

**IASbaba's Daily Prelims Test [Day 46]**

**Topic- Economics, Environment, S&T and Current Affairs**

**1. India's Foreign exchange reserves now crossed 350 billion US dollars. Which of the following are parts of foreign exchange reserve?**

1. Foreign currency assets.
2. Gold reserves.
3. Special drawing rights (SDRs).
4. Reserve Position in the IMF.

**Select the correct code from below.**

1. 1, 2 and 3 only
2. 2, 3 and 4 only
3. 1, 3 and 4 only
4. All the above

**Ans: (4)**

**Explanation:**

All four are parts of foreign exchange reserve.

**2. Indian Rupee loses its value when**

1. Indian imports are increasing, without corresponding rise in export.
2. FDI or FII inflows.
3. More Indians travels abroad.

**Select the correct code from below.**

1. 1 and 2 only
2. 2 and 3 only
3. 1 and 3 only
4. All the above

**Ans: (3)**

**Explanation:**

The value of currency, like the price of any other good or service depends on its demand and supply. And demand for a currency, say, the US dollar, typically comes from Indian importers, people or institutions that invest in the US (FDI or FII outflows) and travelers to the US. All these agents require dollars for transacting in the US.

When the FDI or FII inflows, demand for dollar decreases, as a result value of the Rupee goes up.

**3. Consider the following statements regarding 'Capital account convertibility'.**

1. India has full current account convertibility but not full capital account convertibility.
2. Capital account convertibility beneficial for a country because inflow of foreign investment increases
3. Capital account convertibility brings stability in the economy.

**Which of the above statements is/are correct?**

1. 2 only
2. 1 and 2 only
3. 1 and 3 only
4. All the above

**Ans: (2)**

**Explanation:**

Capital account convertibility means the freedom to convert rupees into foreign currency and back for capital transactions.

India has full current account convertibility but not full capital account convertibility. There are ceilings on government and corporate debt, external commercial borrowings and equity. It leads to free exchange of currency at lower rates and an unrestricted mobility of capital. It is beneficial for a country because inflow of foreign investment increases. The flip side, though, is that it could destabilize an economy due to massive capital flows in and out of the country.

[http://www.business-standard.com/article/economy-policy/full-capital-account-convertibility-of-rupee-still-a-distant-dream-115041500906\\_1.html](http://www.business-standard.com/article/economy-policy/full-capital-account-convertibility-of-rupee-still-a-distant-dream-115041500906_1.html)

**4. Consider the following statements regarding effective exchange rates.**

1. 'The nominal effective exchange rate' (NEER) is the weighted geometric average of the bilateral nominal exchange rates of the home currency in terms of foreign currencies.
2. 'The real effective exchange rate (REER)' is the weighted geometric average of nominal exchange rates of the home currency in terms of the foreign currencies adjusted for relative price differential.

**Which of the above statements is/are correct?**

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Ans: (3)**

**Explanation:**

Both statements are correct.

Effective exchange rates are summary indicators of movement in the exchange rate of home currency against a basket of currencies of trade partner countries and are considered to be an indicator of international competitiveness.

For objective measurement of Rupee's volatility, we must compare its price fluctuations with multiple currencies and not against a single currency like US Dollar. For example, although the rupee has depreciated against the US dollar, in terms of NEER (36 currencies) it appreciated by 2.8 per cent in December 2014 over March 2014. Similarly, REER also appreciated by 5.8 per cent during the same period.

**5. Consider the following statements regarding recently launched foreign trade policy (FTP) 2015-2020.**

1. Trade facilitation and enhancing the ease of doing business are the other major focus areas of new FTP.
2. FTP2015-20 introduced a new scheme called 'Merchandise Exports from India Scheme (MEIS)' for export of specified goods to specified markets.
3. Units located in SEZs are excluded from Merchandise Exports from India Scheme (MEIS).

**Which of the above statements are correct?**

1. 1 and 2 only
2. 1 and 3 only
3. 2 and 3 only
4. All the above

**Ans: (1)**

**Explanation:**

The focus of the new policy is to support both the manufacturing and services sectors, with a special emphasis on improving the 'ease of doing business'. Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP.

FTP2015-20 introduces two new schemes, namely "Merchandise Exports from India Scheme (MEIS)" for export of specified goods to specified markets and "Services Exports from India Scheme (SEIS)" for increasing exports of notified services, in place of a plethora of schemes earlier, with different conditions for eligibility and usage.

