

Q.1) Find the correct matches among the following:

| Terminology | Definition |
|------------------------|-----------------------------------------------------------|
| 1. Creeping inflation | Range of increase is in Single digit over a longer period |
| 2. Galloping inflation | Range is very large, prices shoot up overnight |
| 3. Hyper inflation | Very high increase running to double or triple digit |

Select the code from following:

- a) 1 only
- b) 2 only
- c) 2 and 3 only
- d) 1 and 2 only

Q.1) Solution (a)

Explanation:

Creeping inflation or low inflation takes place over a longer period and range of increase is usually in single digit. Example is monthly inflation which increases from say 2.5 to 2.7 to 3.0.

Galloping inflation is the very high inflation running to double digit or triple digit. Example is Latin American countries of Argentina, Chile, Brazil in the 1970s and 1980s where inflation run from 50 to 700 percent.

Hyperinflation – In this case the range of inflation is not only very high but shoots up in a very short period of time usually overnight. Example of Germany after the First world war in the early 1920s. Such an inflation quickly leads to a complete loss of confidence in the domestic currency and people start opting for other forms of money, as for example physical assets, gold and foreign currency .

Q.2) With reference to Skewflation consider the following statements:

- 1. It is sector specific.
- 2. It is the phenomenon of rise in the prices of few and fall in the prices of others.
- 3. It is different from stagflation which means slow or stagnant economic growth rate with high unemployment rate.

Which of the above statements are correct?

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

Q.2) Solution (d)

All the above statements are correct. Skewflation refers to skewedness of inflation in the economy which is essentially rise in the prices in few sectors and fall in the others. Example, increase in the cost of living while the prices of assets (say housing) are falling. Hence it is sector specific.

It is different from stagflation which is phenomenon coupled with slow or stagnant economic growth with relatively high unemployment rate.

Q.3) Consider the following Assertion (A) and Reason (R). (Medium)

Assertion (A): Lending institutions rise the nominal interest rate during inflation.

Reason (R): The real cost of borrowing falls by the same amount with which the inflation increases.

- a) Both A and R are correct and R is the correct explanation of A
- b) Both A and R are correct but R is not the correct explanation of A
- c) A is true and R is false
- d) A is false and R is true.

Q.3) Solution (d)

In case of inflation, the lending institutions do not increase the nominal interest rate as the real cost of borrowing (i.e nominal interest rate minus inflation) falls by the same amount with which the inflation rises. Hence inflation is advantageous to borrowers and loss to lenders

Q.4) With respect to the effects of inflation, consider the following statements and find the wrong one.

- a) Inflation is advantageous for export market and disadvantageous to import market
- b) With inflation, the currency of the economy depreciates in case of flexible currency regime
- c) It is disadvantageous to fixed income individuals.
- d) Due to higher tax collections, the nominal and real tax value of collection for governments increase.

Q.4) Solution (d)

Explanation:

Statement A is correct, as import market suffers and export market booms in inflation. As domestic currency depreciates, imports become costlier while exports become more competitive in the global markets.

Statement B is also correct as the domestic currency loses its value in front of the foreign currency and hence depreciates.

Statement c is correct as the real value of income for fixed income individuals decreases. For example, if an individual can buy 1000 pens with his salary at low inflation, he can afford only 800 pens with inflation due to rise in prices.

Statement d is wrong – the tax collection of both direct and indirect taxes increases for governments. Indirect taxes increase due to rise in prices of goods while direct taxes increase as the salaries of employees move into higher income slabs. But only the nominal value of tax collections increases while the real value doesn't. (Real value = Nominal – inflation).

Q.5) Match the following:

| | Index | Released by |
|---|----------------------------------------|------------------------------------|
| 1 | Whole sale Price Index | A. Labour Bureau |
| 2 | Consumer Price Index – Rural | B. Office of Economic Adviser |
| 3 | Consumer Price Index – Rural Labourers | C. Central Statistics Organisation |

- a) 1 – C, 2- A, 3 – B
- b) 1 – B, 2- A, 3- C
- c) 1 – B, 2- C, 3 – A
- d) 1 – C, 2- B, 3- A

Q.5) Solution (c)

Whole Sale Price Index - Office of the Economic Adviser in DIPP Department of Industrial Policy and Promotion In Ministry of Commerce & Industry.

