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Q.1) Consider the following statements

1. Walking inflation is the one which hovers between 3-10% a year and is harmful to the economy because it heats up economic growth too fast
2. During Galloping inflation money loses value so fast that business and employee income can't keep up with costs and prices
3. Stagflation is when economic growth is stagnant but there still is price inflation

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.1) Solution (d)

Statement 1	Statement 2	Statement 3
Correct	**Correct**	**Correct**
Walking inflation is a type of strong, or pernicious, inflation is between 3-10% a year. It is harmful to the economy because it heats up economic growth too fast. People start to buy more than they need, just to avoid tomorrow's much higher prices. This drives demand even further so that suppliers can't keep up. More important, neither can wages. As a result, common goods and services are priced out of the reach of most people.	When inflation rises to 10% or more, it wreaks absolute havoc on the economy. Money loses value so fast that business and employee income can't keep up with costs and prices. Foreign investors avoid the country, depriving it of needed capital. The economy becomes unstable, and government leaders lose credibility. Galloping inflation must be prevented at all costs	Stagflation means a simultaneous increase in prices and stagnation of economic growth. Stagflation was first widely recognized after the mid-20th century, especially in the U.S. economy during the 1970's, which experienced persistently rapid inflation and high unemployment. Predominant economic theory at the time could not easily explain how stagflation could occur. Since the 1970's, rising price levels during periods of slow or negative economic growth have become the norm rather than an exceptional situation.

Q.2) Which of the following phenomenon contradicts the economic theory of Philips curve?

a) Deflation
b) Re-inflation
c) Stagflation
d) Core inflation

Q.2) Solution (c)

Elimination

The Phillips curve is an economic concept developed by A. W. Phillips stating that inflation and unemployment have a stable and inverse relationship. The theory claims that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment.

If one is clear about the concept of Philips curve, the answer can be easily known

Stagflation is a condition of slow economic growth and relatively high unemployment, or economic stagnation, accompanied by rising prices, or inflation. It can also be defined as inflation and a decline in gross domestic product (GDP).

Stagflation was long believed to be impossible because the economic theories that dominated academic and policy circles ruled it out of their models by construction. In particular the economic theory of the Phillips Curve, which developed in the context of Keynesian economics, portrayed macroeconomic policy as a trade-off between unemployment and inflation.

Since the 1970's, rising price levels during periods of slow or negative economic growth have become the norm rather than an exceptional situation.

Q.3) Consider the following statements

1. Cost-push inflation occurs due to increases in the cost of wages and raw materials while demand for the affected product remaining constant
2. Inflation can erode a consumer's purchasing power
3. Demand-pull inflation is characterized by "too many rupees chasing too few goods"

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.3) Solution (d)

Statement 1	**Statement 2**	**Statement 3**
Correct	**Correct**	**Correct**
Cost-push inflation occurs when overall prices increase (inflation) **due to increases in the cost of wages and raw materials.** Higher costs of production can decrease the aggregate supply (the amount of total production) in the economy. Since the demand for goods hasn't changed, the price increases from production are passed onto consumers creating cost-push inflation. For cost-push inflation to take place, demand for the affected product must remain constant during the time the production cost changes are occurring. To compensate for the increased cost of production, producers raise the price to the consumer to maintain profit levels while keeping pace with expected demand.	Inflation is a measure of the rate of price increases in an economy for a basket of selected goods and services. Inflation can erode a consumer's purchasing power if wages haven't increased enough or kept up with rising prices. Suppose the inflation in the economy is 5% in a particular year with the wages remaining constant, then it will be a burden for the consumer since the value of money he possesses will decrease	Demand-pull inflation is the upward pressure on prices that follows a shortage in supply. Economists describe it as "too many rupees chasing too few goods." Demand-pull inflation is a tenet of Keynesian economics that describes the effects of an imbalance in aggregate supply and demand. When the aggregate demand in an economy strongly outweighs the aggregate supply, prices go up. This is the most common cause of inflation.

Q.4) Which of the following is not an example of cost-push inflation?

a) The increase in general level of prices due to increase in oil price
b) 2012 floods in Punjab and Sindh region that resulted in widespread disruption in supplies
c) Disruption of supply caused by natural disasters like Japan's earthquake in 2011
d) The 2008 financial crisis, which resulted in asset inflation occurred in gold and oil

Q.4) Solution (d)

Cost-push inflation is a form of inflation which arises from increase in the cost of production or decrease in the volume of production. In cost-push inflation, the aggregate supply curve shifts leftwards thereby pushing the prices up, and hence, the cost-push.

