

IASbaba's Daily Prelims Test [Day 34]

TOPIC: ECONOMICS – Market (Money & Capital) and Current Affairs

1. Consider the following statements regarding Indian Depository Receipts (IDRs).

1. IDR is an instrument created by Indian depository in India against underlying shares of issuing company.
2. It allows foreign investors to invest in listed Indian companies.
3. IDRs are denominated in Indian rupees.

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: (2)

Explanation:

As per the definition given in the *Companies (Issue of Indian Depository Receipts) Rules, 2004*, IDR is an instrument in the form of a depository receipt created by the Indian depository in India against the underlying equity shares of the issuing company.

In an IDR, foreign companies would issue shares, to an Indian depository (say the National Security Depository Limited – NSDL), which would in turn issue depository receipts to investors in India. The actual shares underlying IDRs would be held by an Overseas Custodian, which shall authorise the Indian depository to issue of IDRs.

An IDR is a mechanism that allows investors in India to invest in listed foreign companies, including multinational companies, in Indian rupees.

2. Which of the following is/are the functions of Securities Exchange Board of India under SEBI Act, 1992?

1. Registering stock exchanges, mutual funds, brokers etc.
2. Promoting investor education.
3. Inspection and audit of stock exchanges and various intermediaries.

Select the correct code from below.

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

Ans: (4)

Explanation:

The regulator of Indian stock market, set up under the *Security and Exchange Board of India Act, 1992*.

Main functions/powers of the Board as per the *SEBI Act, 1992* are:

- (i) Registering and stock exchanges, merchant banks, mutual Funds, underwriters, registrars to the issues, Brokers, Sub-brokers, transfer agents and others.
- (ii) Levying various fees and other charges.
- (iii) Promoting investor education.
- (iv) Inspection and audit of stock exchanges and various intermediaries.
- (v) Performing other concerned functions as may be prescribed from time to time.

3. Consider the following statements regarding foreign investments in India.

1. A particular FII is allowed to invest up to 10% of the paid up capital.
2. Any investment above 10% will be constructed as FDI.
3. FIIs cannot invest in unlisted securities.

Which of the above statement is/are correct?

1. 1 only
2. 2 only
3. 1 and 2 only
4. None of the above

Ans: (3)

Explanation:

According to IMF and OECD definitions, the acquisition of at least ten percent of the ordinary shares or voting power in a public or private enterprise by non-resident investors makes it eligible to be categorized as foreign direct investment (FDI). In India, a particular FII is allowed to invest upto 10% of the paid up capital of a company, which implies that any investment above 10% will be construed as FDI, though officially such a definition does not exist. However, it may be noted that there is no minimum amount of capital to be brought in by the foreign direct investor to get the same categorised as FDI.

A Foreign Institutional Investor (FII) may invest in the securities in the primary and secondary markets including shares, debentures and warrants of companies unlisted, listed or to be listed on a recognized stock exchange in India.

For more details:

[http://www.arthapedia.in/index.php?title=Foreign Institutional Investor \(FII\)](http://www.arthapedia.in/index.php?title=Foreign_Institutional_Investor_(FII))

4. Consider the following statements.

1. Insurance density is the ratio of insurance premium as a percentage of GDP, in a given year.
2. Insurance penetration is the ratio of premium under written in a given year to the total population.

Which of the above statement(s) is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. None of the above

Ans: (4)

Explanation:

Insurance penetration is the ratio of insurance premium as a percentage of GDP, in a given year.

Insurance density is the ratio of premium under written in a given year to the total population.

5. Foreign portfolio investment is coming to India substantially through 'participatory notes'. Consider the following statements regarding 'Participatory notes'.

1. It is a derivative instrument issued in foreign jurisdiction against underlying Indian securities.
2. Investors in the participatory note own the underlying Indian security.
3. Participatory note holder does not enjoy any voting rights in relation to security/share referenced by Participatory note.

Which of the above statements is/are correct?