Consumer Price Index – Rural/Urban by Central Statistics Organisation – Ministry of Statistics and Programme Implementation

Consumer Price Index – Rural labourers, Agricultural labourers and Industrial workers by Labour Bureau.

Q.6) Which of the following are correct regarding monetary policy committee?

1. It is not a statutory body.
2. It consists of 6 members – 3 from RBI and 3 from the Government.
3. The members from the government are nominated and not elected.
4. RBI governor has a casting vote in case of a tie.
5. Its formation was first recommended by Urijit Patel panel.

Select the code from following:

- a) 1, 2 and 4 only
- b) 2, 3 and 4 only
- c) 2, 4 and 5 only
- d) All the above are correct

Q.6) Solution (b)

Statement 1 is wrong- as Monetary Policy committee is given a statutory and institutionalised framework by amending the RBI, 1934 Act through Finance Act 2016.

Monetary policy committee consists of 6 members – 3 from RBI and 3 from the government. The members from the government are nominated and not elected.

Members from RBI: (Term of four years)

- (a) The Governor of the Bank—Chairperson, ex officio;
- (b) Deputy Governor of the Bank, in charge of Monetary Policy—Member, ex officio;
- (c) One officer of the Bank to be nominated by the Central Board—Member, ex officio

Members from the government – Term of four years.

RBI Governor has a casting vote in case of a tie.

Hence the statements 2, 3, 4 are correct.

Constitution of MPC was first proposed by B N Srikrishna committee on Financial sector legislative reforms (FSLRC). Statement 5 is wrong.

Q.7) There has been a proposal to introduce Producer Price Index (PPI) in India. Which of the following with regard to PPI is wrong?

- a) It is the change in the prices of goods and services either as they enter or leave the production process.
- b) WPI doesn't cover services while PPI includes services as well.
- c) It takes into account only the basic prices and excludes the taxes, transport costs and trade margins incurred by the producer.
- d) Weights of items in PPI are same as those of WPI and CPI.

Q.7) Solution (d)

Statement A is correct as PPI is of two forms:

1. Input PPI - calculated at the point where goods and services leave the production process
2. Output PPI – calculated at the point where goods and services leave the production process

Statement B is correct – as WPI doesn't include services while PPI includes services as well

Statement C is correct – as PPI accounts only for the basic prices and excludes the taxes, transport costs and trade margins incurred which are accounted for in the CPI.

Statement D is wrong –as the weights of items in PPI are calculated from Supply Use Tables while those in WPI are calculated through Net Traded Value, in CPI Consumer Expenditure Surveys.

Q.8) T-Bills issued in India cannot have a maturity period of _____? (Easy)

- a) 91 days
- b) 182 days

- c) 364 days
- d) 634 days.

Q.8) Solution (d)

Explanation: T – bills or Treasury bills are issued by RBI on behalf of Government of India for short term borrowing, with a maximum maturity of one year. For long term borrowing, government bonds are issued.

Q.9) Which of the following is not correct regarding Commercial Paper in India?

- a) These are issued by Corporate houses
- b) All companies can issue Commercial papers.
- c) Companies need to obtain credit rating from agencies approved by RBI.
- d) All the above are correct.

Q.9) Solution (b)

All companies cannot issue Commercial papers. Only listed company with a working capital of not less than Rs. 5 crore can issue Commercial papers.

Q.10) Choose the correct statement with respect to deflation and disinflation.

1. Deflation is the decrease in the rate of inflation – a slowdown in the rate of increase of the general price level of goods and services in a nation's gross domestic product over time
2. Disinflation is the prolonged and widespread decline in prices that causes producers and consumers to curb spending waiting for prices to fall further.

Select the code from following:

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

Q.10) Solution (d)

Both the statements are not correct.

Disinflation is the decrease in the rate of inflation – a slowdown in the rate of increase of the general price level of goods and services in a nation's gross domestic product over time.

Deflation is the prolonged and widespread decline in prices that causes producers and consumers to curb spending waiting for prices to fall further.

Q.11) Which of the following measures can be taken by the Government to curb inflation?