- Cost-push inflation most commonly arises due to supply shocks. For example, an increase in the price of oil increases the cost of production for almost all goods and services and results in immediate increase in inflation. Such inflation is cost-push inflation. Similarly labor strikes, wars, floods, etc. reduce supply and increase prices.
- In 2012, severe floods hit the Punjab and Sind provinces of Pakistan wiping away crops, shutting down refineries, killing cattle and creating widespread disruption in supplies. Increase in general level of prices ensued. What sort of inflation is this?
- Increase in price due to drop in aggregate supply is cost-push inflation.
- Natural disasters cause inflation by disrupting supply. A good example is right after Japan's earthquake in 2011. It disrupted the supply of auto parts. It also occurred after Hurricane Katrina. When the storm destroyed oil refineries, gas prices soared.

After the 2008 financial crisis, asset inflation occurred in gold and oil prices. Deflation occurred in housing prices and personal income. Demand-pull inflation continued in gold prices until they reached a record.

Q.5) Which of the following can be the causes for demand-pull inflation?

1. A growing economy
2. A low unemployment rate
3. Increased Government spending
4. Inflation expectations
5. Asset inflation

Choose the correct answer using the codes given below

a) 1, 2, 3 and 5 only
b) 2, 3, 4 and 5 only

c) 1, 3, 4 and 5 only
d) All of the above

Q.5) Solution (d)

When demand surpasses supply, higher prices are the result. This is demand-pull inflation.

A low unemployment rate is unquestionably good in general, but it can cause inflation because more people have more disposable income.

Increased government spending is good for the economy, too, but it can lead to scarcity in some goods and inflation will follow.

Causes of Demand-Pull Inflation

1) A growing economy: When consumers feel confident, they spend more and take on more debt. This leads to a steady increase in demand, which means higher prices.
2) Asset inflation: A sudden rise in exports forces an undervaluation of the currencies involved.
3) Government spending: When the government spends more freely, prices go up.
4) Inflation expectations: Companies may increase their prices in expectation of inflation in the near future.
5) More money in the system: An expansion of the money supply with too few goods to buy makes prices increase.

Q.6) Consider the following statements about "Operation greens scheme"

1. It is a programme to boost production and processing of tomato, onion and potato only as part of an objective to check price volatility in them
2. It was announced during the annual budget of 2018-19 with an outlay of 50,000 crore

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

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

Q.6) Solution (a)

Operation Greens

In the budget speech of Union Budget 2018-19, a new Scheme "Operation Greens" was announced on the line of "Operation Flood", with an outlay of Rs.500 crore to promote Farmer Producers Organizations (FPOs), agri-logistics, processing facilities and professional management. Accordingly, the Ministry of Food Processing Industries has formulated a scheme for integrated development of Tomato, Onion and Potato (TOP) value chain.

Objectives:

- Enhancing value realization of TOP farmers by targeted interventions to strengthen TOP production clusters and their FPOs, and linking/connecting them with the market.
- Price stabilization for producers and consumers by proper production planning in the TOP clusters and introduction of dual use varieties.
- Reduction in post-harvest losses by creation of farm gate infrastructure, development of suitable agro-logistics, and creation of appropriate storage capacity linking consumption centres.
- Increase in food processing capacities and value addition in TOP value chain with firm linkages with production clusters.
- Setting up of a market intelligence network to collect and collate real time data on demand and supply and price of TOP crops.

Q.7) Which of the following can be the causes for cost-push inflation?

1. Increase in wages
2. Business monopoly
3. Government regulation and taxes
4. Exchange rates
5. Rising production costs

Choose the correct answer using the codes given below

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

Q.7) Solution (d)

Cost-Push Inflation:

Simply it is the price rise due to increase in the production costs. As we have seen in case 1, the apple prices were increased because of the cost of production and transportation. This is Cost-push Inflation.

Some of the major causes of it are:

- **Increase in wages:** With increase in wages of labours due to labour union or any other circumstance, the production costs increase, increasing the prices of product
- **Business monopoly:** When a company has monopoly over a particular product, it can decide the quantity and price of product, which can lead to increase of prices
- **Government regulation and taxes**: Indirect taxes directly increase the selling price of any product. Also, government regulations like imposing a restriction on particular resource or increasing MSP can lead to increase in the production costs of the product.
- **Exchange rates**: If there is a fall in exchange rates, importing raw materials cost increase hence increase in the prices of products
- **Rising production costs:** Rise in any of the four factors of production increases the cost of production.

Q.8) Which of the following is considered to be the advanced form of "mixed inflation"?

a) Mark-up inflation
b) Stagflation
c) Dis-inflation
d) Hyperinflation

Q.8) Solution (a)

Majority of the economists hold that, inflation is neither completely 'demand pull' nor completely 'cost push', the actual inflationary process contains the elements of both. Excess demand and increase in money wages operate at the same time, but it's not necessary that they start at the same time.

Garner Akley put forward the theory of **'markup inflation'**. In simple words it is **an advanced explanation of 'Mixed inflation'.** According to Akley first comes demand pull inflation, and it is led by cost push inflation. Markup inflation comes to happen when excess demand increases the prices, which stimulates the production. The increasing production creates excessive demand for the factors of production, and the excessive demand for the factors of production further raises the prices.

