Q1. The original interpretation of balanced growth relates to:

A. Large scale expansion of activities to overcome divergence between private and social benefits
B. Absence of shortages or excesses
C. Equal amount of investment in all sectors
D. All sectors growing at the same rate

☞ **Explanation :** The balanced growth theory can be explained with the views of-
(i) Rosenstein Rodan (ii) Ragnar Nurkse (iii) Lewis (iv) Kindle Berger

Balanced growth, requires balance between different consumer goods industries, and between consumer goods and capital goods industries. It also implies balance between industry and agriculture, and between the domestic and export sector. Further, it entails balance between social and economic overheads and directly productive investments, and between vertical and horizontal external economies. In fine, the theory of balanced growth states that there should be simultaneous and harmonious development of different sectors of the economy so that all sectors grow in unison.
For this, balance is required between the demand and supply sides.
BGT argues that underdeveloped countries must invest simultaneously across a wide range of complementary industries. This synchronized investment breaks the "vicious circle of poverty" by creating mutual demand—workers in new industries become consumers for each other's products, expanding the market size, ensuring profitability, and enabling self-sustaining economic.

Unbalanced Growth: A.O. Hirschman, Rostow, Fleming and Singer propounded the theory of unbalanced growth as a strategy of development to be used by the UDCs. This theory stresses on the need for deliberate unbalancing of the economy as per a pre-designed strategy' as the best method to enable a country to achieve higher trajectory of income.
According to this concept, investment should be made in selected sectors rather than simultaneously in all sectors of the economy. No underdeveloped country possesses capital and other resources in such quantities as to invest simultaneously in all sectors. Therefore, investment should be made in a few selected sectors or industries for their rapid development, and the economies accruing from them can be utilized for the development of other sectors. Thus the economy gradually moves from the path of unbalanced growth to that of balanced growth

Unbalancing the Economy:
Development, according to Hirschman, can take place only by unbalancing the economy. This is possible by investing either in social overhead capital (SOC) or directly productive activities (DPA). Social overhead capital creates external economies whereas directly productive activities appropriate them.

Q2. The frequent farm loan waivers in India may give rise to the problem of:
A. Risk Aversion
B. Debt Overhang
C. Moral Hazard
D. Adverse Selection

Explanation:

(A) Risk Averse **-**Condition of preferring a certain income to a risky income with the same expected value.
• Risk Neutral-Condition of being indifferent between a certain income and an uncertain income with the same expected value
• Risk Loving-Condition of preferring a risky income to a certain income with the same expected value

(B)Debt Overhang- Too much existing debt discourages new investment because future earnings will go into repayment.

(C) Moral Hazard- Moral hazard refers to a situation where an individual or entity changes its behavior and takes greater risks because it does not bear the full consequences of those risks, often due to protection, insurance, or expectation of a bailout.
It typically occurs in insurance, finance, and economics, often driven by information asymmetry.

Example- Insurance**:** A driver with comprehensive car insurance may drive less safely, knowing the insurer will cover damages

If a farmer expects that the government may **waive loans again**, they might:

- Borrow more than necessary
- Delay repayment

Because they believe **they won't fully suffer the consequences**, their behaviour changes—this is **moral hazard**.

In one line
"When safety nets make people less careful about risk.

(D) Adverse Selection- Adverse selection is a market phenomenon occurring when one party in a transaction has more or better information (asymmetric information) than the other, leading to unfair deals and potential market failure. It typically happens before a contract is finalized, where high-risk participants are more likely to participate, disadvantaging the uninformed party.

Product of different qualities are sold at a single price because of Asymmetric Information.

Strategies to Mitigate Adverse Selection:-
(i) Signaling by uninformed parties- Michael Spence
(ii) Screening by informed parties- Joseph Stiglitz
(iii) Lemon problem- George Akerlof

Q3. According to the cash-balance approach, the elasticity of demand for money:

A. Fluctuates with the changes in the phases of inflation
B. Is more than one
C. Is equal to one
D. Is less than one.

Explanation

- **QUANTITY THEORY OF MONEY:** FISHER'S TRANSACTIONS APPROACH
  The quantity theory of money seeks to explain the value of money in terms of changes in its quantity. The theory can be stated in these words: The price level rises proportionately with a given increase in the quantity of money. Conversely, the price level falls proportionately with a given decrease in the quantity of money, other things remaining the same.

  Fisher's Equation of Exchange

  PT = MV or P = MV/T
  P= Average price level, T= Total amount of transactions (Constant)
  M= Quantity of money V= transactions velocity of circulation of money(Constant)

  THE CAMBRIDGE CASH-BALANCE APPROACH:-

  Cambridge economists explained the determination of value of money in line with the determination of value in general. Value of a commodity is determined by demand for and supply of it and likewise, according to them, the value of money (its purchasing power) is determined by the demand for and supply of money.
  In cash-balance approach to demand for money Cambridge economists laid stress on the store of value function of money in sharp contrast to the medium of exchange function of money emphasised in Fisher's transactions approach to demand for money.
  According to cash balance approach, the public likes to hold a proportion of nominal income in the form of money.

  ☆Marshall Equation- M= kPY

  P= M/ky (M↑→P↑) (k↑→P↓)

  M= Quantity of money , P= Price level,
  k= The proportion of nominal income that people want to hold in money,
  Y= Real national income, PY=nominal national income

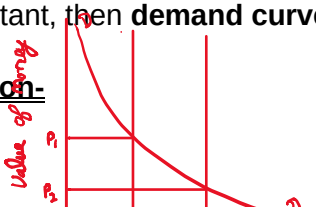
  It is important to note that the supply of money M is exogenously given and is determined by the monetary policies of the central bank of a country

  ☆Pigou's Equation- P= k R/M
  P= Value of money , R= Real Income

  Refined Version:- P= k R/M [c+h(1-c)]

  C- Proportion of real income held in legal tender , 1-C= Bank balance, h- CRR
  K,R,c & h are taken constant, then **demand curve for legal tender is rectangular hyperbola. (e=1)**

  ☆Robertson's Equation-



P(Price level) = M/kT

☆ Keynes's Equation-

n=pk

n= Total currency in circulation, P= Price Level
k= Consumption unit

#Extended Version-

n= P(k+rk')

k'= Consumption units in form of bank deposits
r = CRR

Q4. Consider the following statements about the law of variable proportions:

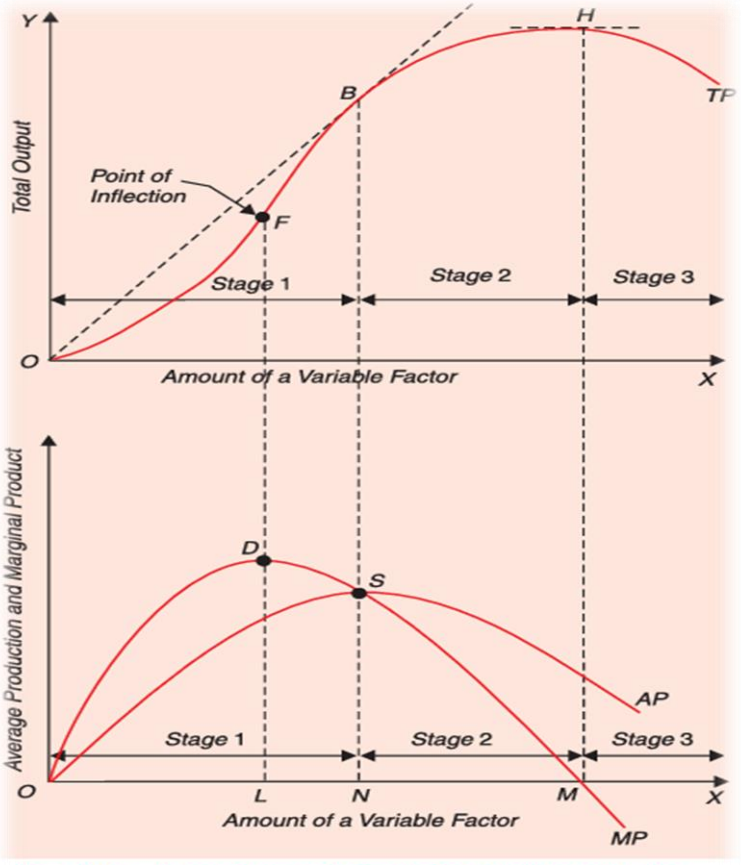
(i) Input ratio remains unchanged.
(ii) Ultimately the marginal and average product of variable input becomes negative.
(iii) Effect of technological change is visible on output.
A. Only (ii)
B. (i) and (ii)
C. (ii) and (iii)
None of the above

☞Explanation:-

This law examines the input-output relation when output is increased by varying the quantity of one input. When the quantity of one factor is increased keeping the quantity of the other factors constant, the proportion between the variable factor and the fixed factor is altered; the ratio of employment of the variable factor to that of the fixed goes on increasing as the quantity of the variable factor is increased also. Since under this law we study the effects on output of variations in factor proportions, this is known as the law of variable proportions. Since according to this law when one factor increases, other factors held constant, after a point, marginal returns to the variable factor diminishes, this is also called law of diminishing returns.

Main Assumptions:

1. Short-run situation
2. Only one factor is variable
3. Technology remains constant
4. Homogeneous units of variable factor
5. Divisibility of variable factor
6. Efficient utilization of fixed factors
7. Production is measurable in physical terms



Three Stages of Production Function with one Variable Factor

Q5. Which of the following Concept–Economist pairs is not correctly matched?

A. Golden Rule of Accumulation – E.S. Phelps

B. Knife-edge Problem – Harrod Domar
C. Turnpike Conjecture – Dorfman, Samuelson and Solow
D. Super Multiplier – J.M. Keynes

☞Explanation;-

(A). The **Golden Rule of Accumulation** refers to the level of capital accumulation that **maximizes steady-state consumption** in an economy.

It helps answer: *How much should an economy save to achieve the best long-term consumption?*

(B) The **knife-edge problem** arises in the Harrod–Domar growth model.
→ It shows that the economy is **inherently unstable**.
→ If actual growth deviates even slightly from the "warranted growth rate," the economy moves further away instead of correcting itself.
→ Hence, growth is balanced on a "knife-edge."

(C) The Turnpike Conjecture, popularized by Dorfman, Samuelson, and Solow (1958), states that for long-term optimal capital accumulation, the most efficient path is to quickly move toward a maximal balanced growth path ("turnpike"), stay on it for the majority of the time, and only deviate near the end to meet specific final targets.

(D) In order to measure the total effect of initial investment on income, Hicks has combined the multiplier and the accelerator mathematically and given it the name of the super-multiplier. The combined effect of the multiplier and the accelerator is also called the leverage effect which may lead the economy to very high or low level of income propagation.

The super-multiplier is worked out by combining both induced consumption (cY or $\Delta C/\Delta Y$ or MPC) and induced investment (v Y or $\Delta I/\Delta Y$ or MPI). Hicks divides the investment component into autonomous investment and induced investment so that investment $I = I_d + vY$, where I_a is autonomous investment and vY is induced investment.

$$K_s = \frac{1}{1-c-v} = \frac{1}{s-v}$$

K_s is the super-multiplier, c is the marginal propensity to consume, v the marginal propensity to invest, and s is the marginal propensity to save (s=1- c).

Q6. Why are indirect taxes called regressive?

A. None of the above are correct
B. They are charged at the same rate for all income groups
C. They are charged at higher rates than direct tax
D. Both above are correct.

☞Explanation:-

1. Proportional Tax (Flat Tax)

- A **proportional tax** is one where the **tax rate remains constant** regardless of income.

☞ If income doubles, tax paid also doubles, but the **burden (percentage)** stays the same. Everyone pays the **same percentage** of their income as tax.

2. Progressive Tax

A **progressive tax** system is one where the **tax rate increases as income increases**.

☞ Example:

- 5% on low income
- 20% on high income

✓ Reduces income inequality

3. Regressive Tax

A **regressive tax** is one where the **effective tax burden falls more heavily on lower-income groups**.

- The **tax rate may be same**, but poorer people pay a **higher proportion of their income**.
- Common in **indirect taxes** like GST.

☞ Example:

Both rich and poor pay ₹100 tax, but:

- For a poor person → large share of income
- For a rich person → small share of income

4. Degressive Tax System

A **degressive tax** is a **hybrid** between proportional and progressive taxation.

- Tax rate **increases with income up to a certain limit**,
- After that, it becomes **constant (like proportional tax)**.

☞ Example:

- Income up to ₹5 lakh → rising tax rates
- Income above ₹5 lakh → fixed rate

✓ So, it is **partly progressive, then proportional**.

5. Lump Sum Tax

A **lump sum tax** is a tax where a **fixed amount** is charged from every individual, **irrespective of their income, wealth, or ability to pay**.

Indirect taxes (like GST, sales tax) are imposed on goods and services, not directly on income. These taxes are usually **uniform (same rate)** for everyone, regardless of income.

☞ Why does this make them **regressive**?

Because:

Lower-income individuals spend a **larger proportion of their income** on consumption.

So, even though the tax rate is the same, the **tax burden (as a % of income)** is **higher for the poor** than for the rich.

Q7. The price elasticity of a linear supply curve through the origin is:

A. Less than unity
B. Zero
C. Unity
D. Infinite

Explanation:-

For a **linear supply curve passing through the origin**, the relationship between price and quantity supplied is:

$$Q = kP$$

Where *k* is a constant.
Now, price elasticity of supply (Es) is:

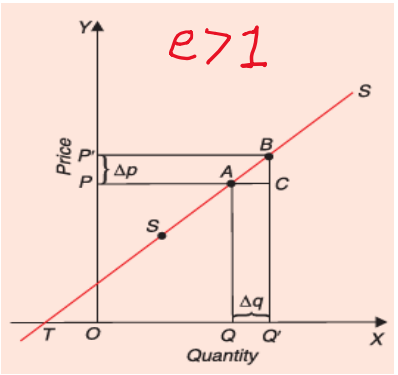
$$E_s = \frac{dQ}{dP} \cdot \frac{P}{Q}$$