1. 1 only
2. 1 and 2 only
3. 1 and 3 only
4. 2 and 3 only

Explanation: 3

Investors in the participatory note do not own the underlying Indian security. For more details:

[http://www.arthapedia.in/index.php?title=Participatory_Notes_\(PNs\)](http://www.arthapedia.in/index.php?title=Participatory_Notes_(PNs))

6. Consider the following statements regarding Rajiv Gandhi Equity Savings Scheme (RGESS).

1. It is designed exclusively for first time individual investors.
2. Investment in any single year cannot exceed Rs. 1,00,000/-.
3. Investors get 50% of deduction of amount invested during the year, upto maximum investment of Rs. 50,000/- per financial year from his taxable income for that year.

Which of the above statement are correct?

1. 1 and 2 only
2. 1 and 3 only
3. 2 and 3 only
4. None of the above

Ans: (2)

Explanation:

It is designed exclusively for first time individual investors. In 2013-14, the income ceiling of the beneficiaries was raised to Rs. 12 lakh from Rs. 10 lakh specified in 2012-13.

Investment in any single year cannot exceed Rs. 50,000/-.

Investors get 50% of deduction of amount invested during the year, upto maximum investment of Rs. 50,000/- per financial year from his taxable income for that year for 3 consecutive assessment years.

7. Government recently launched 'Atal Pension Yojana'. Consider the following statements regarding Atal Pension Yojana.

1. Atal Pension Yojana (APY) is open to all bank account holders who are not members of any statutory social security scheme.
2. Minimum period of contribution by the subscriber under APY would be 20 years.
3. It is mainly targeted at organised sector workers.
4. The existing subscribers of Swavalamban Scheme would be automatically migrated to APY.

Which of the above statements are correct?

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

Ans: (4)

Explanation:

Atal Pension Yojana (APY) is open to all bank account holders who are not members of any statutory social security scheme.

The minimum age of joining APY is 18 years and maximum age *is 40 years*. Thus minimum period of contribution by the subscriber under APY would be 20 years or more.

It is mainly targeted at *unorganised* sector workers.

The Central Government would also co-contribute 50% of the subscriber's contribution or Rs. 1000 per annum, whichever is lower, to each eligible subscriber account, for a period of 5 years, i.e., from 2015-16 to 2019-20, who join the NPS before 31st December, 2015 and who are not income tax payers.

The existing subscribers of Swavalamban Scheme would be automatically migrated to APY, unless they opt out.

8. Consider the following statements regarding private equity investments.

1. Angel investors are an individual investor who provides financial backing to entrepreneurs for starting their businesses.
2. Venture Capital is a company or business investor which is seldom interested in early stage of business.

Which of the above statements are correct?

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

Ans: (3)

Explanation:

Angel investor is an individual investor who provides financial backing to entrepreneurs for starting their businesses. They are focused on helping the business succeed, rather than reaping a huge profit from their investment. Angel investors are essentially the *exact opposite* of a venture capitalist in their 'intention' (who has high profit prospects as their prime focus). But in

one sense both – an *angel investor* and a *venture investor*—serve the same purpose for the entrepreneur (who is in dire need of investible capital).

Venture capital lends capital to the entrepreneurs who are innovative and cannot get the required fund from the conventional set-up of the lending mechanism.

In India, it was the Government of India which did set up the first such fund in 1998—the IVCF.

9. Which of the following statements is/are correct regarding security markets?

1. The market in which the instruments of security market are traded between the capital raiser and the instrument purchaser is known as the secondary market.
2. The market where the instruments of security market are traded among the primary instrument holders is known as the primary market.

Select the correct code from below.

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

Ans: (4)

Explanation:

The market in which the instruments of security market are traded between the capital raiser and the instrument purchaser is known as the primary market.

The market where the instruments of security market are traded among the primary instrument holders is known as the secondary market.

10. Generally FDIs are preferred over FIIIs. Which of following is/are the reason(s) to do so?

1. FDI brings in a certain expenditure that can't be pulled out overnight.
2. It creates jobs and can potentially aid economic growth.
3. FDIs are always made in partnership or under a joint venture with a domestic company.

Select the correct code from below.

1. 1 only
2. 3 only
3. 1 and 2 only
4. 2 and 3 only

Ans: (3)

Explanation:

FDI is considered a more stable form of foreign capital infusion as it brings in a certain expenditure that can't be pulled out overnight. FII funds, on the other hand, can come and go easily. Sudden withdrawal can create liquidity problems in the securities market and hit the foreign exchange rate of the country.

If 100% FDI is allowed, then the foreign company doesn't need any domestic support.