Q.9) Consider the following statements

1. Reflation refers to the situation where measures are taken to curb inflation
2. During deflation the purchasing power of money increases
3. Consumer Price Index based inflation is called headline inflation

Choose 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 (b)

Statement 1	**Statement 2**	**Statement 3**
Incorrect	**Correct**	**Correct**
Reflation: This term is used to refer the situation where **measures are taken to curb deflation**. Steps can be like fiscal policy (reducing taxes) or monetary policy (increasing money supply or reducing interest rates)	Deflation is a decrease in the general price level over a period of time. Deflation is the opposite of inflation. For economists especially, the term has been and is sometimes used to refer to a decrease in the size of the money supply (as a proximate cause of the decrease in the general price level). The latter is now more often referred to as a 'contraction' of the money supply. During deflation the demand for liquidity goes up, in preference to goods or interest. **During deflation the purchasing power of money increases.** Deflation is considered a problem in a modern economy because of the potential of a deflationary spiral and its association with the Great Depression, although	Consumer Price Index based inflation is called headline inflation

	not all episodes of deflation correspond to periods of poor economic growth historically.	

Q.10) Which of the following brings out the "Consumer price index number for Rural population"?

a) The Reserve Bank of India
b) The Department of Economic affairs
c) The Labour Bureau
d) The National Statistical office

Q.10) Solution (d)

- The Consumer Price Index (CPI) tracks the change in retail prices of essential goods and services consumed by households
- The index tracks the price movement of the entire basket of goods and services at rural, urban as well as at an all-India level.
- The index has different weights attached to different items in the basket. The weight for a single item can also vary for the urban and rural index. For instance, food and beverages category carries 54.18% weight in the rural CPI, while it carries only 36.29% weight in the urban index.
- The change in index over a period of time is CPI inflation. CPI is widely used by most countries as a macroeconomic indicator of inflation, as a tool by governments and central banks for inflation targeting and for monitoring price stability, and as deflators in the national accounts. At present, the Reserve Bank of India targets CPI-based inflation to be within 2% of the 4% target.
- The **National Statistical Office (NSO), Ministry of Statistics and Programme Implementation brings out CPI** (Rural, Urban, Combined) on Base 2012=100 i=on a monthly basis.

Q.11) Consider the following statements

1. The GDP deflator measures the prices of all goods and services produced, whereas the CPI measures the prices of only the goods and services bought by consumers.
2. The weights are constant (in the basket) in CPI and WPI, but they differ according to production level of each goods and services in GDP deflator.
3. The GDP deflator includes only those goods produced domestically.

Choose the correct answer using the codes given below

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

Q.11) Solution (d)

Statement 1	Statement 2	Statement 3
Correct	**Correct**	**Correct**
The GDP deflator measures the prices of all goods and services produced, whereas the CPI or RPI measures the prices of only the goods and services bought by consumers. Thus, an increase in the price of goods bought by firms or the government will show up in the GDP deflator but not in the CPI or RPI.	The CPI or RPI assigns fixed weights to the prices of different goods, whereas the GDP deflator assigns changing weights. In other words, the CPI or RPI is computed using a fixed basket of goods, whereas the GDP deflator allows the basket of goods to change over time as the composition of GDP changes.	The GDP deflator includes only those goods produced domestically. Imported goods are not part of GDP and do not show up in the GDP deflator. For example, an increase in the price of Toyota made in Japan and sold in the U.K. affects the CPI or RPI, because the Toyota is bought by consumers in the U.K., but it does not affect the GDP deflator.

Q.12) Consider the following statements

1. Higher inflation will cause our exports to price more and imports to cost less.
2. Deflation favours the economy which invests in continuous technological advancements.
3. Zero inflation is bad for the economy as both the production and demand remains constant.

Select the correct answer using the codes given below

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

Q.12) Solution (d)

Statement 1	**Statement 2**	**Statement 3**
Correct	**Correct**	**Correct**
As you know, inflation makes your money less valuable. Higher inflation will cause our exports to price more and imports to cost less. Hence, there will be lesser exports and more imports worsening the Balance of payment.	Suppose if there occur continuous technological improvements: Most of the goods could be produced at a lower cost every year and hence prices can fall. This is definitely a good sign even though there would be a deflation. Also like how it happened with Japan, if most of the neighboring countries are having inflation, then the country with deflation has better competitive advantage as their goods obviously seem cheaper than other countries with inflation.	Inflation often (but not always) relates to growth. When there is 'Zero' or very minute inflation, then: • money in the economy remains almost constant • Productions will be at constant and • Demand will also be at constant. • So, it's not good for growing economy.