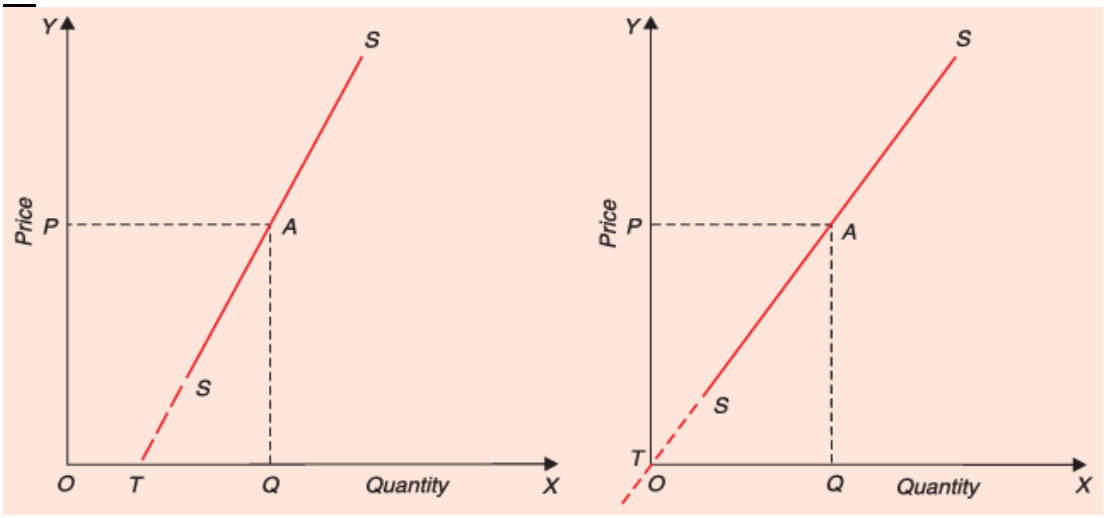
Substituting $Q = kP$:

- $\frac{dQ}{dP} = k$
- So,

$$E_s = k \cdot \frac{P}{kP} = 1$$

Hence, elasticity is **equal to 1 at all points**.





e<1 e=1

Q8. Which of the following is not part of the Peacock-Wiseman Hypothesis?

A. Concentration Effect

B. Inspection Effect

C. Displacement Effect

D. Announcement Effect

☞Explanation:-

Peacock-Wiseman Hypothesis argued that growth in public expenditure involved spurts of growth followed by long static periods rather than a smooth and continuous growth pattern i.e. in a step-like pattern coinciding with social crises and wars.

(A) Concentration Effect-

The Concentration (scale) Effect is the tendency for central government economic activity to become an increasing proportion of the total public sector economic activity during times of economic growth of a society.

(B) Inspection Effect-

The Inspection Effect takes place when people observe and accept the greater social spending required to fulfill social needs during the crisis. It happens as society realizes that it carry new, higher tax burden. In other words, new levels of tax tolerance emerge.

(C) Displacement Effect-

This is the central idea of the hypothesis.

During a disturbance (like war), government expenditure increases sharply.

To finance this, taxes are also increased.

☞ Key point:

- After the crisis ends, spending and taxes do not return to their old levels.
- Instead, they remain at a new, higher level.

This creates a step-like upward shift in public expenditure over time.

Q9. Opportunity cost theory assumes that:

A. Cost of commodity is equal to labour cost only
B. None of the above
C. Labour is homogeneous
D. Labour is the only factor of production

Explanation-

2.5B The Opportunity Cost Theory

It was left for Haberler in 1936 to explain or base the theory of comparative advantage on the opportunity cost theory. In this form, the law of comparative advantage is sometimes referred to as the *law of comparative cost*.

According to the opportunity cost theory, the cost of a commodity is the amount of a second commodity that must be given up to release just enough resources to produce one additional unit of the first commodity. No assumption is made here that labor is the only factor of production or that labor is homogeneous. Nor is it assumed that the cost or price of a commodity depends on or can be inferred exclusively from its labor content. Consequently, the nation with the lower opportunity cost in the production of a commodity has a comparative advantage in that commodity (and a comparative disadvantage in the second commodity).

For example, if in the absence of trade the United States must give up two-thirds of a unit of cloth to release just enough resources to produce one additional unit of wheat domestically, then *the opportunity cost of wheat is two-thirds of a unit of cloth* (i.e., $1W = \frac{2}{3}C$ in the United States). If $1W = 2C$ in the United Kingdom, then the opportunity cost of wheat (in terms of the amount of cloth that must be given up) is lower in the United States than in the United Kingdom, and the United States would have a comparative (cost) advantage over the United Kingdom in wheat. In a two-nation, two-commodity world, the United Kingdom would then have a comparative advantage in cloth.

According to the law of comparative advantage, the United States should specialize in producing wheat and export some of it in exchange for British cloth. This is exactly what we concluded earlier with the law of comparative advantage based on the labor theory of value, but now our explanation is based on the opportunity cost theory.

Source- *International Economics by Dominick Salvatore*

Q10. Planning from below is known as:

A. Decentralized planning
B. Functional planning
C. Structural planning
D. Centralized planning

☞Explanation-

(A) Decentralised planning- Planning from below (bottom-up approach)

In **decentralised planning**, decision-making starts at the **grassroots level**:

- Village → District → State → National level
- Local authorities (like panchayats, municipalities) identify their own needs and priorities.

(B) Functional Planning - Planning by sectors or functions of the economy

- Planning is done **sector-wise**, such as:
- Agriculture
- Industry
- Transport
- Education

- Focus is on **specific economic functions**, not on levels (top or bottom).

(C) Structural Planning- Planning aimed at changing the **economic structure**

- It focuses on long-term transformation, such as:
- Shifting from agriculture to industry
- Reducing inequality
- Developing infrastructure

- Concerned with **how the economy is organized**, not who prepares the plan

D. Centralised Planning- Planning from above (top-down approach)

- All major decisions are made by a **central authority** (like the government or planning commission).

Lower levels have **little or no role** in decision-making.

Q11. Who among the following said that "Money is a temporary abode of purchasing power"?

A. Irving Fisher
B. William J. Baumol
C. Milton Friedman
D. James Tobin

Q12. Consider the following statements:

(i) **Minimum Support Price (MSP) policy of India covers only wheat, paddy and coarse cereals.**

(ii) **Minimum Support Price (MSP) for Grade-A paddy is always higher than that of the common paddy**.