1. Lower repo rates
2. Reducing import duties
3. Ban of exports
4. Dishoarding

Select the code from following:

- a) 1, 2 and 3 only
- b) 2, 3 and 4 only
- c) 1, 3 and 4 only
- d) 1, 2 and 4 only.

Q.11) Solution (b)

Statement 1 is wrong: To curb inflation, governments have to make credit dearer and follow tighter monetary policy which means increase in repo rates. The cost of borrowing increases and the money supply in the market decreases, thus curbing inflation.

Statement 2 is correct: As reduction in import duties means more imports and supply can meet the demand. No case of too many people chasing fewer goods.

Statement 3 is correct: Ban on exports implies sale of goods in the domestic markets. Supply meets demand.

Statement 4 is correct: Hoarding is the purchase of large quantities of a commodity by a speculator with the intent of pushing up the price. Dishoarding hence reduce the prices of commodities.

Q.12) Government of India in consultation with RBI decided to issue new short term instrument to meet temporary mismatches in the cash flow. These are issued with maturity of less than 91 days. Which securities does the above definition refer to?

- a) Commercial Papers
- b) Cash Management Bills
- c) Certificates of Deposit
- d) Ready Forward Contracts.

Q.12) Solution (b)

The above definition refers to Cash Management Bills which are issued by the Central Bank on behalf of the Government of India for a period of less than 91 days.

Q.13) Which of the following is not a correct difference between Base rate and MCLR? (Tough)

- a) Base rate is determined using average cost of funds, MCLR by marginal cost or incremental cost of funds.
- b) MCLR takes into account deposit rates and repo rates while Base rate does not.
- c) Base rate is calculated using tenor premium while MCLR is calculated using return/profit margin.
- d) None of the above.

Q.13) Solution (c)

Statement C is wrong:

Base rate is calculated using return/profit margin while MCLR is calculated using tenor premium

Q.14) Economic Survey 2017-18 proposed the idea of setting up a bad bank (Public Sector Asset Rehabilitation Agency (PARA)) in India. Considering the idea of Bad bank which of the following statements is correct?

1. The concept of floating a Bad bank was proposed first in India only
2. It will help address the Non-Performing Assets and Twin Balance Sheet problems
3. It can provide a parallel mechanism to Insolvency and Bankruptcy Code (IBC).

Select the code from following:

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

Q.14) Solution (b)

A bank that is set up for the purpose of buying the bad loans of other banks along with other NPAs at market prices is known as “Bad Bank”. By transferring the bad loans to the bad bank, a bank will be able to clear its balance sheet from bad loans. Thus it solves NPAs and Twin Balance Sheet problem (option 2 is right)

Economic Survey 2017-18 proposed PARA - Public Sector Asset Rehabilitation Agency to function as a Bad bank. It will function similar to Asset Reconstruction Companies that buy stressed assets and auction them off for cash.

However, India is not the first country to propose the idea of Bad bank. First done in USA in 1988.

If a bad bank is established it will function in parallel to the Insolvency and Bankruptcy code to solve the problem of NPAs.

Q.15) With respect to the powers of RBI in controlling inflation, which of the following statements is/are not correct?

1. Tighter monetary policy can be used to control only demand-pull inflation but not cost-push inflation.
2. To control inflation RBI increases Cash Reserve Ratio of banks.
3. Tighter monetary policy helps in controlling rise in prices of items of everyday use like salt, onion, wheat, etc.

Select the code from following:

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

Q.15) Solution (c)

Explanation: Statement 1 is wrong because tighter monetary policy is used by RBI (which is essentially cutting down the money supply in the market) to control both Demand-pull and cost-push inflations.

Statement 2 is correct as Cash Reserve Ratio (CRR), Statutory liquidity Ratio (SLR), Repo Rate all can be increased to control the money supply – which is tighter or dearer monetary policy.

Statement 3 is wrong as the prices of items of everyday use cannot be controlled with monetary policy (nobody purchases such goods by borrowing money from banks). The prices of goods like cement, iron, steel can be controlled by monetary policy.

Q.16) The RBI recently allowed banks to provide partial credit enhancement (PCE) to bonds issued by systemically important non-deposit taking NBFCs registered with the RBI. Systemically important NBFCs are classified based on their:

- a) Asset size
- b) Market value
- c) Capital to Risk Weighted Assets
- d) Amount of Loans disbursed.