Q.13) Consider the following statements

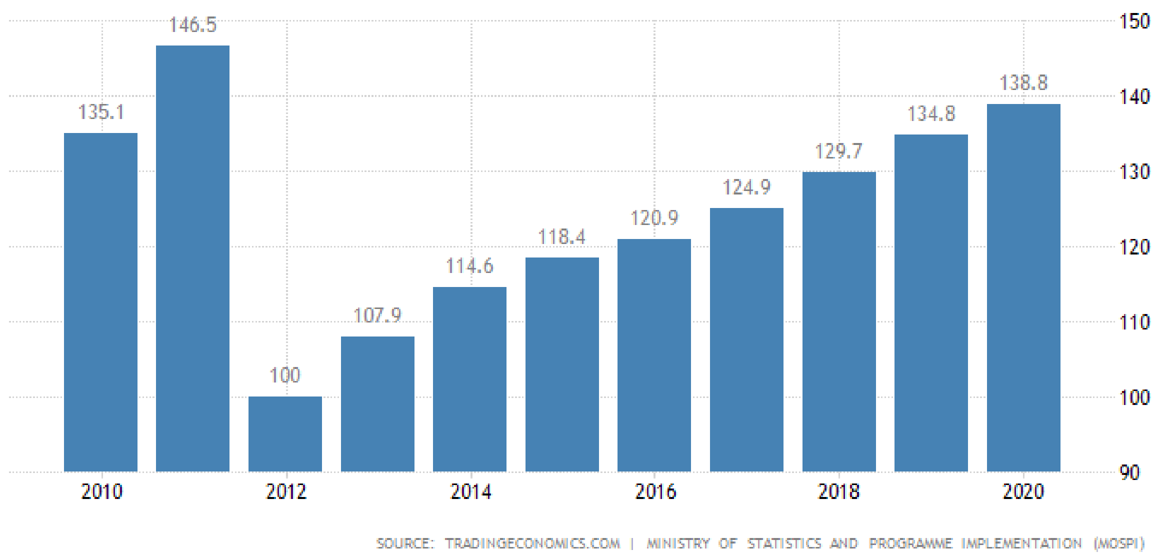
1. Consumer Price Index based inflation has consistently increased during the last 5 years.
2. GDP deflator has consistently increased during the last 5 years.
3. Wholesale Price Index based inflation has consistently increased during the last 5 years.

Choose the answer using the codes given below

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

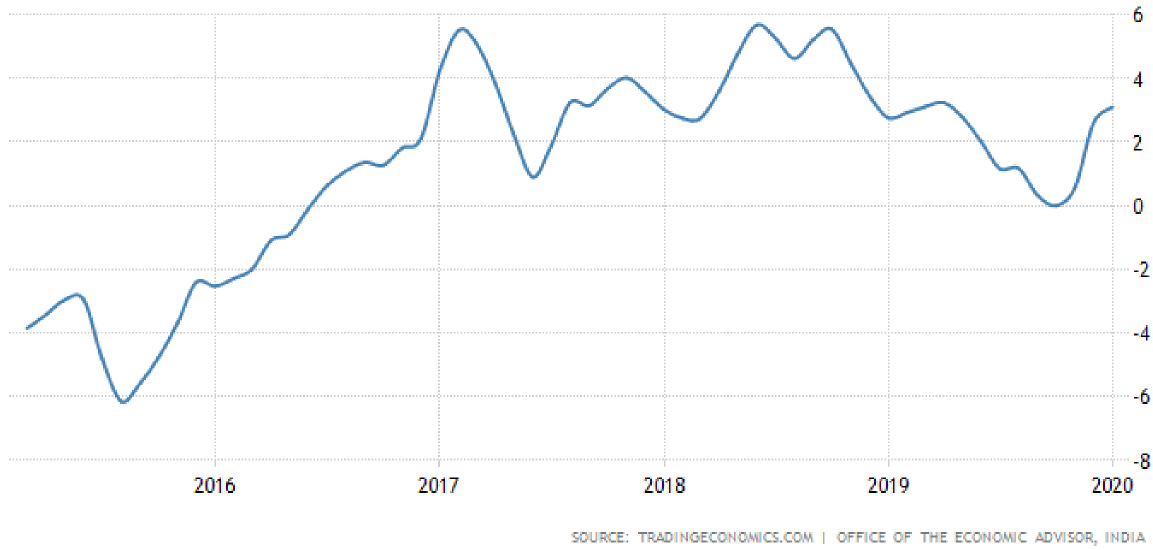
Q.13) Solution (c)

Consumer price inflation in India increased to 7.59% in January of 2020 from 7.35% in December, above expectations of 7.4%. The inflation accelerated for the 6th straight month to the highest since May of 2014.



GDP Deflator in India increased to 138.80 points in 2020 from 134.80 points in 2019. As we can see from the above graph GDP deflator has increased consistently in the last 5 years.