A. Neither (i) nor (ii)
B. Only (ii)
C. Only (i)
D. Both (i) and (ii)

Minimum Support Price
(Marketing Season-wise)(₹/quintal) **(As on 12.12.2025)**

Sr. No.	Commodities	KMS 2021-22	KMS 2022-23	KMS 2023-24	KMS 2024-25	KMS 2025-26
	KHARIF CROPS					
1	Paddy (Common)	1940	2040	2183	2300	2369
	Paddy (Grade 'A')	1960	2060	2203	2320	2389
2	Jowar (Hybrid)	2738	2970	3180	3371	3699
	Jowar (Maldandi)	2758	2990	3225	3421	3749
3	Bajra	2250	2350	2500	2625	2775
4	Ragi	3377	3578	3846	4290	4886
5	Maize	1870	1962	2090	2225	2400
6	Arhar	6300	6600	7000	7550	8000
7	Moong	7275	7755	8558	8682	8768
8	Urad	6300	6600	6950	7400	7800
9	Cotton (Medium Staple)	5726	6080	6620	7121	7710
	Cotton (Long Staple)	6025	6380	7020	7521	8110
10	Groundnut	5550	5850	6377	6783	7263
11	Sunflower Seed	6015	6400	6760	7280	7721
12	Soyabean Yellow	3950	4300	4600	4892	5328
13	Sesamum	7307	7830	8635	9267	9846
14	Nigerseed	6930	7287	7734	8717	9537
	RABI CROPS	**RMS 2022-23**	**RMS 2023-24**	**RMS 2024-25**	**RMS 2025-26**	**RMS 2026-27**
15	Wheat	2015	2125	2275	2425	2585
16	Barley	1635	1735	1850	1980	2150
17	Gram	5230	5335	5440	5650	5875
18	Masur	5500	6000	6425	6700	7000
19	Rapeseed & mustard	5050	5450	5650	5950	6200
20	Safflower	5441	5650	5800	5940	6540
	COMMERCIAL CROPS					
		2021-22	**2022-23**	**2023-24**	**2024-25**	**2025-26**
21	Jute	4500	4750	5050	5335	5650
		2022	**2023**	**2024**	**2025**	**2026**
22	Copra (milling)	10590	10860	11160	11582	12027
	Copra (ball)	11000	11750	12000	12100	12500

Note: *KMS: Kharif Marketing Season, RMS: Rabi Marketing Season*

☆MSP recommended by-Agriculture Price Commission - 1965
Name changed in 1985 as Agriculture Cost and Prices (CACP)

☆ MSP announced by Cabinet Committee of Economic Affairs.

Q13. Who among the following has been awarded the Nobel Prize in Economics "for analysis of markets with asymmetric information"?

A. Paul Krugman
B. Robert A. Mundell
C. Richard Thaler
D. George A. Akerlof

Explanation:

- The Nobel Prize in Economic Sciences in 2001 was awarded to:
    - George A. Akerlof
    - Michael Spence
    - Joseph Stiglitz

👉 For their work on **markets with asymmetric information** (situations where one party has more information than the other).

- George A. Akerlof is especially known for his famous paper **"The Market for Lemons"**, which explains how quality uncertainty can lead to market failure.

😎 The **Nobel Prize in Economics (2025)** —

- Joel Mokyr
- Philippe Aghion
- Peter Howitt
- ---

🏆 **Reason for Award**

- They were honoured **"for having explained innovation-driven economic growth."**
- Joel Mokyr → for identifying the **conditions necessary for sustained growth through technological progress**
- Philippe Aghion & Peter Howitt → for developing the theory of **growth through "creative destruction"**

Q14. An increase in the level of government spending, other things being equal, will in the IS-LM model:

A. Lower interest rates, shifting the LM curve to the right
B. Always move an economy to full employment
C. Increase interest rates, shifting the LM curve to the left
D. Increase the level of equilibrium income at all interest rates, shifting the IS curve right.

Explanation using the IS–LM model (developed by Hicks-Hansen):

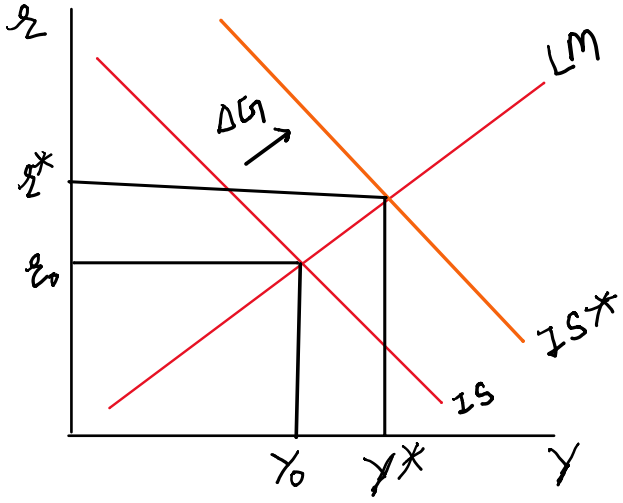
The **IS curve** represents equilibrium in the **goods market** (Investment = Saving).
The **LM curve** represents equilibrium in the **money market**.

Key Factors Causing a Rightward Shift in the IS Curve:
Expansionary Fiscal Policy
Tax Reductions
Increased Investment/Consumption

What happens when government spending increases?
Government spending is a component of **aggregate demand**.
When it increases:

- Aggregate demand rises
- Output (income) increases at every interest rate

☞ This causes the **IS curve to shift rightward**.



Q15. Who is the author of the book 'I do what I do'?

A. Jagdish N. Bhagwati
B. Amartya Sen
C. Arvind Panagariya

Raghuram G. Rajan

Jagdish N. Bhagwati- In Defence of Globalization
Amartya Sen- (i) Development As Freedom (ii) Argumentative Indian
Arvind Panagariya- India Unlimited – Reclaiming The Last Glory
Raghuram Rajan- (i) I Do What I Do (ii) Fault Lines (iii) Breaking The Mould

Q16. According to Bent Hansen, which amongst the following were treated as factors enhancing effective demand?
(i) Public expenditure
(ii) Rising population
(iii) Banking and financial system

A. (ii) and (iii)
B. (i) and (ii)
C. (i), (ii) and (iii)
D. (i) and (iii)

-

👉Explanation:-

😎Public expenditure: Government spending on goods, services, and infrastructure directly injects money into the economy, increasing aggregate demand.

😎Rising population: An increase in the number of people creates more consumers with essential needs and wants, which fundamentally expands the level of effective demand over time.

🤔Banking and financial system: While vital for economic functioning, Hansen viewed this system as a **facilitator** rather than a primary driver of demand. It connects savers and borrowers but does not directly create the demand for goods and services in the same way that actual spending or an increase in the number of spenders does.

Q17. An economic region of production consists of:

A. The positively sloped portions of all isoquants
B. The middle of all isoquants
C. The highest points of all isoquants
D. The negatively sloped portions of all isoquants

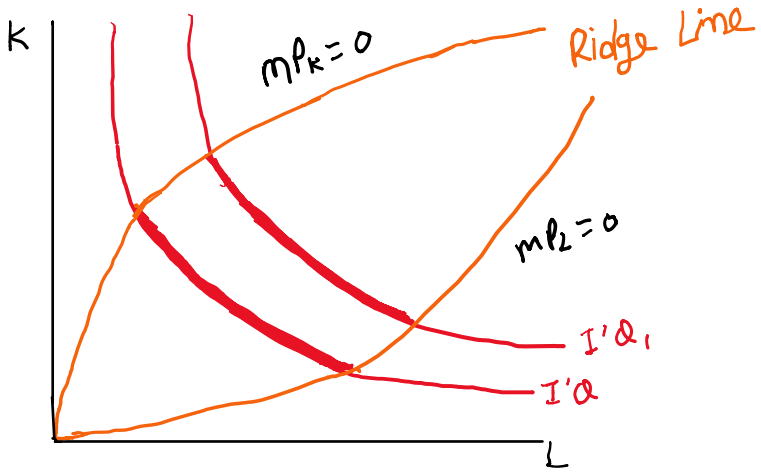
☞Explanation:-

The **economic region of production** (also known as the technically efficient region) is defined by the range of input combinations where both inputs have **positive marginal products**. In this region:

Negative Slope: Isoquants must be downward-sloping (negative slope) because to maintain a constant level of output, an increase in one input (labor) must be balanced by a decrease in the other input (capital).