Q.16) Solution (a)

NBFCs whose asset size is of ₹ 500 cr or more as per last audited balance sheet are considered as systemically important NBFCs.

Q.17) Consider the following statements regarding WPI:

1. WPI is calculated by the Central Statistics Office (CSO)

2. WPI index constitutes three Major Groups namely Primary Articles, Fuel & Power and Manufactured Products.
3. Fuel & Power has got more weightage in WPI index

Which of the above given statements are not correct?

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

Q.17) Solution (c)

Statement 1 is wrong – WPI is computed by Office of Economic Advisor, Department of Industrial Policy and Promotion, Ministry of Commerce.

| Major Group | Weights | | No. of Items | | No. of Quotations | |
|------------------------------|---------------|---------------|--------------|------------|-------------------|-------------|
| | 2004-05 | 2011-12 | 2004-05 | 2011-12 | 2004-05 | 2011-12 |
| ALL COMMODITIES | 100.00 | 100.00 | 676 | 697 | 5482 | 8331 |
| PRIMARY ARTICLES | 20.12 | 22.62 | 102 | 117 | 579 | 983 |
| FUEL & POWER | 14.91 | 13.15 | 19 | 16 | 72 | 442 |
| MANUFACTURED PRODUCTS | 64.97 | 64.23 | 555 | 564 | 4831 | 6906 |

Decreasing order of weightage Manufacturing > Primary articles > Fuel and Power

In the New series of WPI (2011-12)

- Items have been increased from 676 to 697.
- Weight of Manufactured items has **decreased** from to 64.2 %
- Weight of fuel and power has **decreased** to 13.1%
- Weight of primary items has **increased** to 22.6%

Q.18) Consider the following statements with reference to recent initiatives under Pradhan Mantri Jan Dhan Yojana:

- 1) The overdraft facility has been increased from Rs 2500 to Rs 5000
- 2) The upper age limit for availing the facility has been increased to 65 from the earlier 60 years.
- 3) Accidental insurance cover for new RuPay Cardholders has been raised from Rs 1 lakh to Rs 2 lakh
- 4) The new deadline for the scheme would be 2022.

Which of the given statements are correct?

- a) 1 and 2 only
- b) 2 and 3 only
- c) 2, 3 and 4 only
- d) 1, 3 and 4 only.

Q.18) Solution (b)

Statement 1 and 4 are wrong

The Overdraft facility has been increased from Rs 5000/- to Rs 10000/-

Jan Dhan Yojana has been made an open ended scheme which means it will continue indefinitely.

Q.19) With reference to India Posts Payments Bank, consider the following statements:

- 1) It's a public sector company with 98% of equity with Government of India and 2% with Reserve Bank of India.
- 2) Every post office in the country will function as a bank branch
- 3) It will provide ATM-debit to every account holder.

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

- a) 1 only
- b) 1 and 2 only
- c) 2 and 3 only
- d) 1 and 3 only

Q.19) Solution (d)

Statement 1 and 3 are wrong.

Indian Post Payment Bank has been incorporated as public sector company under the department of posts with 100% government equity and is governed by the Reserve Bank of India.

It will not offer any ATM Debit card. Instead, it will provide its customer a QR Code based biometric card.

Statement 2 is wrong

It will focus on providing banking and financial services to people in rural areas, by linking all the 1.55 lakh post office branches with India Post Payment Bank services by the end of 2018.

Q.20) The word E-Kuber seen in news refers to

- a) Sovereign wealth Bonds launched by the Indian government
- b) An online portal developed by the RBI to enable trading of Government bonds amongst banks
- c) A Government of India initiative to infuse capital into public sector banks
- d) Core Banking Solution of the RBI

Q.20) Solution (d)

E-Kuber is the Core Banking solution of the RBI implemented in 2012.

Core Banking System will allow the customers to access their accounts from anywhere , irrespective of where they have physically opened the accounts.

All branches of Commercial Banks and Regional Rural Banks are brought under the core banking fold.

