mutually exclusive (or disjoint) events are events that **cannot occur at the same time**.
2. The intersection, $A \cap B$, represents the event that both A and B occur. Since this is impossible for mutually exclusive events, the event $A \cap B$ is the empty set ($\emptyset$), and its probability is $P(\emptyset)=0$.

*** Statement** III. $P(A^c) = 1 - P(A)$, where A^c is the complement of event A.

1. **Correct.** The complement of an event A, denoted A^c (or $\overline{A}$), consists of all outcomes in the sample space that are not in A.
2. Since an event and its complement cover the entire sample space and are mutually exclusive ($A \cup A^c = S$ and $A \cap A^c = \emptyset$), the sum of their probabilities must equal 1: $P(A) + P(A^c) = 1$. Rearranging this gives $P(A^c) = 1 - P(A)$.

Q24. Match the following components of money supply with their correct definitions as per the Reserve Bank of India's classification:

Component	Definition
1. M0 (Reserve Money)	A. Currency with the public + Demand deposits with banks + Other deposits with RBI
2. M1 (Narrow Money)	B. M3 + All post office deposits (excluding NSC)
3. M3 (Broad Money)	C. Currency in circulation + Bankers' deposits with RBI + Other deposits with RBI
4. M4	

Codes:

(A). 1-A, 2-B

(B). 1-C, 2-A

(C). 1-B, 2-D

(D). 1-A, 2-C

Answer: b

Solution:

Correct Opt

Explanatio

The Reserve ey supply into four B, M4). Each has a specifi ying degrees of liquid

Informatio

1. M0 (Rese y)

- M0 = Cu circu n + Ban ers' de osits w CR ba nc s Oth its with RBI.

This is the n y b e o hig ov er m ey.

2. M1 (Narr oney) → A

- M1 = Cu RBI. It is the most liquid

3. M3 (Broa

- M3 = M monly used measure of money supply for policy.

4. M4 → B:

- M4 = M3 + All post office savings deposits (excluding National Savings Certificates). This is the broadest measure.

Additional Knowledge:

- M2 = M1 + Post Office Savings Bank deposits (but not all post office deposits), but **M2 is less commonly cited than M3**.
- **M0** is controlled directly by RBI; changes in M0 affect broader money supply via the money multiplier.
- M3 growth is a key indicator for inflation targeting and monetary policy in India.

Q25. Three coins are tossed simultaneously. What is the probability that they will fall 2 heads and 1 tail ?

(A). 1/2
(B). 1/4
(C). 3/4
(D). 3/8
Answer: d
Solution:

Correct Option: (D): $\frac{3}{8}$

Solution:

Step 1. Find total number of outcomes:

When 3 coins are tossed, the total number of outcomes = $2^3 = 8$.

Step 2. Favorable outcomes for 2 heads and 1 tail:

HHT, HTH, THH → 3 favorable outcomes.

Step 3. Find Probability :

$P(2H,1T) = \frac{3}{8}$ Answer.

Q26. Which ction of the Securiti a (SEBI)?
(A). Regulat
(B). Protecti
(C). Formula eta
(D). Prohibi dulen d unfai rade pr ctices
Answer: c
Solution:
Correct Opt
Explanatio
The Securiti ities market in India. It v ct investors, and ensure fair practices. However, it does not handle monetary policy, which is the responsibility of the Reserve Bank of India (RBI).

Information Booster:

SEBI was given statutory powers in 1992 via the SEBI Act. It also regulates mutual funds, takeovers, and corporate disclosures. Confusing SEBI with RBI is common, but their roles are distinct: SEBI for capital markets, RBI for banking and monetary policy. SEBI's key functions:

- Regulating the securities market (1): Includes supervising stock exchanges, brokers, and other intermediaries.
- Protecting investors' interests (2): Ensures transparency, educates investors, and redresses grievances.

- Prohibiting fraudulent practices (4): Prevents insider trading, market manipulation, and other unfair activities.

Additional Knowledge:

Option 3 : Monetary policy

- Formulated by the Reserve Bank of India (RBI).
- Involves controlling money supply, interest rates, and inflation to maintain economic stability.
- SEBI focuses on capital markets, not macroeconomic monetary controls.
- It includes repo rate, CRR, SLR, and open market operations.

Q27. As per the Union Budget 2025-26, the government has set the Fiscal Deficit target for FY 2025-26 at what percentage of GDP?