Ridge Lines: The boundaries of this region are the **ridge lines**, which connect the points where the marginal product of an input becomes zero.

Efficiency: Any production point outside this region is considered technically inefficient because the same output could be achieved using fewer inputs.



Q18. Which of the following will result in the 'crowding in' effect in the economy?
(i) Public borrowings to finance spending on infrastructure
(ii) Public borrowings to finance spending on salaries and wages
(iii) Public borrowings to finance spending on health and education
(iv) Public borrowings to finance spending on skill development
A. (i), (ii) and (iii)
B. (i) and (ii)
C. (i), (iii) and (iv)
- (iii) and (iv)

☞Explanation:-

The **'crowding in'** effect occurs when increased government spending actually stimulates and encourages private investment rather than reducing it. This typically happens when public borrowing is used to finance productive assets that improve the economy's long-term capacity or lower business operational costs.

(i) Infrastructure spending: Better roads, ports, and communication networks improve overall economic efficiency and create profitable opportunities for private firms, "pulling in" private investment.

(iii) Health and education: These are investments in **human capital**. A healthier and more educated workforce is more productive, attracting private businesses seeking skilled labour and higher returns.

(iv) Skill development: Similar to education, this improves human capital and productivity, which encourages private sector activity and investment.

(ii) Salaries and wages: This represents government **consumption spending** rather than capital investment. Using public borrowing to finance current consumption (like salaries) does not create long-term productive assets; instead, it is more likely to lead to the **'crowding out'** effect by competing with the private sector for loanable funds and raising interest rates without improving productivity.

Q19. Arrange the following crop insurance schemes in chronological order of launch:

(i) Comprehensive Crop Insurance Scheme
(ii) National Agriculture Insurance Scheme
(iii) Modified National Agriculture Insurance Scheme
(iv) Pradhan Mantri Fasal Bima Yojana
A. (ii), (iii), (i), (iv)
B. (iii), (ii), (iv), (i)
C. (i), (ii), (iii), (iv)
D. (i), (iii), (ii), (iv)

(i) Comprehensive Crop Insurance Scheme (CCIS) – 1985 – The goal of supporting farmers in the crop failure because of drought, flood or natural calamity.

(ii) National Agriculture Insurance Scheme (NAIS) – 1999 – To improve the coverage in terms of farmer, more crops, more risks.

(iii) Modified National Agriculture Insurance Scheme (MNAIS) – 2010 – To improve NAIS further & make the insurance scheme easier and farmer friendly, better claim settlement and reduced delays.

(iv) Pradhan Mantri Fasal Bima Yojana (PMFBY) – 2016 - is a government-sponsored crop insurance scheme providing comprehensive coverage against non-preventable natural risks from pre-sowing to post-harvest. It operates on an "Area Approach" with voluntary participation, low premiums, and uses technology to ensure quick claim settlements for farmers.

Premium Rates (Uniform):

- **Kharif Crops:** Up to 2.0% of the sum insured
- **Rabi Crops:** Up to 1.5% of the sum insured.

Commercial/Horticultural Crops: Up to 5%.

Eligibility: Mandatory for farmers availing crop loans (prior to 2020, now voluntary for all).

Q20. Global Competitiveness Report is released by:

A. World Bank
B. World Economic Forum
C. European Union
D. World Trade Organization

India ranked 68th among 141 countries in the 2019 Global Competitiveness Report published by the World Economic Forum (WEF), dropping from 58th in 2018.

The World Economic Forum **paused detailed rankings after 2019**, so no recent official rank like 2024–25 is typically used in exams.

Q21. Which of the following is correct for the Keynesian model?

A. It ignores the money market
B. It is supply determined
C. None of the above
D. It assumes full employment of resources

☞Explanation:-

A. It ignores the money market ✗

In basic Keynesian cross model, money may not be explicitly shown.
But in the broader Keynesian system—especially the **IS-LM model**—the **money market is essential.**

B. It is supply determined ✗

This is a classical idea, not Keynesian.

- **Classical economics:** Output depends on factors of production **(supply-side).**
- **Keynesian economics:** Output depends on aggregate demand **(AD).**

D. It assumes full employment of resources ✗

This is one of the main criticisms Keynes had of classical theory.

Classical economists assumed full employment equilibrium
Keynes- Under-employment equilibrium.

Q22. Which of the following act as an instrument to help in the borrowing by the government?

(i) Repo Rate
(ii) Reverse Repo Rate
(iii) CRR
(iv) SLR
A. (iii) and (iv)
B. Only (iv)
C. (i) and (iv)
D. (i) and (iii)

(i) Repo Rate: This is the rate at which the RBI lends money to commercial banks against collateral. It is a liquidity management tool and does not serve as an instrument for government borrowing.

(ii) Reverse Repo Rate: This is the rate at which the RBI borrows money from commercial banks to absorb excess liquidity. It involves banks lending to the central bank, not the government.

(iii) CRR (Cash Reserve Ratio): This requires banks to keep a portion of their deposits in **cash** with the RBI. Since these funds are held in cash and earn no interest, they are not used to purchase government debt and do not assist in government borrowing.

(iv) SLR (Statutory Liquidity Ratio): SLR is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities. It is basically the reserve requirement that banks are expected to keep before offering credit to customers**.**

Q23. Historically, terms of trade of developing countries have been unfavourable because:

A. Income elasticity of demand for primary goods is zero
B. Income elasticity of demand for primary goods is low
C. Income elasticity of demand for primary goods is high
D. Price elasticity of demand for primary goods is high

👉Explanation:-

Engel's Law: As income rises, the proportion of income spent on food and basic necessities declines

The terms of trade for developing countries have been unfavourable primarily due to the characteristics of their major exports: **primary goods** - agricultural products, raw materials. According to the **Prebisch-Singer Hypothesis**, as global incomes rise—particularly in developed nations—the demand for these primary goods increases at a much slower rate than the demand for manufactured goods.

Q24. The presumption that costly new knowledge would be undersupplied by private sector is because it is:

A. Non-rivalrous and Non-excludable
B. Rivalrous and Non-excludable
C. Non-rivalrous and Excludable
A. Rivalrous and Excludable

👉Explanation:-

1. Non-rivalrous

- One person's use of knowledge does **not reduce** its availability to others.
- Example: If one firm uses a formula or idea, others can still use it.

2. Non-excludable

It is often **difficult or costly to prevent others from using it**, especially once it becomes public.

Q25. A rise in general price level may be caused by:

(i) Increase in money supply
(ii) Increase in aggregate output
(iii) Increase in effective demand
A. (i), (ii) and (iii)
B. (i) and (ii)
C. (i) and (iii)
D. Only (iii

(i) Increase in money supply: According to the **Quantity Theory of Money (MV=PT)**, when more money circulates without a corresponding increase in goods, it leads to "too much money chasing too few goods," driving prices up.

✕ **(ii) Increase in aggregate output:** An increase in the total production of goods and services (aggregate output) generally leads to a **decrease** or stabilization of the general price level.

(iii) Increase in effective demand: This results in **demand-pull inflation**. When consumers' willingness and ability to buy (effective demand) increases faster than an economy's productive capacity, prices are bid upward.

Q26. Which of the following is the third stage in Rostow's Stages of Economic Growth?