The Whole sale price index has shown fluctuations in the last 5 years



Q.14) Which of the following refers to the distortion in a monthly inflation figure that results from abnormally high or low levels of inflation in the year-ago month?

a) Base effect
b) Domino effect
c) Cost-push effect
d) The mark-up effect

Q.14) Solution (a)

The base effect is the **distortion in a monthly inflation figure that results from abnormally high or low levels of inflation** in the year-ago month. A base effect can make it difficult to accurately assess inflation levels over time.

Inflation is often expressed as a month-over-month figure or a year-over-year figure. Typically, economists and consumers want to know how much higher or lower prices are today than they were one year ago. But a month in which inflation spikes may produce the opposite effect a year later, essentially creating the impression that inflation has slowed.

Example of Base Effect

Inflation is calculated based on price levels that are summarized in an index. The index may spike in June, for example, perhaps due to a surge in gasoline prices. Over the following 11 months, the month-over-month changes may return to normal, but when June arrives again its price level will be compared to those of a year earlier in which the index reflected a spike in gasoline prices. In that case, because the index for that month was high, the price change this June will be less, implying that inflation has become subdued when, in fact, the small change in the index is just a reflection of the base effect—the result of the higher index value a year earlier.

Q.15) The 'inflation expectation survey' of households in India is conducted by

a) Central Statistical Organization
b) National Sample Survey Organization
c) Reserve Bank of India
d) Ministry of Finance

Q.15) Solution (c)

The Reserve Bank released the results of the January 2020 round of the Inflation Expectations Survey of Households (IESH). The survey was conducted in 18 major cities and the results are based on responses from 5,868 urban households.

The survey is conducted at bi-monthly intervals by the Reserve Bank of India. It provides directional information on near-term inflationary pressures as expected by the respondents and may reflect their own consumption patterns. Hence, they should be treated as households' sentiments on inflation.

Q.16) Which of the following conditions may necessitate the RBI to keep the policy rate at a higher level?

1. Inflation in the economy is high
2. Inflation expectation in the economy is high

Choose the correct answer using the codes given below

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

Q.16) Solution (c)

RBI keeps the repo rate high or increases it when the inflation in the economy increases.

When "inflation expectation" of the people is high, i.e. they are expecting that in future inflation will increase, and then such a behavior of the people ultimately leads to higher inflation in the economy due to which RBI increases the repo rate.

So, both the statements are correct.

Q.17) Consider the following statements about Inflation targeting in India

1. Inflation target is set by the Government in consultation with RBI, once in every four years.
2. Inflation target is measured by the consumer price index-combined (CPI-C).
3. Inflation target is 4% (+/-) 2% for the period from August 5, 2016 to March 31, 2021.

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

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

Q.17) Solution (b)

Statement 1	Statement 2	Statement 3
Incorrect	**Correct**	**Correct**
Inflation target is set by the Govt. in consultation with RBI, once in **every five years**.	Inflation target is measured by the **consumer price index-combined (CPI-C)**	Inflation target is 4% (+/-) 2% for the period from August 5, 2016 to March 31, 2021. If the average inflation is more than the upper tolerance level of 4% + 2%, that is, 6%, or less than the lower tolerance level of 4%-2%, that is 2%, for any 3 consecutive quarters, it would mean a failure to achieve the inflation target.

Q.18) Which of the following statements about inflation are correct?

1. Inflation benefits creditors
2. Inflation benefits debtors
3. Inflation benefits bondholders

4. Inflation benefits depositors

Select the correct answer using the code given below

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

Q.18) Solution (d)

- Creditor means the person who has given money to someone
- Debtor means who has taken money from someone
- Depositors means who has deposited money in banks or financial institutions
- Bondholders means person who is holding bonds

When a person holds physical asset whose price is denoted in Rupee then he benefits from price increase or inflation.

But a person who holds financial assets (like Rs 100 note) or any financial instrument which guarantees fix return of cash payments in future then he loses from price rise. This is because the purchasing power of rupee decreases due to inflation.

Hence, in case of inflation, depositors, creditors and bondholders will lose.

So, only 2nd statement is correct.

Q.19) Consider the following statements regarding Inflationary Gap

1. It describes the difference between the current level of real gross domestic product (GDP) and the anticipated GDP that would be experienced if an economy is at full employment.
2. It exists when the demand for goods and services exceeds production due to factors such as higher levels of overall employment, increased trade activities or increased government expenditure.

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

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

Q.19) Solution (c)

Statement 1	**Statement 2**
Correct	**Correct**
An Inflationary Gap is a macroeconomic concept that describes the difference between the current level of real gross domestic product (GDP) and the anticipated GDP that would be experienced if an economy is at full employment, also referred to as the potential GDP. For the gap to be considered inflationary, the current real GDP must be the higher of the two metrics.	The inflationary gap exists when the demand for goods and services exceeds production due to factors such as higher levels of overall employment, increased trade activities or increased government expenditure. This can lead to the real GDP exceeding the potential GDP, resulting in an inflationary gap. The inflationary gap is so named because the relative increase in real GDP causes an economy to increase its consumption, which causes prices to rise in the long run.