In order to give a boost to exports from SEZs, government has now decided to extend benefits of both the reward schemes (MEIS and SEIS) to units located in SEZs. It is hoped that this measure will give a new impetus to development and growth of SEZs in the country.

**6. International crude oil price has taken a huge plunge in recent time. Which of the following is/are correct regarding impact of fall in oil price on Indian economy?**

1. Shrinking of trade deficit.
2. Reduced subsidy burden on the government.
3. Helped in controlling the inflation.
4. Reduced remittance by Indian employees in oil producing countries.

**Select the correct code from below.**

1. 1, 2 and 3 only
2. 2, 3 and 4 only
3. 1, 3 and 4 only
4. All the above

**Ans: (4)**

**Explanation:**

As the price reduced, it greatly decreased the oil import bill for India, resulting in the shrinking of trade deficit. The fall in international oil price will ease out the load of subsidies on the government. The oil price drop is helping in controlling inflation. Eg: Reductions in transportation cost have helped in controlling the inflation of perishables.

While these are the upside, there is also speculation that due to budgetary constraints faced in Middle Eastern oil exporting countries, many construction and infrastructure project might be shut down or stalled. These sectors in the region employ Indian labour in huge number. Stalling of project can lead to them losing the job, which in turn will reduce remittance made by them and also lead to the return of labourers in massive numbers.

**7. Which one of the following is not a Current account transaction?**

1. Imports payables
2. Exports receivables
3. Net invisibles
4. External Commercial Borrowings

**Ans: (4)**

**Explanation:**

External commercial borrowings come under capital account.

Invisible account covers (a) services, (b) transfers, and (c) income.

**8. 'Dumping' is an unfair trade practice which can have a distortive effect on international trade. In this regard consider the following statements.**

1. If the export price is lower than the normal value, it constitutes dumping.
2. Import of cheap products through illegal trade channels like smuggling also considered as dumping.

**Which of the above statement is/are correct?**

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Ans: (1)**

**Explanation:**

Dumping is said to occur when the goods are exported by a country to another country at a price lower than its normal value.

Imports of cheap products through illegal trade channels like smuggling do not fall within the purview of anti-dumping measures.

**9. Implementation of the GAAR has been a matter of public debate. Which of the following statements are correct regarding GAAR?**

1. It gives Indian authorities the right to scrutinize and tax transactions which they believe are structured solely to avoid taxes.
2. GAAR will apply only when tax benefit exceeds Rs 3 crore.
3. GAAR will not apply to non-resident investors in FII's.

**Select the correct code from below.**

1. 1 and 2 only
2. 1 and 3 only
3. 2 and 3 only
4. All the above

**Ans: (4)**

**Explanation:**

GAAR is basically a set of rules designed to give Indian authorities the right to scrutinize and tax transactions which they believe are structured solely to avoid taxes. The rules would be applicable to all taxpayers.

GAAR will not apply to non-resident investors in FII's. GAAR will apply only when tax benefit exceeds Rs 3 crore.

[http://articles.economictimes.indiatimes.com/2013-01-16/news/36373957\\_1\\_gaar-tax-residency-certificate-treaty-benefits](http://articles.economictimes.indiatimes.com/2013-01-16/news/36373957_1_gaar-tax-residency-certificate-treaty-benefits)

**10. Consider the following statement regarding India's external debt.**

1. The increase in external debt during 2014-15 was on account of rise in commercial borrowings and non-resident deposits.
2. The US dollar denominated debt is the largest component of India's external debt with a share of 58.3 per cent.

**Which of the above statements is/are correct?**

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Ans: (3)**

**Explanation:**

India's external debt at end-March 2015 showed an increase of US\$ 29.5 billion (6.6 per cent) over end-March 2014, due to the rise in commercial borrowings and NRI deposits.

The US dollar denominated debt continued to be the largest component of India's external debt with a share of 58.3 per cent at end-March 2015, followed by Indian rupee (27.9 per cent), SDR (5.8 per cent), Japanese Yen (4.0 per cent) and Euro (2.4 per cent).

**11. Consider the following**

1. Rhizomes
2. Bulb
3. Pitcher
4. Tendrils
5. Corm

**Of these, Modified Stems are**

1. 1, 2, 3 and 4
2. 2, 3 and 5
3. 1, 2 and 5
4. 1, 3 and 4

Solution- 3

Pitcher and Tendrils are Modified Leaves

**12. India is a party to the Ramsar Convention and has declared many areas as Ramsar Sites. Consider the following w.r.t it**

1. Swamps
2. Peatland
3. Fish Ponds
4. Rice Paddies
5. Mangroves
6. Coral Reefs

**Which of them comes under WETLAND?**

1. 1, 2, 4 and 5
2. 1, 2, 3, 5 and 6
3. 1, 2, 3, 4, 5 and 6
4. 1, 3, 4 and 5

Solution- 3

Wetlands are among the most diverse and productive ecosystems. They provide essential services and supply all our fresh water. However they continue to be degraded and converted to other uses.