A. Take-off
B. High mass consumption
C. Traditional society
D. Pre-conditions for a take-off

1. THE TRADITIONAL SOCIETY:- The social structure of such societies was hierarchical in which family and clan connections played a dominant role. Political power was concentrated in the regions. More than 75 per cent of the working population was engaged in agriculture.

2. THE PRE-CONDITIONS FOR TAKE-OFF:-
Development of **infrastructure** (roads, railways, ports)

- Emergence of entrepreneurs and investment
- Expansion of education and institutions

Economic nature:

- Savings and investment start increasing
- Society starts preparing for industrial growth

3. Take Off :-
This is the **turning point** of economic development.
Key features:

- Rapid **industrialization**
- Investment rises significantly (often 10% of national income)
- Growth becomes **self-sustaining**
- Expansion of industries

Economic nature:

- Structural shift from agriculture → industry
- Strong and continuous **GDP growth**

4. Drive to Maturity
This is the stage of **consolidation and diversification**.
Key features:

- Use of **advanced technology**
- Diversification into multiple industries
- Improved **skills, education, and productivity**

Economic nature:

- Economy becomes **modern and competitive**
- Sustained long-term growth across sectors

5. Age of High Mass Consumption
This is the **final stage of prosperity**.
Key features:

- High **per capita income**
- Expansion of **welfare state** (healthcare, education)
- Growth of **middle class and consumption culture**

Economic nature:

- Focus on **quality of life**, not just production
- High levels of **urbanization and services sector growth**

Q27. If for a CES production function, substitution parameter p = -1, elasticity of substitution is:

A. Infinite
B. Unity

C. Zero
D. Indeterminate

Elasticity of substitution
The percentage change in the ratio of two inputs (capital and labour) in response to a percentage change in their marginal rate of technical substitution (MRTS).

Formula

$$\sigma = \frac{\%\text{ change in (K/L)}}{\%\text{ change in MRTS}}$$

A **CES (Constant Elasticity of Substitution)** production function has the form:

$$\sigma = \frac{1}{1+p}$$

- σ= elasticity of substitution
- p= substitution parameter

Given:

$$p = -1$$
$$\sigma = \frac{1}{1+(-1)} = \frac{1}{0}$$

$$\boldsymbol{\sigma = \infty}$$

Q28. According to Schumpeter Theory of Development:

A. All the above are correct
B. Democracy enhances efficiency of an economic system
C. Expansion of output is limited by real savings
D. None of the above are correct

Explanation:-
Joseph Schumpeter's Theory of Economic Development focuses on the role of the **entrepreneur** and **innovation** ("creative destruction") as the primary drivers of growth.

Key Elements:-
(i) Role of Entrepreneur as an Innovator
(ii) Development Cycle-The Circular Flow and the Process of Creative Destruction
(iii) Role of Credit
(iv) Business Cycle

Q29. In a linear homogeneous Cobb-Douglas production function, K share = 40%, L share = 60%, growth rates K=8%, L=3%, output growth=7%, TFP growth is:

A. 4%
B. 2%
C. 11%
D. [10%

$$Y = AL^{\alpha}K^{\beta}$$

$$\text{Log } Y = \text{Log } A + \alpha \text{ Log } L + \beta \text{ Log } K$$

$$7\% = \text{Log } A + 0.60\,(3\%) + 0.40\,(8\%)$$

$$7\% = \text{Log } A + 1.8\% + 3.2\%$$

$$7\% = \text{Log } A + 5\%$$

$$\text{Log } A = \boxed{2\%}$$

Q30. Nominal GDP growth = 15%, GDP deflator growth = 5%, population growth = 2%, per capita real GDP growth = ?

A. 7%
B. 3%
C. 8%
D. 10%

Real GDP Growth =

Nominal GDP Growth − GDP Deflator Growth

$= 15\% - 5\% = 10\%$

Per Capita Real GDP Growth =

Real GDP Growth − Population Growth

$= 10\% - 2\% = \boxed{8\%}$

Q31. Universal Banking in India was recommended by:

A. S. Padmanabhan Committee
B. R.H. Khan Committee
C. Y.H. Malegam Committee
D. Abid Hussain Committee

R. H. Khan Committee-2015-16

- The committee examined the role of **Development Financial Institutions (DFIs)** and banks.
- It recommended the concept of **Universal Banking**-

Banks can offer **commercial banking + investment banking + other financial services under one roof.**

The Malegam Committee -2010–2011

Established by the RBI and is primarily related to the **microfinance sector** in India. It was formed to study issues and propose regulations regarding microfinance institutions (MFIs), focusing on curbing high interest rates, ensuring transparent lending, and regulating coercive recovery practice.

The Abid Hussain Committee -1995-1997

Primarily tasked with reviewing and recommending reforms for the **Small-Scale Industries (SSI) sector** in India.

Q32. Statements about rational expectations: Which is false?

A. Expected changes in demand have no effect on unemployment.
B. Unexpected changes in demand have long lasting effect on unemployment and price level.
C. On average, forecasts made by public are correct.
D. People take account of all information.

☞Explanation:-

- The Rational Expectations Hypothesis (REH) posits that individuals use all available information to form their expectations, meaning they do not make systematic errors.

  (A) If demand changes are anticipated, workers and firms adjust wages and prices accordingly. So, **no real effect** on unemployment in the long run.

  (B) Unexpected changes may affect output/unemployment only in the **short run**. They do not have long-lasting effects**.**

Q33. Normal profit is earned:

- Only in perfect competition
- In short period only
- In both long and short period
- In long period only

☞Explanation:-

Normal profit is defined as the minimum level of profit necessary to keep a firm in business, representing the situation where total revenue equals total cost (including implicit costs like the opportunity cost of the entrepreneur's time).

⏰Short-Run

Firms may earn **supernormal profit, normal profit, or incur losses**.
But when they are just covering all costs (including opportunity cost), they earn **normal profit**.

⏱Long run:

Due to **entry and exit of firms**, abnormal profits disappear. Firms tend to earn **only normal profit** in equilibrium.

Q34. Direct taxes among:

(i) Fringe Benefits Tax
(ii) Capital Gains Tax
(iii) Securities Transaction Tax
A. (ii) and (iii)
B. (i), (ii) and (iii)
C. Only (i)
D. (i) and (iii)

☞Explanation:-

Fringe Benefit Tax- is a tax levied on employers for non-salary perks and benefits provided to employees, such as company cars, housing, or free meals. It is paid by the employer, not the employee, as a percentage of the benefit's value. In India, FBT was abolished in 2009.

Capital gains tax - is a levy on the profit earned from selling assets like stocks, mutual funds, real estate, or gold, calculated as the difference between the sale price and the purchase price.

Securities Transaction Tax - is a direct tax levied by the Indian government on the purchase or sale of securities (shares, derivatives, equity mutual funds) listed on recognized stock exchanges.

Examples of Direct Taxes in India-
Income Tax, Wealth Tax, Corporate Tax, Expenditure Tax, Gift Tax , Bank Cash Transaction Tax
Examples of Indirect Taxes in India-
Sales Tax, GST, Service Tax, Custom Duty, Exise Duty, Entertainment Tax.