Q.20) Which of the following must decrease if a country is experiencing inflation?

a) Wage level
b) The output of goods and services
c) The amount of money needed to purchase a given quantity of goods and services
d) Purchasing Power

Q.20) Solution (d)

When a country faces inflation, we require more money to purchase a given quantity of goods and services and the purchasing power of rupee decreases. In case of inflation generally wages increases but nothing can be said about the output.

Q.21) Consider the following statements regarding 'Capital Conservation Buffer'

1. It is the mandatory capital that financial institutions are required to hold above the minimum regulatory requirement.
2. While Capital Adequacy Ratio is determined by RBI, Capital Conservation Buffer is fixed by the government.

Which of the statements given above is/are correct?

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

Q.21) Solution (a)

Statement 1	**Statement 2**
Correct	**Incorrect**
It is the mandatory capital that financial institutions are required to hold above the minimum regulatory requirement. According to CCB norms, banks will be required to hold a buffer of 2.5% Risk-Weighted Assets (RWAs) in the form of Common Equity, over and above Capital Adequacy Ratio of 9%.	CCB is also determined by the RBI based on Basel 3 norms. It has been applied to increase banks resilience to losses.

Q.22) Consider the following statements regarding 'Non-Banking Financial Companies (NBFC)'

1. None of the NBFCs can accept Time deposits.
2. NBFCs can invest the money in Share Market, unlike banks which are not allowed to do so.

3. CRR does not apply to any NBFC while SLR applies only to deposit-taking NBFC.

Which of the statements given above is/are correct?

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

Q.22) Solution (c)

Statement 1	Statement 2	Statement 3
Incorrect	**Correct**	**Correct**
NBFCs cannot accept demand deposits but Few NBFCs can accept time deposits and are called Deposit taking NBFCs.	NBFCs can invest the money in Share Market, unlike banks which are not allowed to do so.	CRR does not apply to any NBFC while SLR (of 15%) applies only to deposit-taking NBFC.

Q.23) Which of the following category is not included under 'Priority Sector Lending'?

a) Housing
b) Healthcare
c) Education
d) Renewable energy

Q.23) Solution (b)

- The categories of priority sector are as follows
  - Agriculture
  - Micro, Small and Medium Enterprises
  - Education
  - Housing
  - Social Infrastructure
  - Renewable Energy
  - Others

- While building a healthcare facility is included under Social Infrastructure category, healthcare as a whole does not fall under Priority Sector lending list of the RBI.

Q.24) Consider the following statements regarding 'Digital Public Credit Registry'

1. It will capture loan information of individuals and corporate borrowers and work as a financial information infrastructure.
2. It was set up based on the recommendations given by Y.M. Deosthalee committee.

Which of the statements given above is/are correct?

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

Q.24) Solution (c)

Statement 1	**Statement 2**
Correct	**Correct**
It will capture loan information of individuals and corporate borrowers and work as a financial information infrastructure.	It was set up by the RBI based on the recommendations given by Y.M. Deosthalee committee.

- It will provide access to various stakeholders in the Finance industry and Enrich existing credit info ecosystem
- Useful Credit information will help the banks reduce bad loans.

Q.25) India Post Payments Bank (IPPB) is an initiative of the government aimed at making banking services available at people's doorstep. Consider the following statements regarding IPPB

1. IPPB is a wholly-owned subsidiary of Department of Post and will be governed entirely by it.
2. It will accept deposits, offer remittance services, mobile banking and provide services such as insurance and mutual fund.

Which of the statements given above is/are correct?

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

Q.25) Solution (d)

Statement 1	Statement 2
Incorrect	**Incorrect**
IPPB is a wholly-owned subsidiary of Department of Post but will be **governed by the RBI** as it is a payment bank.	It will accept deposits, offer remittance services, mobile banking. It will **not provide services** such as insurance and mutual fund **by itself but** instead, it gives access to third-party services such as insurance and Mutual fund.

Q.26) 'Bharat 22' recently seen in news refers to

a) An Exchange Traded Fund
b) India's fastest Indigenous train
c) Mission to develop affordable influenza vaccine by 2022
d) Mission to consolidate all the disparate digital initiatives by 2022

Q.26) Solution (a)

- Bharat 22 is an Exchange Traded Fund (ETF) launched by the finance ministry.
- An ETF, or exchange-traded fund, is a marketable security that tracks a stock index, a commodity, bonds, or a basket of assets. Its trading value is based on the net asset value of the underlying stocks that it represents.

- Bharat 22 comprises 22 stocks including those of central public sector enterprises, PSU banks and holdings under the Specified Undertaking of Unit Trust of India.