The Convention uses a broad definition of wetlands. It includes all lakes and rivers, underground aquifers, swamps and marshes, wet grasslands, peatlands, oases, estuaries, deltas and tidal flats, mangroves and other coastal areas, coral reefs, and all human-made sites such as fish ponds, rice paddies, reservoirs and salt pans.



**13. Consider the following**

1. Methane
2. Carbon Dioxide
3. Sulphur Dioxide
4. Nitrous Oxide

**Select the ones released from WETLAND?**

1. 1 and 2
2. 1, 3 and 4
3. 1, 2 and 3
4. 1, 2 and 4

Solution- 4

<http://www.wetlands.org/Whatarewetlands/Peatlands/Carbonemissionsfrompeatlands/tabid/2738/Default.aspx>

Although wetlands act as natural buffers towards nutrients expelled from surrounding watersheds, excess nutrients mainly through anthropogenic sources have been shown to significantly increase the N<sub>2</sub>O fluxes from their soils through de-nitrification and nitrification processes.

**14. Which of the following are associated with diabetes mellitus, a common disease in adults?**

1. Higher sugar level in blood
2. Lower sugar level in blood
3. Lower insulin level in blood
4. Higher insulin level in blood

**Select the correct answer by using the codes given below**

1. 1 and 3
2. 1 and 4
3. 2 and 4
4. 2, 3 and 4

Solution- 1

With diabetes mellitus, either your body doesn't make enough insulin or it can't use the insulin it does produce or a combination of both. Means, there will be no excess of insulin in either case.

**15. The “Red Data List” published by the International Union for Conservation of Nature and Natural Resources (IUCN) contain lists of**

1. Information on plants, fungi and animals
2. Information on plants and animals only
3. It divides species into Six categories

**Select the correct answer using the codes given below**

1. 1 and 3
2. 1, 2 and 3
3. Only 3
4. Only 1

Solution- 4

Third statement is wrong. More than six categories are included in IUCN Red List. If first statement is correct, obviously second will be wrong 😊

<http://www.iucnredlist.org/about/introduction>

**16. Consider the following**

**Subtropical gyre**

1. North Atlantic
2. South Atlantic
3. North Pacific
4. South Pacific
5. Indian Ocean

**Name of the gyre**

- Columbus  
Majid  
Turtle  
Heyerdhal  
Navigator

**Which of the above are correctly matched?**

1. 1, 2, 3, 4 and 5
2. 3, 4 and 5
3. 1, 3 and 4
4. 1, 2 and 5

Solution- 3

Option 2 and 5 are exchanged to baffle you ☺

**17. Consider the statements**

1. Tropic of Cancer passes through this state
2. Myanmar in the East, Bangladesh in the West
3. Phawngpui Blue Mountain National Park
4. Dhaleshwari river flows through the state

**Select the correct code**

1. Mizoram
2. Meghalaya
3. Nagaland
4. Manipur

Solution- 1

**18. Consider the statements**

1. The 5000-year-old 626-hectare archaeological site of The Sacred City of Caral-Supe is situated here
2. Recently a trio-mud statuette was discovered in the archaeological site.
3. It borders Columbia to the North and Chile to the South

**Select the correct code**

1. Bolivia
2. Ecuador
3. Peru
4. Brazil

Solution- 3

<http://www.businessinsider.com/afp-3800-year-old-statuettes-found-in-peru-2015-6?IR=T>

**19. Consider the following**

1. Shikhara
2. Mandapa
3. Vahan
4. Gopuram

**Which of the above are common between Nagara and Dravida Temple style?**

1. 1, 2, 3 and 4
2. 2 and 4
3. 1, 2 and 3
4. 1, 3 and 4

Solution- 3

Gopuram is part of Dravida not Nagara

**20. Consider the following statements**

1. It's a Mountain Range in Central Asia where China, Russia, Mongolia and Kazakhstan come together.
2. Rivers like Irtysh and Ob have their headwaters here
3. It means, The Gold Mountain in Mongolian

**Select the correct code**

1. Pamir Mountains
2. Altai Mountains
3. Kunlun Mountains
4. Tian Shan Mountains

Solution- 2