

Q.1) You may have heard the term Core Inflation in the news. The computation of Core Inflation does not include which of the following items.

- a) Consumer durables
- b) Food and fuel items
- c) Clothing and apparels
- d) Medical expenses

Q.1) Solution (b)

Core inflation reflects the long-term trend in a particular price level. It is a measure of inflation that excludes certain items that face volatile price movements because in finding out the legitimate long run inflation, short-term price volatility and transitory changes in price must be removed.

In India core inflation is calculated by removing Food and Fuel from the calculations, which are seasonal, highly volatile and are affected by external factors.

Q.2) Consider the following statements with reference to the Consumer Price Index.

- 1. It measures Inflation based on the final price paid by the consumer
- 2. Service tax and Value added Tax are not included in the computation of CPI

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.2) Solution (a)

Consumer Price Index takes into account the final price paid by the consumer which includes not only the prices paid at wholesale level, but also distribution costs and the taxes paid to the government.

Excise duty, Service tax and Value added tax are all subsumed under the CPI as the end consumer pays for them too.

Q.3) Consider the following statements with respect to the Wholesale Price Index (WPI)

- 1. Price rise in both the Goods and Services are included in computing WPI
- 2. It is published by Office of the Economic Adviser, Ministry of Commerce and Industry

3. The current base year for WPI calculation is 2011-12

Which of the above statements is/are incorrect?

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) All of the above

Q.3) Solution (c)

The WPI is calculated taking into account only the goods that are produced, services are not included in calculation of WPI. It is calculated by taking into account the prices of a basket of goods at the wholesale level

It is published by the Office of economic Advisor, Ministry of Commerce and Industry. 2004-05 is the current base year for calculating WPI at constant prices.

Q.4) Consider the following statements with respect to Inflation measurement in India.

1. RBI has adopted Consumer Price Index (Combined) as the key measure of inflation
2. This was done based on the recommendation of Urjit Patel Committee

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.4) Solution (c)

Both the statements are true, The Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation has revised the Base Year of the Consumer Price Index (CPI) from 2010=100 to 2012=100. In this revised series, many methodological changes have been incorporated, in order to make the indices more robust.

The Reserve Bank of India (RBI) Governor, said that the central bank had adopted the new Consumer Price Index (CPI) (combined) as the key measure of inflation.

Earlier, RBI had given more weightage to Wholesale Price Index (WPI) than CPI as the key measure of inflation for all policy purposes.

The Urijit Patel committee had suggested adopting the CPI (combined) as the key measure of Inflation.

Q.5) Consider the following statements about the new series of Consumer Price Index

1. The new series is published by the RBI
2. It measures price rise against the base year prices of 2012

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.5) Solution (b)

The new series of CPI (Rural, Urban and combined) are published by the Central Statistical Organization and not the RBI. 2012 is the base year for the calculation of new indices.

Under the CPI (Urban) food and beverages have 45.86 weightage, followed by housing (10.07) and fuel and light (6.84).

Q.6) With reference to inflation in India, which of the following statements is correct?

- a) Controlling the inflation in India is the responsibility of the Government of India only
- b) The Reserve Bank of India has no role in controlling the inflation
- c) Decreased money circulation helps in controlling the inflation
- d) Increased money circulation helps in controlling the inflation

Q.6) Solution (c)

Inflation Control is primarily the responsibility of the Reserve bank of India. But the actions of Government have considerable impact on the inflation in the economy.

Decreasing the Money supply will reduce the effective demand as people will have to prioritize their spending because of less supply of money. This helps in Preventing Inflation.

Increased money supply will have the opposite effect.

Q.7) Consider the following statements:

1. Inflation benefits the Bondholders
2. Inflation benefits the producers
3. Inflation benefits the debtors

Which of the above statements is/are correct?

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) All of the above

Q.7) Solution (b)

Bond Holders are not benefitted by inflation as the real interest they get on the bonds decreases. Suppose you have a Bond that promises 7% rate of interest, and the inflation is 5%, then the real return on the bond is only 2% and not 7%.

Producers are benefitted by inflation, because of the Price rise their profits will also increase.

Debtors stand to gain as the real interest they have to pay decreases.

Q.8) Consider the following statements with reference to The Open Market Operations of RBI

1. RBI sells and purchases government securities under the OMO.
2. It can either increase or decrease the amount of money available in the economy

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.8) Solution (c)

Open Market Operations are carried out by the RBI to either increase the Money supply or to suck up the excess liquidity in the market.

This is done by either selling or purchasing the Government Bonds by the RBI in the Markets. If RBI sells the Bonds, then the Money supply is lessened by that extent, as the money will be transferred from public to RBI, hence no longer available in the Market.

If the RBI buys the Bonds, then the Money supply is increased to that extent, as the out of circulation money comes into circulation.

Q.9) A rise in general level of prices may be caused by

1. An increase in the money supply
2. A decrease in the aggregate level of output
3. An increase in the effective demand

Select the correct answer using the codes given below.