Q.27) Which of the following are steps taken by the government to address the issue of Non-Performing Assets (NPA)?

1. Indradhanush Scheme
2. Project Sashakt
3. Project Insight

Select the correct answer using the code given below:

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

Q.27) Solution (b)

Option 1	**Option 2**	**Option 3**
Correct	**Correct**	**Incorrect**
The Government announced the Indradhanush scheme for revamping Public Sector Banks (PSBs) in August 2015. The plan envisaged infusion of capital in PSBs by the Government to the tune of Rs. 70,000 crore over four financial years.	Project Sashakth is a five-pronged strategy towards resolution of stressed assets, as recommended by Sunil Mehta Committee. 5 pronged strategy – o MSME approach o Bank-led resolution o IBC approach o AMC led resolution o Asset trading platform	Project Insight is an initiative by the Income-Tax Department to mine big data from social media to scrutinize potential tax evaders.

Q.28) Consider the following statements regarding Money Multiplier in an economy

1. Money Multiplier increases with a reduction in Statutory liquid ratio.
2. Money Multiplier increases with a decrease in Loan demand.

Which of the statements given above is/are correct?

a) 1 only
b) 2 only

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

Q.28) Solution (a)

- The money multiplier is the amount of money that banks generate with each rupee of reserves. Reserves is the amount of deposit that the Central Bank requires banks to hold and not lend. The money multiplier is the ratio of deposits to reserves in the banking system.

Statement 1	**Statement 2**
Correct	**Incorrect**
Money Multiplier directly improves with a reduction in legal reserve ratios (SLR, CRR).	Money Multiplier indirectly improves as the economy develops, consumption/**loan demand increases**, banking penetration improves.

Q.29) The term 'Narrow Banking' refers to

a) Banks that invest only on Narrow money
b) Banks that invest large parts of deposits in risk-free assets
c) Banks that invest only in a few specific industries
d) Banks that serve only a few selected clientele

Q.29) Solution (b)

- Narrow Banking, also called safe banking, involves investing large parts of deposits that banks get in risk-free assets like government securities etc.
- Tarapore Committee is best known for giving the concept of Narrow banking as a solution to NPAs.
- Indian Banks generally follow partial Narrow banking – SLR stipulated percentage will be in safe securities. Some banks invest more than prescribed SLR to reduce their risk.

Q.30) Punjab and Maharashtra cooperative bank was recently in news. Consider the following statements regarding Cooperative Banks.

1. They are controlled and regulated by the RBI.
2. They are distributed uniformly throughout India.

Which of the statements given above is/are correct?

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

Q.30) Solution (d)

Statement 1	**Statement 2**
Incorrect	**Incorrect**
Cooperative banks are regulated by RBI and are controlled by **State** as cooperatives are under the state list. This has led to an ambiguity in power.	Nearly 90%of the cooperatives are located in 7 states and thus are unequally distributed.

Q.31) Which of the following are regulated by Securities exchange board of India (SEBI)

1. Venture Capital
2. Chit Fund Companies
3. Pension funds

Select the correct answer using the code given below:

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

Q.31) Solution (a)

Option 1	Option 2	Option 3
Correct	**Incorrect**	**Incorrect**
Venture capitals finance startups by buying equity. They are regulated by SEBI.	Chit fund companies are regulated by state governments. The members contribute money and give it to own members through bidding.	Pension funds are regulated by Pension Fund Regulatory and Development Authority (PFRDA) established by the GOI in 2003.

Q.32) Consider the following statements regarding Marginal Standing Facility (MSF) of RBI

1. Only Scheduled banks can avail MSF from RBI.
2. The MSF rate is usually higher than the Repo rate.
3. Banks can pledge government securities from the SLR quota up to 1% under the MSF.

Which of the statements given above is/are correct?

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

Q.32) Solution (d)

Statement 1	Statement 2	Statement 3
Correct	**Correct**	**Correct**
While even non-scheduled	The MSF rate is usually 100	Banks can pledge government

bank can borrow using Repo rate, only Scheduled banks can avail MSF from RBI.	basis points higher than the Repo rate.	securities from the SLR quota up to 1% under the MSF.

Q.33) With reference to digital payments, consider the following statements

1. BHIM app allows the user to transfer money only to someone with a UPI-enabled bank account.
2. BHIM app does not allow transactions of commercial nature.

Which of the statements given above is/are correct?

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

Q.33) Solution (d)

Statement 1	**Statement 2**
Incorrect	**Incorrect**
BHIM app allows the user to transfer money to someone with either a UPI-enabled bank account or via the Bank account number and IFSC code details.	BHIM app supports commercial transactions. It even provides features such as scan and pay.

Q.34) The term 'Zero coupon bonds' refer to

a) Bonds that are issued at a discount to its face value but pays no interest.
b) Bonds that are issued at its face value but pays interest.
c) Bonds that are not backed up by collateral or security.
d) Bonds that yield zero interest if the issuing company/entity becomes bankrupt.