Q35. Pareto optimality incorrect statement:

A. Perfect competition
B. All factors used in production

C. Consumers maximise satisfaction
Consumers have cardinal utility

☞Explanation:-

Pareto optimality is a state where resources are allocated in the most efficient manner, meaning no individual can be made better off without making someone else worse off.

Assumptions-
1. Perfect Competition
2. Full Employment of Resources
3. No Externalities
4. Perfect Information
5. Given Technology
6. Ordinal Utility
7. Convex Preferences

Q36. Revenue expenditure in India:

(i) Subsidies
(ii) Interest payments on public debt
(iii) Wages and salaries
A. (i) and (ii)
B. (i), (ii) and (iii)
C. (ii) and (iii)
(i) and (iii)

☞Explanation:-

Revenue Expenditure: Government spending on the day-to-day functioning of the government. It does not create assets or reduce liabilities.
Examples: salaries, subsidies, interest payments, pensions, administrative expenses.

Capital Expenditure: Government spending that **creates assets** or **reduces liabilities**. It leads to long-term benefits for the economy.
Examples: building roads, schools, hospitals, purchasing machinery, repayment of loans, investment in infrastructure.

Q37. Devaluation is more effective when:

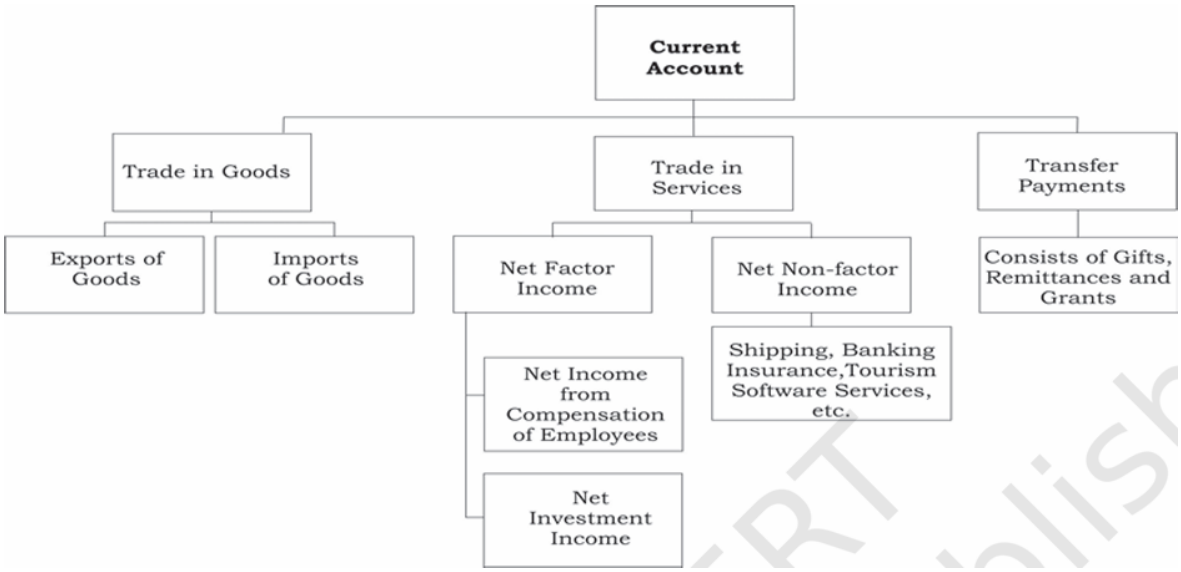
(i) Capital is freely mobile
(ii) Capital is not freely mobile
(iii) Marginal propensity to import is high

Devaluation:-
Reduction in the value of a country's currency relative to foreign currencies or a gold standard, typically enacted by a government or central bank under a fixed exchange rate system. It makes exports cheaper and imports more expensive, aiming to reduce trade deficits.

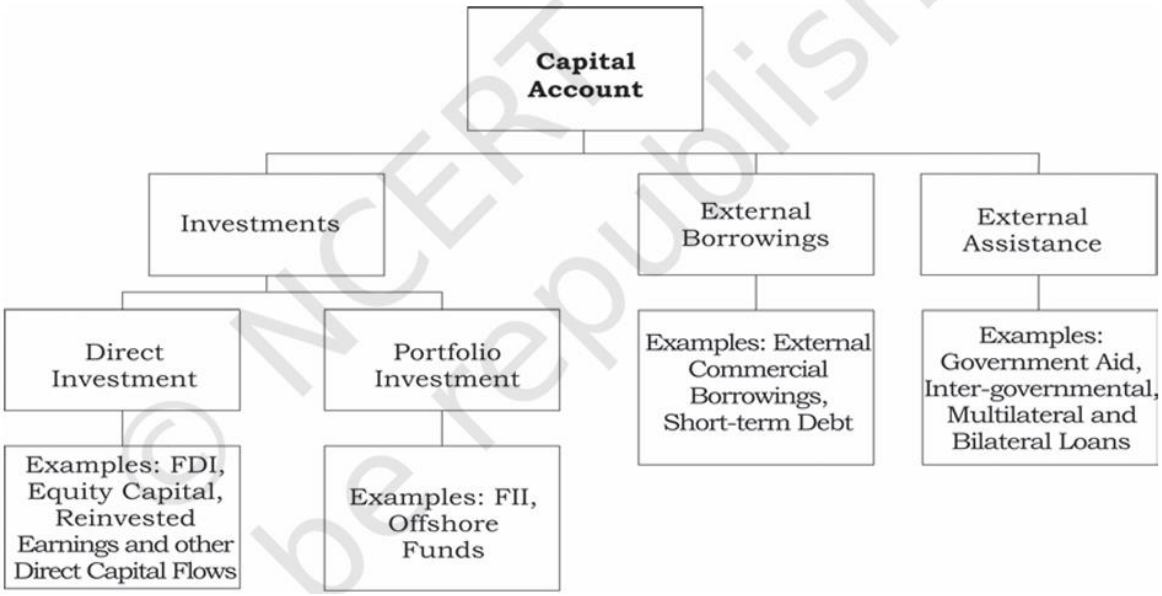
Q38. Balance of payments on capital account does not include:

A. Government loans to foreign governments
B. Net income transfers
C. Foreign portfolio investment
D. Foreign direct investment

Components of Current Account



Components of Capital Account

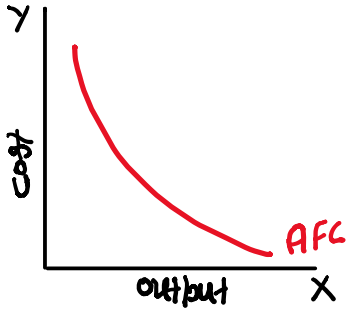


Q39. Average Fixed Cost (AFC) statements:

(i) Slope always negative
(ii) Slope >1
(iii) Slope=1
(iv) Elasticity w.r.t output =1
A. Only (iii)
B. Only (i)
C. (ii) and (iii)
D. (i) and (iv)

Average fixed cost is the total fixed costs divided by the number of units of output produced.

$$AFC = \frac{TFC}{Q}$$



Key characteristics:

1. Falls continuously with increase in output.
2. Rectangular hyperbola shape.
3. Never touches the axes
4. Always positive
5. Downward sloping curve
6. Elasticity of AFC w.r.t output = –1

Q40. Union Budget fiscal deficit 2026–27:

A. 5.3%
B. 4.3%
C. 4.5%
D. 3.3%

Fiscal Deficit=Total Expenditure−(Revenue Receipts+Non-debt Capital Receipts)

☆The fiscal deficit for the financial year 2026–27 (Budget Estimates) is estimated at **4.3% of GDP**

Q41. Assertion (A): A progressive income tax is based on equimarginal sacrifice.
Reason (R): Higher the income, lower will be the marginal utility of money for the tax payer

A. Both true, R not correct explanation
B. A false, R true
C. Both true, R correct explanation
D. A true, R false

👉Explanation:

Assertion (A): A progressive income tax is based on equimarginal sacrifice-
Progressive taxation is designed so that individuals with higher income pay more, aiming at an equal (or near-equal) sacrifice across income groups.