(A). 4.9%

(B). 4.5%

(C). 4.4%

(D). 5.1%

Answer: c

Solution:

Correct Opt

Explanatio

The Fiscal D the ernm tal revenue (excluding b al bo g ne nancial year and is expre untry's Gross Dom n Budget for 2025–26, pr nnounced a fiscal defi overnment's medium-ter

Informatio

1. The gover et the al defic target or FY 2 2 at 4 4% of G
2. This is pa gr ua ed ion pl fr earli years. ing to ch c eficit in the coming year
3. Lowering inflation.

Q28. In the Proposition' suggests tha

(A). Fiscal policy is always more effective than monetary policy.

(B). Monetary policy is effective only in the long run.

(C). Anticipated government policy cannot affect real output or employment.

(D). Unanticipated policy has no effect on price levels.

Answer: c

Solution:

Correct Option: C. Anticipated government policy cannot affect real output or employment.

Explanation:

- The **Policy Ineffectiveness Proposition** is a major finding of the **New Classical Macroeconomics** based on the **Rational Expectations Hypothesis**.

- It argues that if economic agents have rational expectations and markets clear quickly, any policy changes that are **systematic** and **anticipated** will be factored into wages and prices upfront, leaving **real variables** like output and employment unchanged. Only nominal variables (like the price level) adjust.

Information Booster:

- The proposition was developed by **Thomas Sargent** and **Neil Wallace** in the 1970s.
- It **assumes** rational expectations, flexible prices, and no money illusion.
- Only **unexpected or random policy shocks** can have short-run real effects because agents cannot anticipate and adjust to them.

Additional Knowledge:

- The statement that "fiscal policy is more effective than monetary policy" is a Keynesian view, not related to th
- "Moneta ted policy is ineffective i
- "Unantic affect both prices and o

Q29. Consi ding th ployment in Classical vs.
1. In the Clas d so by su pital, labor), while in Key ema rmin
2. The Clas wage-price flexibi nt, whereas Keynes argu to involu unemp
3. Say's Law cs, justifying governmen or
4. Both theo e that netary olicy af cts on n re o an e run.
Which of the en are or t?
(A). 1, 2, and y
(B). 2 and 4
(C). 1 and 2
(D). 1, 2, 3, a
Answer: a
Solution:

Correct Option: A. 1, 2 and 4 only.

Explanation:

- **Statement 1 is Correct:**
  - The **Classical model** assumes the economy operates at full employment, constrained only by real factors like capital and labor (Supply-side).
  - In contrast, **Keynes** argued that in the short run, the economy is constrained by insufficient Effective Demand.
- **Statement 2 is Correct:**

- **Classical economists** believed that **flexible wages and prices** would automatically clear markets, eliminating involuntary unemployment.
- **Keynes** introduced the concept of **wage rigidity** (sticky wages), explaining why markets might fail to clear, resulting in unemployment.

- **Statement 4 is Correct:**
- This is the concept of **monetary neutrality** in the long run.
- While **Keynes** also focused on the short-run non-neutrality of money (where it affects output and interest rates).
- Modern synthesis and long-run interpretations of both schools generally agree that an increase in the money supply eventually leads only to higher price levels without changing long-run real output.

Information Booster:

- **Say's La** y does not necessarily es (Liquidity Trap).

Additional

- **Stateme** its f Keynesian economics, j **This i**
- Say's La d") is th **Economics**. Keynesian e ction f Say d deficiency can occur.
- **Governm** Keyn te ted t ay's Law, he advocated f ment intervention) d, unlike the Classical La

Q30. The " of S Ac n publ fi nc primar ciated with economist H to re s to whi n of the ollowing
(A). The poi re Marginal s ial be it om publi ex ed a m i cial sacrifice from taxatio
(B). The opt ation.
(C). The tax and save.
(D). The allo generation.
Answer: a
Solution:

Correct Option: A. The point where marginal social benefit from public expenditure equals marginal social sacrifice from taxation.

Explanation:

The Principle of Maximum Social Advantage, also known as the "Dalton's Principle," is a fundamental concept in public finance that aims to optimize the balance between government spending and taxation to maximize societal welfare.