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) All of the above

Q.9) Solution (d)

Increase in the Money supply will increase the Net demand for the products. As people will have more money to spend in their hands, this will cause the Demand Pull inflation.

If the aggregate level of output decreases, then there will be scarcity of goods, which intern will also cause inflationary pressures, since this inflation is due to the supply side constraints, it is called as Cost-push Inflation.

Q.10) Which of the following is likely to cause Demand-Pull inflation?

1. Borrowing from the public to finance a budget deficit
2. Borrowing from banks to finance a budget deficit
3. Creating new money to finance a budget deficit

Select the correct answer using the codes given below.

- a) 1 only
- b) 2 and 3 only
- c) 3 only
- d) None of the above

Q.10) Solution (c)

Both the borrowing from the Public and from the banks will not lead to increase in the money supply in the economy, on the contrary, the public will have less money in their hands to spend.

On the other hand, creating new money increases the supply of Money which helps in creating aggregate demand. So this is most likely to cause the demand Pull inflation.

Q.11) Which of the following is likely to cause the Cost-push Inflation?

- a) Decrease in the Bank lending rates
- b) Increased government spending
- c) Increased interest rates by the Commercial banks
- d) Increase in the disposable incomes of the people

Q.11) Solution (c)

Increase in the Interest rates will increase the prices of inputs that are required for the production, this will either cause a decrease in the aggregate output. If the interest rates are increased, then to maintain the same profit levels the producer has to sell more goods, this affects his profit margins.

The rest of the options will cause demand-pull inflation as it will give more money into the hands of the people.

Q.12) Consider the following statements with reference to inflation

1. High inflation will lead to increase in exports
2. High inflation will cause the exports to decrease

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.12) Solution (b)

Higher inflation reduces the cost advantage enjoyed by the exporters, they will find local consumption more profitable than exporting and will divert the goods for local production. This reduces the exports and also competitive advantage. Decreased exports may lead to Balance of payment problems if the situation is not rectified.

Q.13) Consider the following statements with reference to the Philips Curve.

1. It gives the relationship between optimal tax rates and tax collections
2. It gives the relationship between the rate of inflation and rate of employment in the economy

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.13) Solution (d)

Philips Curve gives the relationship between the rate of inflation and the rate of Unemployment in the economy.

It says that higher inflation leads to lower rates of Unemployment. Subsequent empirical investigations have found that higher inflation does not necessarily lead to lower unemployment rates, it may worsen them, as seen in the case of stagflation.

Q.14) A situation where high inflation and high unemployment co-exist is called as

- a) Recession
- b) Stagflation
- c) Depression
- d) Hyper inflation

Q.14) Solution (b)

A stagflation is a situation where high inflation and high unemployment rates co-exist. This is contrary to the Philips law which says that higher inflation will lead to low unemployment rates.

Q.15) Consider the following statements with reference to taxation

1. Higher direct taxes help in controlling Inflation in the economy
2. Higher indirect taxes help in controlling the Inflation in the economy

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.15) Solution (a)

Higher direct taxes will mean that the people will be left with smaller disposable incomes, lower disposable incomes do not generate higher demand. This causes the inflation to be controlled.

Whereas higher indirect taxes will increase the prices of the commodities because the cost of production will increase. This will lead to Cost-push inflation.

Q.16) SAFAR – India, an initiative of the Government of India, aims at

- a) providing financial and technical assistance to young start-up entrepreneurs
- b) disseminating information regarding air quality on real time
- c) promoting the Self Help Groups in rural areas
- d) financial inclusion scheme monitored by business correspondents (BC) in rural areas

Q.16) Solution (b)

A dedicated Air Quality Information Service for Indian Metropolitan Cities to make India self-sufficient in providing frontier research based scientific accredited robust Air Quality Forecasting system.

India's first air quality checking Mobile App, SAFAR-Air was launched on 17 February 2015 at the Indian Institute of Tropical Meteorology in Pune, Maharashtra.

SAFAR is an acronym for **System of Air Quality Weather Forecasting and Research** which was first launched in Delhi in 2010 during the Commonwealth Games. It is under the Ministry of Earth Science, Govt. of India.

The app will provide current data and a forecast for air quality in the user's current location through a colour-coded system- green is good, yellow is moderately polluted, orange is poor, red is very poor and maroon is critical.

Source: <http://timesofindia.indiatimes.com/city/mumbai/Fortnight-after-Diwali-Mumbai-air-quality-hits-very-poor-mark/articleshow/55467096.cms>

Q.17) Consider the following statement about 'Fishing Cat'

1. It is listed as 'critically endangered' under the IUCN Red List
2. It is the state animal of West Bengal and Odisha

Select the correct statements

- a) Only 1
- b) Only 2
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.17) Solution (c)

The fishing cat (*Prionailurus viverrinus*) is a medium-sized wild cat of South and Southeast Asia. Since 2016, it is listed as Vulnerable on the IUCN Red List.