Q.34) Solution (a)

- Zero coupon bonds, also known as discount bonds, do not pay any interest to the bondholders. Instead, you get a large discount on the face value of the bond.
- On maturity, the bondholder receives the face value of his investment.
- Treasury bills in India are an example of Zero coupon bonds.

Q.35) Consider the following statements regarding Treasury bills

1. Treasury bills are securities issued only by the Government treasury.
2. Individuals, Firms, Trusts, Institutions and banks can purchase Treasury Bills.

Which of the statements given above is/are correct?

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

Q.35) Solution (c)

Statement 1	**Statement 2**
Correct	**Correct**
Treasury Bills are instruments for short term (maturities less than one year) borrowing by the Central Government only. Bills, other than treasury bills are known as commercial bills.	Individuals, Firms, Trusts, Institutions and banks can purchase T-Bills. The commercial and cooperative banks use T-Bills for fulfilling their SLR requirements.

Q.36) Which of the following statement regarding Participatory notes (P-notes) is incorrect?

a) P-notes are instruments issued by SEBI for overseas investors who want to invest in the stock markets in India.
b) Any entity can invest in the participatory notes without registering under SEBI.
c) Participatory notes are transferable through endorsement and delivery making trading easy in the country.
d) P-Notes also help in keeping the investor's name anonymous along with reducing the transaction costs.

Q.36) Solution (a)

- Participatory Notes which are also regarded as P-Notes (PNs) are the instruments **issued by registered FIIs.**
- They are used by the clients of Foreign Institutional Investors (FIIs) who do not wish to participate directly in the Indian stock market.
- Any entity can invest in the participatory notes without registering under SEBI while registering under SEBI is compulsory for all FIIs.

- Foreign Institutional investors (FIIs) are the entities established outside India that are responsible for making investment proposals in India.

Q.37) Which one of the following provides the Immediate Payment Service (IMPS) in India?

a) Indian banks' Association
b) National Securities Depository Limited
c) National Payments Corporation of India
d) Reserve Bank of India

Q.37) Solution (c)

The National Payments Corporation of India (NPCI)

- The National Payments Corporation of India (NPCI) is an initiative taken by the RBI and Indian Bank's Association (IBA) to operate the retail payments and settlement systems in India.
- The National Payments Corporation of India (NPCI) serves as an umbrella body for the operation of retail payment in India.
- NPCI can operate the following payment systems:
    - National Financial Switch (NFS)
    - Immediate Payment System (IMPS)
    - National Automatic Clearing House (ACH)
    - Aadhaar Enabled Payments System (AEPS)
    - Operation of Cheque Truncation System
- Products of NPCI
    - Rupay
    - BHIM app
    - UPI
    - Bharat Bill Payment System

Q.38) Merger of Several Public Sector Banks was recently in news. Which of the following are benefits of the Merger of Banks?

1. Reduces operational costs of the bank.
2. Better ability to raise resources from the market.
3. Eliminates all NPAs of the bank.

Select the correct answer using the code given below:

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

Q.38) Solution (a)

Statement 1	Statement 2	Statement 3
Correct	**Correct**	**Incorrect**
The Merger of banks has the potential to reduce operational costs due to the presence of shared overlapping networks. This enhanced operational efficiency will reduce the lending costs of the banks.	Larger banks have a better ability to raise resources from the market rather than relying on State exchequer.	The Merger of banks does not eliminate the NPAs of the merged bank. It will, however, help to dilute the NPA as the bigger bank will have larger capital.

Q.39) The Ombudsman for Digital Transactions (OSDT) has been setup by

a) Ministry of Electronics and Information Technology
b) Ministry of Finance
c) Reserve Bank of India
d) Ministry of Consumer Affairs, Food and Public Distribution

Q.39) Solution(c)

The Ombudsman Scheme for Digital Transactions

- The Ombudsman for Digital Transactions is a senior official appointed by the Reserve Bank of India to redress customer complaints.
- It has been set up under Payment and Settlement Systems Act, 2007.
- There is no charge or any fee for filing / resolving customers’ complaints.

Q.40) Infrastructure Leasing & Financial Services (IL&FS) was recently in the news. Consider the following statements regarding IL&FS

1. It is a Systemically Important Non-Deposit Core Investment Company (CIC-ND-SI).
2. It is entirely owned by the Government of India.

Which of the statements given above is/are correct?

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

Q.40) Solution (a)

Statement 1	**Statement 2**
Correct	**Incorrect**
IL&FS is a Systemically Important Non-Deposit Core Investment Company (CIC-ND-SI). It is an NBFC.	IL&FS is not owned by GOI. It has several shareholders such as LIC, SBI, Abu Dhabi Investment Authority etc.