Information Booster:

1. **Key concept:** Optimal public finance occurs when: Marginal Social Benefit (MSB) of Public Expenditure = Marginal Social Sacrifice (MSS) of Taxation

2. **MSB:** Additional welfare gained from each unit of public spending.
3. **MSS:** Welfare lost from the burden of additional taxation.
4. Beyond this point, the cost of taxation exceeds benefits of spending.

Additional Knowledge:

1. Hugh Dalton introduced this in his 1922 book "Principles of Public Finance."
2. The principle guides both tax policy (equity, efficiency) and expenditure policy (allocative efficiency).
3. Other options describe different economic concepts:

Option B. Optimal public debt → Debt sustainability frameworks
Option C. Revenue-maximizing tax rate → Laffer Curve
Option D. Employment-focused allocation → Employment policy, not Dalton's principle

Q31. What
(A). An inve
(B). A direct
(C). The trad
(D). The rela
Answer: a
Solution:
Correct Op **b betwee** **the rate of inflation.**
Explanatio

- The Ph proposed, demo ff between unemploym
- Accordi nd inflation; to reduce u , they would have to tole r un oymen

Informatio er:

- A. W. Ph New Zeal nd econo ist, initially st ied the se ti p een the rate of unemploy rates in the UK
- The con d inflation.
- This rela s, suggesting a stable trad

Additional Knowledge:

- **(b) A direct relationship:** This is not what the Phillips Curve depicts. A direct relationship would imply that both unemployment and inflation rise or fall together, which is characteristic of stagflation, a phenomenon that challenged the original Phillips Curve.
- **(c) The trade-off between economic growth and inflation:** While inflation can impact economic growth, this specific trade-off is not the primary subject of the Phillips Curve.
- **(d) The relationship between interest rates and investment:** This is a core concept in monetary policy and investment theory, but it is not the focus of the Phillips Curve.

Q32. Arrange the following economists chronologically based on their contribution to Development/Growth theories:

1. Adam Smith
2. Karl Marx
3. David Ricardo
4. Joseph Schumpeter

Correct Code:

(A). 3, 1, 2, 4
(B). 1, 2, 3, 4
(C). 1, 3, 2, 4
(D). 1, 3, 4, 2

Answer: c

Solution:

Correct Opt

Explanatio

- **(1) Ada**
- **(3) Davi** tical ool).
- **(2) Karl** n politic
- **(4) Jo** **:** The evelopment (Innovation

Informatio

- **Smith:** A ire.
- **Ricardo** minishing Returns, Co
- **Marx:** O
- **Schump** va rs es

Q33. The co al and ion f t e ma Develo ment I (HD), st e d in 1990, is most direct ited to the work of which ec nomist

(A). Amarty
(B). Morris
(C). Paul Ro
(D). Mahbub

Answer: d

Solution:

Correct Option: 4. Mahbub ul Haq

Explanation:

The Human Development Index (HDI) was introduced in the first Human Development Report in 1990, under the United Nations Development Programme (UNDP). While it draws on broader ideas of development, its direct creator was economist Mahbub ul Haq, with intellectual contributions from Amartya Sen.

Information Booster:

1. Mahbub ul Haq led the creation of the HDI as a practical measure to shift focus from GDP to people-centered development.
2. The HDI combines three dimensions: Life expectancy at birth (health), Education (mean years of schooling and expected years of schooling) and GNI per capita (standard of living)
3. Amartya Sen's capability approach influenced the conceptual foundation, but Sen himself did not design the index.

Additional Knowledge:

1. Amartya Sen – Provided philosophical grounding (development as expansion of capabilities), but did not create the HDI.
2. Morris D. Morris – Created the Physical Quality of Life Index (PQLI) earlier, which influenced thinking but is not the HDI.
3. Paul Rose ot HDI.

Q34. In the

(A). Moneta

(B). The LM

(C). The den teres

(D). Bond pr y

Answer: b

Solution:

Correct Opt es per hori

Explanatio

In a liquidity w that people prefer pecting rates to rise (bon ne LM curve horizontal.

Informatio r:

1. At near-z es stat m etary p icy ffe e — in reasing ney p esn't lower rates furthe
2. Fiscal poli ffectiv in this situation (it shifts IS but without changing rates).
3. Keynes de

Additional

1. **Option A**
2. **Option B: Demand for money perfectly interest-inelastic → False;** it's perfectly elastic.
3. **Option C: Bond prices expected to fall →** True but not the defining feature; horizontal LM is the key graphical representation.