Fishing cat populations are threatened by destruction of wetlands and declined severely over the last decade.

Fishing cats live foremost in the vicinity of wetlands, along rivers, streams, oxbow lakes, in swamps and mangroves.

The fishing cat is the state animal of West Bengal.

Source: <http://www.thehindu.com/news/national/andhra-pradesh/Fishing-cat-found-moving-in-mangrove/article16086026.ece>

Q.18) SAMPRITI is a joint military exercise between India and

- a) Nepal
- b) Bangladesh
- c) Bhutan
- d) Sri Lanka

Q.18) Solution (b)

Exercise SAMPRITI is an important bilateral defence cooperation endeavour between India and Bangladesh and will be the sixth edition of the exercise which is hosted alternately by both countries.

The joint exercise SAMPRITI 2016 will simulate a scenario where both nations are working together in a Counter Insurgency and Counter Terrorism environment under the UN Charter.

Source: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=153191>

Q.19) Azerbaijan shares its border with which of the following countries?

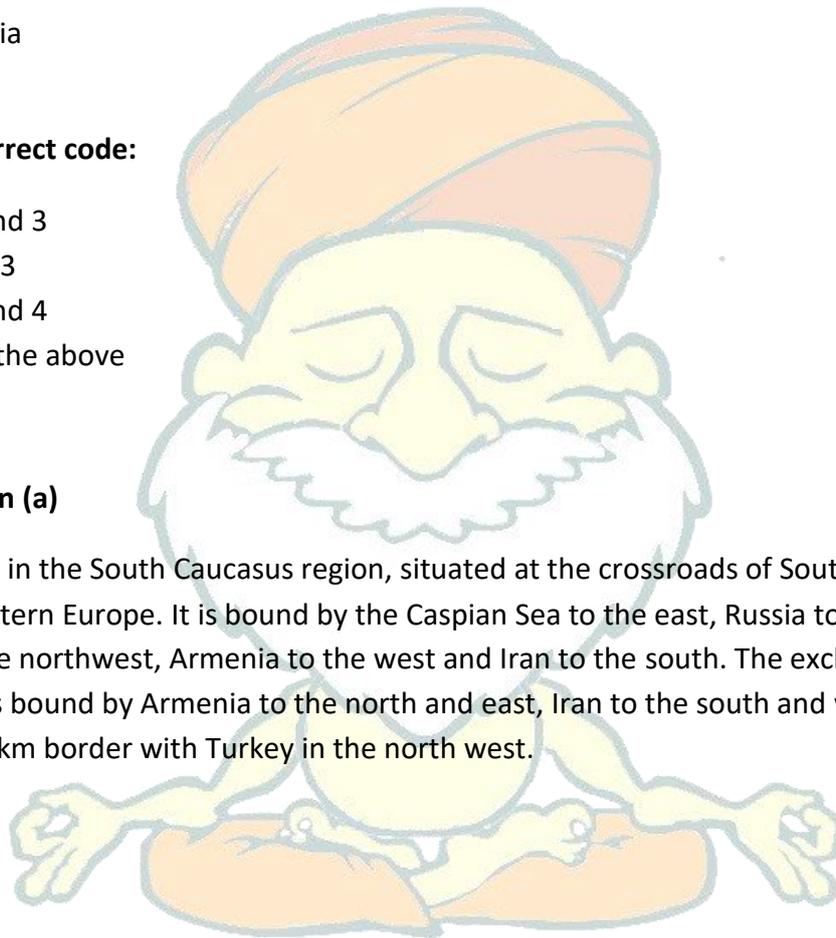
- a) Iran
- b) Armenia
- c) Georgia
- d) Serbia

Select the correct code:

- a) 1, 2 and 3
- b) 2 and 3
- c) 2, 3 and 4
- d) All of the above

Q.19) Solution (a)

It is a country in the South Caucasus region, situated at the crossroads of Southwest Asia and Southeastern Europe. It is bound by the Caspian Sea to the east, Russia to the north, Georgia to the northwest, Armenia to the west and Iran to the south. The exclave of Nakhchivan is bound by Armenia to the north and east, Iran to the south and west, while having an 11 km border with Turkey in the north west.





Source: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=153267>

Q.20) The Kimberley Process Certification Scheme (KPCS) is concerned with:

- a) Diamonds
- b) Gold
- c) Crude Oil
- d) None of the above

Q.20) Solution (a)

The Kimberley Process (KP) is an international initiative to stem the trade in conflict diamonds. In 2002, the KPCS was launched by a coalition of governments, civil society and the diamond industry in response to the role of diamonds in funding some of the most devastating civil wars in Africa.

India has been elected as the Vice Chair for 2018 and Chair for 2019 of the Kimberley Process Certification Scheme (KPCS).

Source: http://www.business-standard.com/article/news-ians/india-elected-vice-chair-of-kpcs-2018-116111900835_1.html