Q.21) Pick out the correct statement from the following:

- a) SEBI as a statutory body was established in 1988 through SEBI Act.
- b) Spot exchanges do not exist in India.
- c) Raising capital from the existing shareholders of a company is called Rights Issue.
- d) A share given to the employees of a company without any charge is called Bonus share.

Q.21) Solution (c)

Statement A is wrong: SEBI as a statutory body was established in 1992 through SEBI Act.

Statement B is wrong as 4 spot exchanges exist in India. National Spot Exchange Ltd. (NSEL), NCDEX Spot Exchange Ltd, Reliance Spot Exchange Ltd. Indian Bullion Spot Exchange Ltd.

Spot Exchanges refer to electronic trading platforms which facilitate purchase and sale of specified commodities, including agricultural commodities, metals and bullion by providing spot delivery contracts in these commodities.

Statement C is correct.

Statement D is wrong; A share given to the employees of a company without any charge is called Sweat share while that given to existing shareholders is called Bonus or scrip share.

Q.22) With respect to derivatives, consider the following statements.

1. It is a equity instrument.
2. Commodity or forex can also be underlying assets for derivatives.
3. They can be traded on stock exchanges.

Which of the given statements is correct?

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

Q.22) Solution (b)

Derivatives are debt instruments not equity instruments. They derive their value from underlying assets which could be equity, forex, commodity or any other asset. They can be traded on stock exchanges.

Q.23) Consider the following statements:

1. Through Indian Depository Receipts, investors abroad can invest in Indian companies.
2. Participatory notes are derivative instruments issued in foreign jurisdictions by Foreign Institutional Investors. (FIIs)

Which of the above statements is correct?

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

Q.23) Solution (b)

Statement A is wrong as Through Indian Depository Receipts,

Investors in India to invest in listed foreign companies, including multinational companies, in Indian rupees.

Statement B is correct as Participatory Notes (PNs) are issued by SEBI registered FII in foreign jurisdictions against Indian securities.

Q.24) which of the following are reasons for less developed corporate bond market in India?

1. Predominance of banks loans;
2. Limited participation of FIIs
3. Pensions and insurance companies and household are limited participants because of lack of investor confidence;
4. Crowding out by government bonds

Select the code from following:

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

Q.24) Solution (d)

All the above are reasons for less developed corporate bond market in India.

Q.25) Choose the correct definition of Exchange Traded Funds (ETF):

- a) They are form a security which pools a basket of assets and are tradable on a stock exchange.
- b) These are type of transaction between two parties, in which one party agrees to pay a specific amount to the other party for a specific amount of time.
- c) These are loans in India made by non-resident lenders in foreign currency to Indian borrowers.

d) None of the above

Q.25) Solution (a)

ETFs are securities which pool a basket of assets and are tradable on a stock exchange.

Example: Bharat 22 ETF- Assets of 22 public and private companies, CPSE ETF, etc.

Statement B refers to Credit Default Swap.

Statement C is the definition of External Commercial Borrowings.

Q.26) Consider the following statements with respect to options and find the correct one.

1. Call options provide the holder the right (but not the obligation) to purchase an underlying asset at a specified price, for a certain period of time.
2. Put options give the holder the right to sell (but not the obligation) an underlying asset at a specified price.

Select the code from following:

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

Q.26) Solution (c)

The given statements are correct definitions of options.

Q.27) Spot the differences between depreciation and devaluation and choose the correct statement:

1. Depreciation occurs in pegged exchange rate system while devaluation occurs in a floating exchange rate system.
2. Depreciation favours exports while devaluation doesn't.

Select the code from following:

- a) 1 only
- b) 2 only

- c) Both 1 and 2
- d) Neither 1 nor 2.

Q.27) Solution (d)

Devaluation occurs in pegged exchange rate system while Depreciation occurs in a floating exchange rate system.

Both Depreciation and devaluation favour exports as the value of domestic currency is lowered against foreign currency and exports become competitive.

Q.28) Choose the correct statements with respect to Nidhi companies:

1. They come under Non-Banking Financial Intermediaries
2. They are regulated by Ministry of Finance
3. Borrowing and lending takes place among their members only

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

Q.28) Solution (c)

Nidhi companies are Unregulated Non Banking Financial Intermediaries. Their operations include borrowing and lending only among their members. They are governed by the rules under Companies Act 2013 and hence are regulated by Ministry of Corporate Affairs and not Ministry of Finance.