Reason (R): Higher the income, lower will be the marginal utility of money for the taxpayer-
Based on the law of diminishing marginal utility, as income increases, the additional satisfaction from each extra unit of money decreases.

Q42. Assertion (A): In an oligopolistic market, there is price rigidity.
Reason (R): Rival firms match price decrease but not price increase

A. A true, R false
B. A false, R true
C. Both true, R correct explanation
D. Both true, R not correct explanation

👉Explanation:-

✨ In an **oligopolistic market** (few large firms dominate the market), firms are **interdependent**. This means every firm considers the reaction of rival firms before changing its price.
Because of this interdependence:

- Firms hesitate to change prices frequently
- Prices tend to remain **stable or rigid**, even when costs or demand change

This phenomenon is called **price rigidity**.

▼ **If a firm decreases price:**

- Rival firms **immediately match the price cut**
- Reason: If they don't, they will lose customers

▲ **If a firm increases price:**

- Rival firms **do NOT follow the price increase**
- Reason: They want to attract customers from the firm that raised price

Firms realize that **changing price does not improve profit**, so they prefer to keep prices unchanged.

Q43. Though two time series are individually non-stationary, their linear combination is stationary. This is an example of

A. Trend stationarity
B. Spurious regression
C. Cointegration
D. Random walk

☞Explanation:-

Trend stationarity : This refers to a series that is non-stationary only because of a deterministic trend; removing that trend makes it stationary. It does not describe the relationship between two different series.

Spurious regression : This occurs when two independent non-stationary series appear to be related simply because they both have trends, even though they share no meaningful economic link. In spurious regression, the linear combination (residuals) remains non-stationary.

Cointegration: When **two time series are individually non-stationary** (i.e., their mean, variance, or covariance changes over time), but a **linear combination of them is stationary**, it means they move together in the long run.

Random walk: This is a specific type of non-stationary process where the current value is the sum of the previous value and a white noise error.

Q44. Correlation coefficient r=0.7, % variation explained = ?

A. 7%
B. 0.7%
C. 49%
D. 70%

The percentage of variation explained is given by the **coefficient of determination**:

$$R^2 = r^2$$

Given: $r = 0.7$

So,

$$R^2 = (0.7)^2 = 0.49$$

percentage:

$$0.49 \times 100 = \mathbf{49}\%$$

Q45. Monopolist: P=100-4Q, C=50+20Q. Profit-max output:

A. 40
B. 10
C. 20
D. 5

$$P = 100 - 4Q$$
$$TR = P \times Q = 100Q - 4Q^2$$
$$MR = \frac{dTR}{dQ} = 100 - 8Q$$

$$TC = 50 + 20Q$$
$$MC = \frac{dTC}{dQ} = 20$$

$$MR = MC$$
$$100 - 8Q = 20$$
$$-8Q = -80$$
$$\boxed{Q = 10}$$

Q46. The National Rural Health Mission was launched in the year

(A) 1998
(B) 2009
(C) 1991
(D) 2005

Mission Name	National Rural Health Mission (NRHM)
Launch Date	April 12, 2005
Primary Focus	Improving health facilities in rural areas of India
Key Component Introduced	ASHAs (Accredited Social Health Activists)

National Urban Health Mession- 2013

✨The **National Health Mission (NHM)** was launched in 2013. It integrates the National Rural Health Mission (NRHM) and the newly launched National Urban Health Mission (NUHM).

- The goal of NHM is to achieve universal access to equitable, affordable, and quality healthcare services that are accountable and responsive to people's needs.

Q47.The problem of adverse selection arises due to

A. Full information
B. Wrong information
C. Asymmetric information
D. No information.

👉Explanation:-

Adverse selection is a situation in which **one party to a transaction has better or more information than the other before the deal is made**, leading to the selection of undesirable or higher-risk participants.

It is a problem arising from **Asymmetric Information**.

🤝"Bad risks are more likely to be selected than good risks because of unequal information."

Q48. Which of the following are the objectives of the Commission for Agricultural Costs and Prices (CACP)?
(i) To ensure meaningful real income levels to the farmers
(ii) To stabilize agricultural prices
(iii) To protect the interest of the consumers

(A) All of the above
(B) (i) and (ii)
(C)(ii) and (iii)
(D)(i) and (iii)

👉Explanation:-

🌟MSP recommended by-Agriculture Price Commission - 1965
Name changed in 1985 as Agriculture Cost and Prices (CACP)
Main objective of CACP:-

1. Ensuring Remunerative Price
2. Incentivizing Modernization
3. Balancing Consumer and Producer Interest
4. Price Stabilization
5. Balanced Pricing Structure

Q.49 Who amongst the following economists treated nature to be niggardly?
(i) J. S. Mill
(ii) David Ricardo
(iii) Karl Marx
(iv) Thomas Robert Malthus

Choose the correct answer from the code given below:
(A)(iii) and (iv)
(B)(ii) and (iii)
(C)(i), (ii) and (iii)
(D)(ii) and (iv)

☞Explanation:-

David Ricardo:-
He viewed nature as providing limited fertile land. His **Theory of Rent** and the **Law of Diminishing Returns** are built on the idea that as population grows, society is forced to cultivate less fertile land, leading to higher costs and lower productivity

Thomas Robert Malthus:-
He famously argued that while population grows geometrically, food supply only grows arithmetically due to the fixed and "niggardly" nature of land. This natural constraint was the basis for his warnings about overpopulation and inevitable resource scarcity.

John Stuart Mill – Reciprocal Demand Theory:-

> **Reciprocal Demand Theory** is Mill's explanation of **how international terms of trade are determined**.
> "How much one country wants another country's goods (and vice versa) decides the exchange ratio between them."

Q.50 What is not true for the Third Stage of the Theory of Demographic Transition?

(A)Death rate declines but slowly
(B)Population growth becomes zero
(C)Birth rate declines faster
(D)Population growth rate approximately stabilizes in a narrow range.

☞Explanation:-

Stage 1: High Stationary Stage

- High birth rate
- High death rate
- Population growth is very low or stable

Stage 2: Early Expanding Stage

- High birth rate (remains high)
- Sharp decline in death rate
- Population grows rapidly

Stage 3: Late Expanding Stage

- Birth rate declines rapidly
- Death rate declines slowly or stabilizes at low level
- Population growth slows down

Stage 4: Low Stationary Stage

- Low birth rate
- Low death rate
- Population becomes stable or near zero growth

Stage 5: Declining Stage

- Birth rate falls below death rate
- Population declines.