Q.29) Which of the following correctly describes the process of underwriting?

- a) It is an investment to reduce the risk of adverse price movements in an asset.
- b) It is a process through which any member-owned organisation becomes a shareholder-owned company.
- c) It is a process to guarantee the purchase of shares in IPO or rights issue in case not fully subscribed by the public.
- d) None of the above.

Q.29) Solution (c)

Explanation:

Statement A is the definition of Hedging: It is an investment to reduce the risk of adverse price movements in an asset.

Statement B is Demutualisation: It is a process through which any member-owned organisation becomes a shareholder-owned company.

Statement C is Underwriting: Merchant Banks, Investment Banks manage and underwrite public issues.

Q.30) Which of the following is correct about Real Estate Investment Trusts (REITs)?

1. They are regulated by SEBI
2. They function like mutual fund. They pool money from investors and invest in rent generating properties
3. One can invest in REITs in both primary and secondary markets.
4. There is no minimum investment subscription for REITs.

Select the code from following:

- a) 1, 2 and 3 only
- b) 2, 3 and 4 only
- c) 1, 3 and 4 only
- d) 1, 2 and 4 only

Q.30) Solution (a)

Real Estate Investment Trusts (REITs) are like mutual funds. They pool in money from the investors and issue units in exchange. They are regulated by SEBI. One can invest in REITs in both primary and secondary markets.

The minimum investment subscription for REITs is Rs 2 lakh. Also minimum offer size of an REIT is ₹250 crore.

Q.31) With reference to Hedge funds, consider the following statements:

1. They are like mutual funds
2. They are regulated by SEBI under Alternative Investment Funds

Which of the above statements are correct?

- a) 1 only
- b) 2 only

- c) Both 1 and 2
- d) Neither 1 nor 2

Q.31) Solution (c)

Hedge funds are like mutual funds but use strategies far more complex than mutual funds to minimize the risk. They are regulated by SEBI under Alternative Investment Funds (AIFs)

Q.32) Consider the following differences between Angel investors and Venture Capitalists.

1. Angel investors invest public money while Venture capitalists invest their own money
2. Angel investors are individuals while venture capitalists can be firms/ individuals

Which of the following statements are correct?

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

Q.32) Solution (d)

Explanation:

Angel investors invest their own money while venture capitalists invest public money.

Angel investors are individuals while venture capitalists are firms and not individuals.

Q.33) Angel investors play a key role in boosting the business environment in the age of Startups and for the success of schemes like Startup India. With respect to the regulations of SEBI for Angel investors which of the following are correct:

1. Investment is restricted to Rs 50lakh and Rs 5 crore
2. They can invest in a company not older than 5 years
3. Funds need to be invested in a company for atleast 3 years.

Select the code from following:

- a) 1 and 2 only
- b) 2 and 3only
- c) 1 and 3 only

d) All of the above

Q.33) Solution (c)

According to SEBI, investment by angel investors is restricted to Rs 50lakh and Rs 5 crore. They can invest in a company not older than 3 years. Funds need to be invested in a company for atleast 3 years.

Q.34) Chit funds as savings schemes are very popular in Tier 2 and Tier 3 cities of India. Consider the following statements with regard to their regulation:

1. They form part of the State list in Schedule 7 of the Indian Constitution and hence are regulated by State Governments.
2. Recently, Chit Funds Act was amended in the light of Saradha Scam and Rose valley scam.

Which of the following statements is/are wrong?

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

Q.34) Solution (a)

Statement 1 is wrong.

Chit funds form part of the Concurrent list of Schedule 7 of the Indian Constitution and hence are regulated by both Central and State laws. There is "Registrar of Chit funds" in every state for regulation.

Statement 2 is correct as Chit Funds Act 1982 was amended in the light of Saradha and Rose valley scams.

Q.35) Considering Non-Banking Financial Companies (NBFCs), find the correct statement.

- a) All NBFCs are regulated by RBI.
- b) They are registered under Companies Act, 1956.
- c) NBFCs are similar to banks in all aspects.
- d) They work in domains like chit business, leasing, agricultural, industrial activity.

Q.35) Solution (b)

Only Statement B is correct.

Statement A is wrong as some NBFCs are regulated by RBI and some by SEBI.

Statement C is wrong: NBFCs are similar to banks but have few differences like they cannot accept demand deposits, cannot issue self drawn cheques, and are not part of the payment and settlement system.

Statement D is wrong: They can function in chit business, leasing etc but not in agricultural or industrial activity.

Q.36) Derivatives are important financial instruments. With respect to derivatives, choose the correct statements:

1. Futures and options are two types of derivatives
2. Futures can be traded on exchange while forwards is merely a signed contract between two parties.

Select the code from following:

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

Q.36) Solution (c).

Futures and options are two types of derivatives and derive their value from an underlying asset. Futures can be traded on exchange while forwards is merely a signed contract between two parties.

Options are a class of futures where buyer or seller has the right but not the obligation to buy/sell.

Q.37) Which of the following are prerequisites if Rupee has to become an international currency?

1. It should be liquid
2. It should be soft currency
3. There should sufficient scale in its issue.

Select the code from following:

- a) 1 and 2 only
- b) 2 and 3 only

- c) 1 and 3 only
- d) All of the above.

Q.37) Solution (c)

A currency is said to be international currency when other countries banks and other financial institutions, citizens can hold it for financial security.

It has three prerequisites:

- Issuing country should have sufficient scale: There must be so much currency which should be available for international transactions.
- It should be hard currency: i.e its value should not be volatile.
- It should be liquid: Significant quantities of assets should be bought and sold without noticeably affecting its price.

Q.38) With reference to Capital markets in India, consider the following statements:

- a) Convertible debentures can be converted into equity at a future date
- b) Gilts are bonds issued by the Government of India for raising money
- c) Blue chip companies are profit making companies
- d) With depositories, the paper work and transaction cost are reduced.

Pick out the wrong statement.

Q.38) Solution (b).

Statement B is wrong as Gilt edged securities are issued by Central Bank (RBI) on behalf of the government of India for raising money.

Q.39) Considering Masala Bonds, pick out the correct statements:

1. They were first issued by International Finance Corporation (IFC) in 2013.
2. They are denominated in Indian currency
3. Currency risk will be borne by the investor. Hence these are advantageous for Indian corporate.

Which of the above statements are correct?

- a) 1 and 2 only
- b) 2 and 3 only

- c) 1 and 3 only
- d) All of the above.

Q.39) Solution (d)

All the given statements about Masala bonds are correct.

Q.40) Economic Survey 2017-18 proposed the idea of setting up a bad bank (Public Sector Asset Rehabilitation Agency (PARA)) in India. Considering the idea of Bad bank which of the following statements is correct?

1. The concept of floating a Bad bank was proposed first in India only
2. It will help address the Non-Performing Assets and Twin Balance Sheet problems
3. It can provide a parallel mechanism to Insolvency and Bankruptcy Code (IBC).

Select the code from following:

- e) 1 and 2 only
- f) 2 and 3 only
- g) 1 and 3 only
- h) All of the above

Q.40) Solution (b)

A bank that is set up for the purpose of buying the bad loans of other banks along with other NPAs at market prices is known as “Bad Bank”. By transferring the bad loans to the bad bank, a bank will be able to clear its balance sheet from bad loans. Thus it solves NPAs and Twin Balance Sheet problem (option 2 is right)

Economic Survey 2017-18 proposed PARA - Public Sector Asset Rehabilitation Agency to function as a Bad bank. It will function similar to Asset Reconstruction Companies that buy stressed assets and auction them off for cash.

However, India is not the first country to propose the idea of Bad bank. First done in USA in 1988.

If a bad bank is established it will function in parallel to the Insolvency and Bankruptcy code to solve the problem of NPAs.

Q.41) Floating rate bonds are:

- a) Bonds with variable interest rate with a fixed percentage over the benchmark rate.
- b) Bonds for which interest rate is pegged to the changes in exchange rate of Rupee.
- c) Bonds for which interest rate changes according to inflation.
- d) None of the above.

Q.41) Solution (a)

Floating rate bonds are with variable interest rate with a fixed percentage over the benchmark rate.

Capital Indexed bonds are Bonds for which interest rate changes according to inflation.

